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FOSTERING INNOVATIONS IN PUBLIC SECTOR ORGANIZATIONS

ANTECEDENTS AND PROCESSES OF
EFFECTIVE REORIENTATIONS AND
LEGITIMATION

DAVE KIWI

SPACE
FOR
CHANGE

Fostering innovations in public sector organizations

**Antecedents and processes of effective reorientations and
legitimation**

Dave Kiwi

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**FOSTERING INNOVATION IN PUBLIC SECTOR ORGANIZATIONS:
ANTECEDENTS AND PROCESSES OF EFFECTIVE REORIENTATION
AND LEGITIMATION**

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SYNOPSIS

This dissertation investigates potential strategies for managing innovation to create public value. We focus on the legitimacy challenges administrative leaders struggle with and aim to offer new pathways for pursuing groundbreaking new solutions and services while managing the apparent contradiction of complying with existing rules and regulations. Our empirical work begins with a systematic literature review on the idiosyncratic context of strategic change in public organizations, where we uncover the antecedents associated with a unique multistakeholder, multigoal context dominated by legitimacy issues. In the following chapters, we explore both qualitative and quantitative techniques and three different levels of analysis in relation to the effective reorientation and legitimation of innovation. In Chapter 3, we explore the meso level of analysis, researching how an organization initiating unprecedented strategic innovations navigates the ideocratic legitimacy issues of the public sector. In Chapter 4, we look at the macro level, investigating the impact of specific strategic configurations across the municipal sector by investigating how the strategic capital allocation of local governments impacts the local economic development of their communities. Chapter 5 illustrates that at a microlevel, self-managed teams will undergo unique evolutionary paths and vary in their perception of their “optimal distinctiveness” when given a mandate to innovate. Finally, Chapter 6 introduces a new concept for

practitioners, “great gray opportunities,” which offers administrative leaders and policymakers a framework to support their innovative endeavors. Overall, this body of work explores different management strategies and tactics to help administrative leaders innovate the public value that their organizations deliver to society.

CHAPTER 1

INTRODUCTION

1. INTRODUCTION

1.1. The (il)legitimacy of innovation

Since Schumpeter's seminal work on the phenomenon of "creative destruction" in 1942 and the subsequent integration of innovation into management and organizational theory—exemplified by notions such as "technological innovation" and "organizational innovation" for gaining competitive advantages (Utterback, 1971; Baldrige & Burnham, 1975)—innovation has consistently been linked to the creation of value through novel and creative ideas in practice (Hülshager et al., 2009). To succeed, innovation needs acceptance from internal stakeholders such as peer units and senior management (Drori & Honig, 2013; Bunduchi, 2017), as well as external stakeholders such as customers, investors, and regulators (Garud et al., 2020; Navis & Glynn, 2011; Fisher et al., 2017). The success or failure of an innovation is heavily influenced by social evaluations, particularly in terms of legitimacy, and the perception of the innovation being desirable and appropriate (DiMaggio & Powell, 1983).

The legitimacy evaluation of an innovation involves a comparison with an appropriate reference scale, one that actors are familiar with (Sherif & Hovland, 1961), which is likely to create a novelty–legitimacy dilemma (Zhao et al., 2017; Zuckerman, 2016). Innovations, whether in products, services, or processes, prompt reassessments and can clash with established norms,

sometimes resulting in perceptions of illegitimacy (Suddaby et al., 2017). Alternatively, a judgment might fall somewhere between legitimacy and illegitimacy, demanding a more nuanced assessment (Siraz et al., 2022). Fuelled by a significant degree of information ambiguity, the legitimacy of the innovation could remain undecided (Cappellaro et al., 2022), leaving the legitimacy question undetermined (Bitektine, 2011; Haack et al., 2014). Moreover, innovation may trigger legitimacy discussions in which evaluators struggle to reach a consensus (Rossi & Berk, 1985), resulting in polarized legitimacy (Siraz et al., 2022). Alternatively, an innovation could lead to different judgments across different legitimacy types (Hudson & Okhuysen, 2009), resulting in a conflicted legitimacy judgment. Innovation does not inherently imply illegitimacy, but it is likely to create tensions and situations of undecided, polarized, or conflicted legitimacy, necessitating legitimation efforts from agents of change.

1.2. Legitimacy and change agents

Legitimacy has emerged as a pivotal construct in management theory, defined as the “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995). Achieving positive legitimacy judgments is widely acknowledged as a critical factor contributing to organizational success. A wealth of literature demonstrates that the

judgments of stakeholders significantly shape organizations, compelling them to adopt strategies, structures, and practices that are taken for granted (Meyer & Rowan, 1977). Nonconfirmative behavior (DiMaggio & Powell, 1983), which is a direct consequence of innovation, can lead to tangible penalties, restricting access to resources (Zuckerman, 1999; Thornton & Ocasio, 1999), stigmatization (Hampel & Tracey, 2017), and discontinuation (Vaara & Monin, 2010).

A prevailing theme in legitimacy research is the idea that legitimacy “resides in the eye of the beholder” (Ashforth & Gibbs, 1990) or “within the psyches of social actors” (Zimmerman & Zeitz, 2002). From this perspective, legitimacy is viewed as a socio-cognitive phenomenon involving three key actors. First, there is the object of legitimacy, representing an entity—in our research, an innovation or an innovative strategy, or both—that is either perceived as possessing or lacking legitimacy. Second, the evaluator, or the actor responsible for rendering legitimacy judgments, plays a crucial role in this dynamic. Third, the change agent is an actor actively seeking to bring about social change in how the object of legitimacy is assessed by the evaluators (Suddaby et al., 2017). The process of forming legitimacy judgments by individuals (Bitektine, 2011; Hofer & Green, 2016) and the collective processes leading to judgments about an entity’s legitimacy of an entity (Bitektine & Haack, 2015; Tost, 2011; Zelditch, 2006) have proven to

be crucial antecedents for achieving successful outcomes. Scott (1995) and Suchman (1995), in tandem, delineate four dimensions of (il)legitimacy attributable to an entity: cognitive, grounded in alignment with shared beliefs, understandings, and mental models; normative, rooted in alignment with moral and ethical codes; regulative, tied to alignment with legal standards; and pragmatic, arising from an organization's imperative to achieve practical outcomes in its immediate environment. These dimensions collectively contribute to the acceptance of an entity by a group or society, emphasizing the multifaceted nature of legitimacy.

1.3. Complexities of legitimation of innovation in the public sector

Although innovation holds undeniable appeal, it is not devoid of challenges. Legitimacy, especially in the case of innovations, is not a given; on the contrary, it must be actively and repeatedly created, recreated, and conquered (Hallstrom & Bostrom, 2010). Innovation signifies a transformation within entities or the emergence of new entities, necessitating a process of judgment formation and reassessment (Tost, 2011) to (re)establish themselves within social systems. This inherently calls for legitimacy work (Navis & Glynn, 2010). The legitimation process is viewed as the outcome of a series of interventions in which actors exhibit a high degree of agency. Agents of change deliberately manipulate evaluators' judgments through language (Suddaby & Greenwood, 2005), negotiations (Spee & Jarzabkowski, 2017), relation

building (Girschik, 2019), and identification (Stigliani & Elsbach, 2018). The literature on the legitimation of innovation is predominantly focused on the private sector. However, how to capture value from public sector innovation remains uncertain, given its unique legitimacy challenges (Salge & Vera, 2012). Agents of change in the public sector encounter a different set of challenges. They face more diverse expectations, intense political pressures (Bekkers et al., 2011; Nutt & Backoff, 1993), and more regulatory restrictions (Johns et al., 2006). Internally, they also grapple with legitimacy issues within risk-averse cultures (Borins, 2001) and lower proinnovation attitudes (Lapiente & Suzuki, 2020).

Although innovation is increasingly expected to generate new public value (Cabral et al., 2019; Demircioglu & Audretsch, 2017), compliance with laws and regulations must be prudently safeguarded. Societal values and expectations further constrain the boundaries of change. In this highly institutional–political environment, leaders advocating for change not only face substantial internal resistance from employees and managers but also encounter significant pressure from external institutional actors and politicians, as the legitimacy of their change efforts is continuously challenged. Within the constrained context of the public sector, it becomes easy for actors to label a change, especially a strategic innovation, as inappropriate, undesirable, or improper in relation to the existing system of norms, values,

beliefs, and rules (Suchman, 1995). Consequently, members of public organizations may be less motivated to pursue innovation beyond efficiency-driven incremental improvements (De Vries et al., 2016; Hartley et al., 2013) and may not elevate their innovative aspirations to a strategic level.

1.4. The role of administrative managers as agents of innovation

Although considerable work has been invested in the management literature on the role of leadership in innovation (Crossan & Apaydin, 2010; Mumford et al., 2002), limited attention has been paid to the potential relevance of leadership in public sector organizations (Kuipers et al., 2014; Vivona, 2023). The existing literature on innovation in the public sector, preoccupied with exogenously driven change, does not adequately capture the dynamics of administrative leaders' ambitions (Pitts & Fernandez, 2009) to make a difference. This disparity is unfortunate because leaders in the public sector experience distinct circumstances. The governance structure of the public sector adheres to a system where politicians hold responsibility for political decision-making (Mouritzen & Svara, 2002) and administrative managers are tasked with implementing these decisions while shouldering administrative responsibilities. Hence, these administrative managers have limited authority, as much is decided on the political level and their actions are constrained by the potential risks of political scrutiny (Koch et al., 2006). In addition to these political forces, they must deal with complex institutional forces, which

involve several actors with diverse interests, positions, and strategies (Kickert et al., 1997; Kickert, 2010). This places distinct pressures on administrative managers as they navigate the potentially conflicting demands imposed by these stakeholders (Rainey, 2009; Jung, 2014), which involves dealing with ambiguous and contested definitions of public benefits (Klein et al., 2013). Moreover, these leaders operate within highly bureaucratic organizations where change is impeded by complex legal dynamics (Nutt & Backoff, 1993). These factors contribute to a weaker form of leadership in the public sector and raise the urgency of insights into how administrative leaders are able to strategically innovate their organizations and public services.

1.5. Research questions

This dissertation explores the management of innovation in the public sector and the tension of how administrative leaders can (1) pursue innovative new strategies and services while (2) considering the existing rules and regulations within their ideocratic, highly institutional–political context. Understanding and managing the legitimacy judgments of internal stakeholders, such as employees and managers, and external stakeholders, such as peers, governments, field associations, auditors, and constituents, is crucial in this context. First, Chapter 2 offers a literature review exploring what we know about strategic change in the public sector through a legitimacy lens. This chapter integrates and reconciles insights from the fields of innovation

management and public administration. Chapter 3 describes how a public sector organization uses a tailored, nonlinear process to use liminal space to innovate public services while navigating pressures from both internal and external stakeholders. In Chapter 4, our focus shifts from the meso to the macro level as we explore the pivotal role of resource allocation as a fundamental antecedent to enhancing public value. This examination is particularly focused on one of the central strategic priorities of governments: economic development. Chapter 5 explores the legitimacy challenges a public sector organization encounters when switching to a decentralized and agile structure to stimulate innovation and which strategies can be used to navigate them. Finally, Chapter 6 is more focused on the practitioner community, as we hope to offer a framework for administrative leaders and policymakers to strategically innovate the public sector.

This dissertation seeks to illuminate the strategies and tactics that administrative managers use, which have been relatively underexplored, to advance their inherent ambitions for transitioning toward increased innovation in public sector organizations. The goal is to bring about a radical change in mindset and overall improvement in the public sector. This dissertation addresses the following research questions, as illustrated in Table 1.

Chapter	Research questions	Journals and conferences
2. Understanding strategic change in public organizations through a legitimacy lens: A review and research agenda	What is the state of the literature as regards strategic change in public organizations, and which are the dominant strategies for innovation in the public sector?	Under review in international peer review journal
3. Driving innovation within public sector organizations: creating and leveraging liminal space for legitimacy	How do leaders navigate legitimacy challenges related to strategic innovation in public organizations?	Under review in an international peer review journal and Academy of Management Annual Meeting (2022)
4. Strategic options for local governments for economic development: An fsQCA approach	What configurations of municipal economic capital spending strategies are most effective in promoting economic development at the local level?	Under review in an international peer review journal
5. We have a mandate to innovate. What now? A study of innovation challenges in self-managed teams	What are the dynamics that produce a heterogeneous innovation response among self-managed teams during the transition to a self-managing paradigm? What strategies can leaders use to manage the emerging tensions?	Under review in an international peer review journal and Egos (2023)
6. Great gray opportunities: How to use the legitimacy–illegitimacy continuum to innovate in the public sector	How can administrative leaders effectively address legitimacy concerns while promoting innovation within public organizations?	Under review in an international peer review journal

Table 1 Overview of the research questions

Through this structure, we aim to investigate the theory and pinpoint the gaps, then contribute to the literature regarding the management of innovation by administrative leaders, and finally help practitioners to put them into practice.

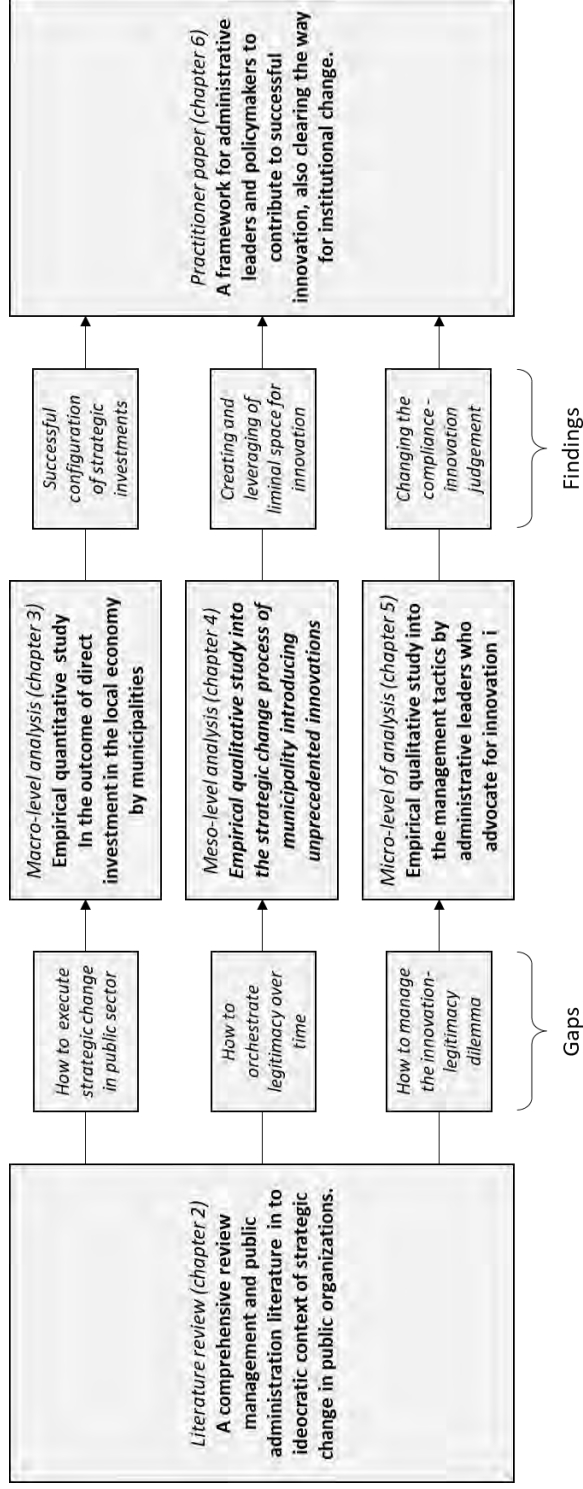


Figure 1 Overview of the main parts of the dissertation

1.6. Chapter summaries

1.6.1. CHAPTER 2—Understanding strategic change in public organizations through a legitimacy lens: A review and research agenda

Chapter 2 provides a comprehensive literature review of the idiosyncratic context of strategic change in public organizations. The scarcity of research in this area is highlighted, leaving a gap in our understanding of the theoretical foundations. This chapter argues that strategic change in the public sector is a unique, multistakeholder, multigoal context dominated by legitimacy issues, resembling a highly political game. The evolving nature of stakeholder interests makes strategic change precarious, often leading to “unfinished” strategy formulation and partial agreements, especially regarding the concept of temporality. It poses a crucial question about the effectiveness of a more configurable and agile approach involving smaller, quickly executed strategic changes to implement strategy more effectively. This chapter also addresses the limited exploration of endogenous strategic change in the public sector, which is predominantly concerned with sensemaking. It underscores the importance of understanding how public organizations engage in endogenous strategic change, highlighting the role of specific leadership qualities. The unique challenges faced by leaders in the public sector, with limited authority and potential political scrutiny, require further exploration. To gain a comprehensive understanding of limited endogenous change in the public

sector, this chapter advocates for additional quantitative research. Contributing to the strategic management literature, this chapter reveals three major theories used—institutional, sensemaking, and stakeholder. It identifies focal points of legitimation—strategy formulation, selling, and execution—and distinct types of change—exogenous, autonomous, and endogenous—associated with public organizations. This chapter concludes by outlining promising avenues for future research, including autonomous and endogenous changes; the orchestration of legitimacy over time; and the roles of leaders, tactics, and interactions between political and administrative leadership. These topics will be further explored in subsequent chapters of this thesis.

1.6.2. CHAPTER 3—Driving innovation within public sector organizations: Creating and leveraging liminal space for legitimacy

This chapter delves into the challenges faced by innovation-oriented leaders in introducing unprecedented innovations while navigating internal and external demands. The chapter paper emphasizes the legitimacy challenges and complexities in highly institutionalized and political contexts, where leaders deal with diverse stakeholders. It proposes a tailored, nonlinear process model that uses liminal space for innovation in public organizations. This model enhances the capacity to develop innovative processes and services while garnering support from internal and external stakeholders. Contrary to incremental strategies aimed at minimizing tensions, the proposed approach is multistage and nonlinear. It begins by expanding the

internal cognitive space by challenging the status quo with provocative ideas and establishing a change identity. Leaders then achieve early wins through experiments, substantiate innovations by forming partnerships, and solidify changes by adjusting innovations in response to sociopolitical pressures. The contribution to the literature on innovation legitimation lies in the focus on public sectors under significant political pressures. The study illuminates a complex process that widens the range of acceptable innovation options for employees and involves intricate stakeholder management strategies. It highlights public organizations' proactive role in instigating endogenous strategic change and shaping the landscape for a more diverse set of viable innovations. This study also contributes to the literature on change processes by challenging the traditional dichotomy between incremental and radical approaches. Instead, it advocates a novel nonlinear approach, initiating change with bold, radical steps to challenge established norms and expand the boundaries of legitimacy. This nuanced approach recognizes the necessity of bold action in response to institutional pressures while emphasizing the refinement and adaptation of initiatives over time. This departure from the traditional debate aligns with existing literature on the significance of nonlinearity and sequence in major change efforts, underscoring the importance of the findings.

1.6.3. CHAPTER 4—Strategic options for local governments for economic development: An fsQCA approach

This study highlights the importance of local governments' strategies in shaping their surrounding economic environment, showcasing their capacity to foster economic development. Local governments play a pivotal role in enhancing structural factors by establishing critical infrastructure, providing public services, and improving the overall business environment. Although existing literature considers individual policies for economic development, a holistic approach to resource allocation strategies has not been proposed because of the limitations of traditional research designs. To address this, the study uses fuzzy set qualitative comparative analysis (fsQCA) to explore the configurations of municipal economic capital spending strategies that are most effective in promoting local entrepreneurial activity. This study contributes to the existing body of research on local economic development and strategic allocation of capital by emphasizing the exploitation of synergies across economic spending domains. It identifies three configurations with the greatest impact on local economic activity, highlighting the strategic significance of adopting a holistic approach. The research also aims to demonstrate the use of fsQCA in unraveling complex relationships, enhancing the scholarly community's understanding and appreciation of this analytical tool.

1.6.4. CHAPTER 5—We have a mandate to innovate. What now? A study of innovation challenges in self-managed teams

Chapter 5 investigates the conflicts arising from the adoption of self-managed teams (SMTs) in organizations, particularly in the public sector, where tensions between innovation and compliance surface. The research highlights that, at the microlevel, SMTs introduce a significant paradigm shift, leading to more prolonged and intense tensions than managed teams. A typology is derived from case analysis, revealing four archetypes of teams based on their ability to manage the tension of complying with existing rules while pursuing groundbreaking innovations. The four archetypes are identified as follows: (a) Crusaders, lawful but willing to innovate cautiously; (b) Magistrates, lawful but hesitant to justify radical innovation, prioritizing traditional operations; (c) Revolutionists, fully embracing the new vision, willing to push boundaries and pursue radical innovation; and (d) Bohemians, open to challenging rules but facing difficulties in approaching groundbreaking innovation. The findings underscore the diverse routes teams take between their drive to innovate and the need to comply, which are influenced by specific contexts, experiences, and interpretations. The primary contribution lies in the literature on team innovation and SMTs by exploring contingencies inherent to teams, not merely resulting from external forces. The study argues that SMTs, despite being flexible, may not uniformly respond well to a mandate to innovate. The framework maps out the competing forces that push teams into distinct modes

of operation, providing insights into how teams deal with internal dynamics and how leaders mitigate challenges. This understanding extends the literature on leadership in flattened organizations.

Building on the findings, the research offers a nuanced approach to optimal distinctiveness, which historically has been primarily conceptualized at the firm level. Recognizing the importance of intrafirm heterogeneity and the distributed nature of innovation, the study indicates that the optimal balance between compliance and innovation varies across different teams within the same organization. This nuanced understanding reflects diverse team responses, successes, and leader approaches, enriching insights into effective innovation structuring, management, and navigation within organizations. The microlevel focus on teams contributes to a granular understanding of innovation dynamics.

1.6.5. CHAPTER 6—Great gray opportunities: How to use the legitimacy–illegitimacy continuum to innovate in the public sector

Chapter 6 of the thesis is geared toward practitioners in the public sector, emphasizing the need for a strategic approach to innovation and the importance of bold leaders initiating endogenous change. The research provides insights on leveraging the gap between what is perceived as legitimate and illegitimate to drive strategic innovation. It introduces the concept of “great gray opportunities,” framing legitimacy as a continuum rather than a simple dichotomy. This approach recognizes the “gray zone” between legitimacy and

illegitimacy, allowing public sector managers to initiate unprecedented innovative processes and services not explicitly allowed by existing policies. The framework outlines strategies for gaining “enough” legitimacy to move into the gray area and potentially toward full legitimacy at a later stage. Within this gray zone, public sector organizations can pioneer unconventional and innovative changes by introducing “regulatory conflicted” innovations upheld by administrative leaders through legitimation efforts. The three practices of distancing oneself from rules, circumventing rules, and mystifying rules facilitate the shift from illegitimacy to an intermediate state on the illegitimacy–legitimacy continuum. The research highlights that these strategies enhance the legitimacy of innovations and broaden the legitimate gray space. The case study demonstrates the synergistic potential of combining these strategies, encouraging leaders to thoughtfully strategize for successful innovation endeavors. Furthermore, the research indicates that distancing from, circumventing, and mystifying rules can stimulate wider institutional change. Policymakers should provide public organizations with opportunities to “play in the gray zone” by offering authorized exceptions for experimentation and customization, thus creating secure regimes for pursuing otherwise illegitimate actions. In summary, the gray zone is portrayed as fertile ground for innovation, allowing experimentation and authorized exceptions

and contributing to much-needed institutional change, including legislative change.

CHAPTER 2

**UNDERSTANDING STRATEGIC
CHANGE IN PUBLIC
ORGANIZATIONS THROUGH A
LEGITIMACY LENS: A REVIEW
AND RESEARCH AGENDA**

2. UNDERSTANDING STRATEGIC CHANGE IN PUBLIC ORGANIZATIONS THROUGH A LEGITIMACY LENS: A REVIEW AND RESEARCH AGENDA

ABSTRACT

Strategic change in public organizations has attracted scholarly attention, recognizing the idiosyncratic differences between the public and private sectors. Despite important contributions, the literature on strategic change in public organizations remains fragmented, depriving us of a unified image of the theoretical underpinnings of strategic change in the field of public administration. We argue that strategic change in public organizations is a unique multistakeholder, multigoal context dominated by legitimacy issues. Through a literature review, we reveal three major theories that have thus been used—institutional, sensemaking, and stakeholder. We also uncover the focal points of legitimation—strategy formulation, strategy selling, and strategy execution—and the distinct types of change—exogenous, autonomous, and endogenous—associated with public organizations. We discuss promising avenues for future research, especially in the areas of autonomous and endogenous change, the orchestration of legitimacy over time, and the role of leaders, tactics, and interactions between political and administrative leadership.

2.1.Introduction

Recent years have witnessed severe global challenges spanning demographic shifts, environmental concerns, public health emergencies, and humanitarian crises. Within this intricate landscape, leaders and managers in government and public agencies are confronted with formidable challenges to enhance their effectiveness and deliver improved outcomes to society, aiming to build a more resilient future (Vivona, 2023). To survive, thrive, and create positive change, public organizations must respond to and adopt renewed strategies (Bryson, 2018) that address the economic, social, political, technological, environmental, and organizational changes inherent in our interconnected world. Given this context, both research and practice indicate that the public sector should undertake ambitious missions to tackle challenges and generate public value (Demircioglu & Audretsch, 2017) while meeting demands for increased efficiency and effectiveness (Cabral et al., 2019). Hence, embracing strategic change becomes paramount for the public sector. In our study, we view strategic change as “an alteration in an organization’s alignment with its external environment” (Rajagopalan & Spreitzer, 1997). This definition is useful because it does not limit strategic change to the boundaries of the market and makes the external environment an active participant in strategic change.

Previous research on strategic change typically focuses on the effectiveness of decision-making related to strategic change (Mintzberg, 1978;

Nutt, 1987; Pettigrew, 1973, 1992; Van de Ven & Huber, 1990), often from economic perspectives (Helfat et al., 2009). However, researchers have also looked at the social and cognitive aspects of strategic change, investigating how audiences make sense of strategic change (Balogun & Johnson, 2004; Maitlis, 2005; Gioia & Chittipeddi, 1991) and how stakeholders evaluate strategic change (Fiss & Zajac 2006), focusing more on the social and cognitive aspects. In this context, legitimacy has been discussed as an important determinant of initiating and sustaining strategic change (Nielsen & Rao, 1987; Suddaby et al., 2017). Legitimacy is defined as the “generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995). Positive judgments of audiences are critical for organizations to acquire the resources—including capital, personnel, support, and goodwill—necessary for successful organizational change (DiMaggio & Powell, 1983), elevating the need for “having legitimacy” to essential. Legitimacy should not be regarded solely as an inherent property but rather as an interactive process. In the legitimacy-as-process perspective (Suddaby et al., 2017), legitimacy emerges as a result of continuous social negotiations involving various participants, encompassing the actions of legitimating or legitimizing.

However, most previous studies at the nexus of legitimacy–strategic change have focused on private organizations, where economic dimensions often provide strong motivations for strategic change. These motivations can be leveraged to legitimize change initiatives. Legitimacy issues tend to be more problematic in public organizations than in private ones because of several key factors. Public organizations operate with a heightened level of public scrutiny, are funded by taxpayers, and are accountable to the general population (Koch et al., 2006). This scrutiny means that any perceived legitimacy problems, such as mismanagement or unethical behavior, can quickly escalate into public scandals, damaging reputation and eroding trust (Haque, 2001). Additionally, the actions of public organizations are more regulated. Regulatory rules are highly influential; they portray high levels of obligation, the extent to which actors are bound to obey because their behavior is subject to scrutiny by external parties; precision, the extent to which the rules unambiguously specify the required conduct; and delegation, the extent to which third parties have been granted authority to apply the rules and resolve disputes (Abbott et al., 2000). Consequently, change initiatives in the public sector become a more complex act of legitimization and are dependent on the judgments of more stakeholders (Scott, 2014) who are not necessarily concerned with the performance advantages of the change. Managing diverse stakeholders, including (other) governments, field associations, auditors, interest groups, and

constituents, can exacerbate legitimacy challenges. (Powell et al., 2008). Overall, the combination of these dynamics makes legitimacy issues particularly thorny in the realm of public organizations.

Transcending legitimacy judgments is possible, but it requires evaluators to be driven by strong social and socio-cognitive motives (Suddaby & Greenwood, 2005; Webb et al., 2009). This is especially difficult for organizations in the public sector because of the deep-structural features of the political and administrative system (Pollitt & Bouckaert, 2017). However, existing evidence shows that public organizations can navigate the inherent legitimacy challenges and renew their strategies. For example, a municipality (Sorsa en Vaara, 2020) and social service departments (Aviv et al., 2021) showed that agents of change can strategically redirect their organizations. Unfortunately, this literature remains limited, and the mechanisms of managing the legitimization process of endogenous change remain unclear. Our work aims to reconcile this literature and how actions and behaviors deeply embedded in a political and administrative system can be strategically changed through the legitimacy lens.

It could be reasoned that the legitimization of strategic change in the public sector is simply another version of a nonmarket strategy that has been captured in existing research (Garud et al., 2020). However, there are strong arguments why this is not the case. Although private sector organizations have

a strong motivation for differentiation in the public sector, such motivations are absent in the public domain (Nutt & Backoff, 1993). In such a context, efforts to differentiate the organization are futile and may even backfire because “being distinctive” may be perceived as a violation of institutional and legal norms (Roessner, 1977). This also impacts the legitimacy of public sector strategic change. Also different from the private sector is that value creation is much more ambiguous and often subject to the interference of highly political audiences (Rainey, 2009). This fundamentally raises the likelihood of different legitimacy issues related to strategic change. As such, it may be much more difficult for public organizations to legitimize strategic change efforts that are often fraught with risks (Niosi, 2002; Uyarra et al., 2020) and have different dynamics than market and nonmarket strategic changes in private organizations. Following the above, this study systematically reviews the literature concerned with the strategic change of public organizations through the lens of legitimacy. The purpose of this study is to organize existing literature and bring forward the role of legitimacy in managing strategic change in public organizations by identifying dominant theoretical perspectives, constituents of legitimation, and applicable change contexts. We further attempt to reconcile the literature between different strands of literature, such as public administration, management, and organizational theory, which have

evolved separately. We identify important aspects of the phenomenon that have been understudied and present directions for further research.

2.2. Research method

Although research on the legitimacy and legitimation of strategic change is common in profit-driven contexts, it has been relatively scarce within the field of public sector research. To clearly distinguish between these two lines of inquiry, we examined both public administration and management research. This approach allowed us to gain a comprehensive understanding of their respective focus points and provide a more insightful overview of potential avenues for future research. We used the systematic database survey procedures recommended in previous studies for this review (Webster & Watson, 2002; Short, 2009). We selected studies according to three criteria: category, journals, and search terms. We focused on two Institute for Scientific Information (ISI) categories “public administration” and “management.” In the category “public administration,” we focused on journals with at least an Article Influence® score of ≥ 1.5 , and in the category “management,” we focused on journals with a score of at least 2. In terms of keywords, we focused on articles that included the topics of “legitimation” and “strategic change.” Iteratively, we ran closely related topic searches, such as “legitimacy” and “legitimization” and “strategic management” and “strategy renewal,” to include as many relevant articles as possible.

We relied on the Web of Knowledge as a widely used and reliable database of articles. These searches in the category “public administration” led us to 23 results from 2 journals. After eliminating articles with little relevance and nonempirical studies, we were left with 12 papers. In the category “management,” we found 105 results from 8 journals. On the basis of further analyses, we excluded articles with little relevance and all nonempirical studies. During this step, we reduced the number of articles to 53. Through the references in the remaining studies, we uncovered three further studies of high relevance not covered in the aforementioned topic searches. Overall, this article search led to the inclusion of 68 studies from 10 journals.

Journal	Articles found in the search	Articles included in the study
<i>Public Administration</i>	16	8
<i>Public Management Review</i>	7	4
<i>Academy of Management Review</i>	14	
<i>Academy of Management Annals</i>	2	
<i>Administrative Science Quarterly</i>	6	4
<i>Academy of Management Journal</i>	26	16
<i>Journal of Management</i>	7	3
<i>Organization Science</i>	25	14
<i>Strategic Management Journal</i>	21	13
<i>Journal of Management Studies</i>	7	6
Total	131	68

Table 2 Articles found and included in the study

To generate a clearer picture of how the research is structured, we began the analysis by searching through each paper to determine if there were any deliberate statements explaining the theoretical perspective or themes. For this

purpose, we conducted keyword searches and reviewed the papers. The review process resulted in three main perspectives structured around the following headings: Study (authors and year); Sector (public or private); Category (management or public administration); Types of strategy (market or nonmarket); Focus point of legitimation (strategy formulation, strategy selling, or strategy execution); and Types of change (endogenous or exogenous). The database (Appendix A) was constructed in MS Word to allow for comprehensive descriptions, especially of the theoretical perspectives noting key authors cited, important concepts being discussed or analyzed, and critical commentaries.

2.3. Results

This review highlights the idiosyncratic elements of strategic change for public sector organizations compared with those for-profit organizations by adopting a legitimacy lens. We shed light on the similarities and shared approaches embraced by scholars in this field. Additionally, we identify disparities and areas that have received limited investigation or are fragmented within the existing literature. On the basis of these findings, we call for several avenues for future research. Our analysis begins by focusing on the shared perspectives in both private and public sector research. Subsequently, we explore the focal points of legitimation and conclude by exploring the types of change evident in the research body.

2.3.1. Theoretical perspectives toward legitimacy of strategic change

In this section, we begin by introducing and subsequently analyzing three predominant theoretical frameworks (institutional, sensemaking, and stakeholder) that have been used in the examined papers. We concentrate on their respective contributions and distinctive characteristics.

Institutional perspective: Institutionalism emphasizes how institutions influence audiences' legitimacy judgments. This perspective accepts the existence of widespread and taken-for-granted logic, which constitutes the desirable, proper, or appropriate behavior of organizations (DiMaggio & Powell, 1983). Audiences evaluate organizational decisions, including strategic changes, against a certain logic to form a judgment on their legitimacy (Powell et al., 2008). Changes aligned and those not aligned with the prevailing logic are judged legitimate and illegitimate, respectively. From this perspective, strategic change is, in many cases, an act of moving toward a more or new legitimate position (Sherer & Lee, 2002). Organizations choose to strategically align themselves with the existing logic to accumulate legitimacy. For example, new firms acquire legitimacy by mimicking the structures and activities of established firms (Khair, 2010). Other research has shown how new gaming companies can conform to the features of an exemplar's hit games to increase legitimacy in the console video game industry (Zhao et al., 2018). Interestingly, organizations also strategically use outdated logic to legitimize

themselves, for example, through the adoption of discontinued certified standards (Eberhart & Armanios, 2021) and remnants of traditional crafts (Kroezen & Heugens, 2019). Also among public sector organizations, we see governmental agencies strategically pursuing legitimacy to prove their institutional contribution (Yeung, 2009).

Alternatively, organizations perform a strategic reorientation because they choose to align themselves with new emerging logic, for example, the democratization of society (Shi, 2022), radical technological change (Benner & Ranganathan, 2012), the emergence of a rival form (Hsu et al., 2018), or the emergence of market capitalism (Greve & Man Zhang, 2017). In addition, in the public sector, we see organizations adapting their strategy as a reaction to shifting institutional expectations, for example, in the occurrence of an institutional crisis, such as the case of earthquakes in the Netherlands (Schmidt et al., 2018), or shifting expectations in relation to sustainability (Greco et al., 2015).

Some studies have identified the existence of multiple institutional demands at the same time as the source of change. Research has shown how multinational corporations (Jacqueminet & Durand, 2020; Brenner & Ambos, 2013) respond strategically to institutional dualities. Such duality also emerges when entering a new market (Souitaris et al., 2012) or country (Boone & Özcan, 2016). The strategic position of firms in these instances depends greatly

on whom they need to seek legitimacy from: internal legitimacy from the parent firm or external legitimacy from the industry or the country they are entering. In addition, public sector organizations have to simultaneously deal with different institution expectations and show us how strategy may be understood in terms of the pursuit of the most effective way of maintaining legitimacy (Triantafillou, 2020). For example, research shows how a city used a public value strategy to address austerity and localism, as the central government imposed measures to control public sector debt and dismantled centralized performance management (Ferry et al., 2019).

The institutional perspective views strategic change to increase legitimacy. Organizations are focused on finding a more legitimate position either by moving toward a specific (new) logic or borrowing from several logics. Institutional logic is backed by coalitions committed to the logic. A key strategic choice for organizations from the institutional perspective is the most effective way of securing legitimacy and “whose positive judgment are we seeking,” for example, voters (Hsu et al., 2018), critics (Zhao et al., 2018), the parent company (Souitaris et al., 2012), shareholders (Shin & You, 2017), governments (Greve & Man Zhang, 2017), or the family (Miller et al., 2013). Scholars examining the legitimation of strategic change in the public sector have devoted limited attention to the institutional perspective, especially when

compared with the private sector, despite the public sector's significant level of institutionalization.

Sensemaking perspective: The second perspective distances itself from “hard-coded” rules, where actors only react to institutional requirements (Nigam & Ocasio, 2010). The sensemaking perspective assumes that legitimacy is more malleable through interactions between actors and audiences (Gioia & Chittipeddi, 1991). In a sensemaking process, audiences perceive, interpret, and evaluate the strategic moves of the actors, whereas actors use their resources to influence this process to retrieve a positive judgment from audiences for the change (Dutton & Duncan, 1987). Similar to institutionalism, from the sensemaking perspective, strategic change can be initiated by external dynamics. For example, in a stigmatized category, members are likely to disidentify with the current prototypes (Lashley & Pollock, 2020), whereas in an emerging category, sensemaking processes are initiated by organizations to establish an industry while creating a distinctive position for themselves (Stigliani & Elsbach, 2018). However, empirical research from the sensemaking perspective also indicates that organizations themselves often serve as catalysts for change, driven by their recognition of the need or opportunity to enhance their strategic position. The research shows that new firms can radically pivot and face the delicate task of managing new relationships while not alienating the groups that already identify with them.

In these instances, strategic change is likely to require intense legitimation. Firms can, while altering strategy, engage in issue selling in relation to the change (Alt & Craig, 2016), use evangelists to advocate for the organization (Massa et al., 2017), enact an interpretive process of discussions with market participants (Kahl & Grodal, 2016), portray being faithful to enduring aims (McDonald & Gao, 2019), or defuse tensions with stakeholders through identification reset work (Hampel et al., 2020). These are all examples of how audiences are helped to make sense of the new direction to increase legitimacy for the strategic change.

The sensemaking perspective accentuates the puzzle of how agreement for a strategic agenda (Reihlen et al., 2021) can be shaped considering what is acceptable for multiple audiences (McDonald & Gao, 2019). Research has shown that legitimate strategic change does not require consensus among all audiences. Legitimacy can be achieved even if it makes sense to different audiences in very different ways as long as some level of common ground is realized. For instance, the establishment of the service design industry offers an illustrative case where leading companies reached a consensus on a set of operational practices to foster a shared understanding and legitimize their distinct strategies (Stigliani & Elsbach, 2018). Similarly, within the public sector, we observe analogous phenomena through the creation of joint accounts (Spee & Jarzabkowski, 2017) or the use of strategic concepts (Jalonen et al.,

2018). As long as individuals or groups come to “enough” agreement or at least partial agreement (Sorsa & Vaara, 2020) that makes sense to each group or actor and leaves enough specificity for them to act, strategic change can be legitimate from a sensemaking perspective.

The sensemaking perspective brings the act of framing the change to the forefront as frames help audiences make sense of strategic directions. This also explains why it is possible that audience judgments can be different from institutional demands. Actions that would be considered very legitimate from an institutional perspective, for example, certifications, can be strategically silenced out for fear of being perceived as hypocritical (Carlos & Lewis, 2018). The sensemaking perspective exhibits greater prominence in the private sector literature than in the public sector. The first emphasizes the significance of leaders in the sensemaking process (Wenzel & Koch, 2018; Huy et al., 2014; Chakravarthy & Gargiulo, 1998), a facet that is notably absent in the public sector literature. Among the public sector literature, the role of street-level bureaucrats functioning as public sector entrepreneurs who initiate the sensemaking process is acknowledged (Aviv et al., 2021).

Stakeholder perspective: Within the sensemaking perspective, active actors initiate strategic change while using their resources to influence the legitimacy judgments of their audiences. The stakeholder perspective incorporates a more active role for audiences and acknowledges that stakeholders (Agle et al.,

1999) and secondary stakeholders (Eesley & Lenox, 2006) have legitimacy that can impact the content and success of strategic change. One of the studies examined in this review indicates that when organizational characteristics and actions are legitimized through affiliation with a third party, the likelihood of the organization securing external capital is enhanced (Plummer et al., 2016). Hence, stakeholders that have legitimacy can transfer this legitimacy to an organization and use it to influence strategic change. Legitimacy from this perspective is not only a judgment but also one of the resources that can be given or withheld by stakeholders, making the legitimacy of stakeholders part of the dynamics of strategic change. Especially among the research related to the public sector, more than in the private sector literature, we see the importance of this theme reflected. It shows how stakeholder engagement influences the strategic decision-making process (Greco et al., 2015) and leads to the initiation of new strategies that are more aligned with the interests of influential stakeholders (Schmidt et al., 2018). Other research shows how a public sector organization makes strategic choices to increase its visibility and build stakeholder support (Tidå, 2022) or how the execution of a strategy deviates from the original strategic intentions because of pressures by stakeholders (Hansen, 2022).

From the stakeholder perspective, legitimacy can be given by powerful and legitimate stakeholders and used to influence the content of the strategic

change. This implies that audiences are proactive players in defining strategic change and giving it legitimacy. Driven by interest (“what is useful?” instead of “what is appropriate”), strategic change might be negotiated with stakeholders for whom legitimacy is less a perception but more a resource that can be traded to serve the interests of involved stakeholders. This process of negotiation among stakeholders results in the (absence of) legitimacy of the strategic change. Hence, the legitimacy of stakeholders matters from this perspective and deals with “the principle of who or what really counts” (Freeman, 1984). As our research shows, especially in the multistakeholder context of the public sector with overlapping and sometimes conflicting evaluation criteria, shifting policy objectives and a dynamic nature of institutional change bring the legitimacy and interest of the stakeholder to the foreground (Newman, 2001). The consequential political nature of strategic change is further enhanced by the importance of “democratic legitimacy” (Hendriks, 2008), which stimulates enhanced democratic deliberation and mobilization of citizens and interest groups, increasing the likelihood of multiple legitimacy issues related to strategic change.

Different from other perspectives, legitimation from the stakeholder perspective can be seen as a process of involved actors crafting strategic “compromises” that are acceptable to audiences “who really matter.” For example, proposals of activist shareholders have been shown to influence

corporate social performance strategies (David et al., 2007), and organizations are more likely to settle proposals filed by “salient” shareholders, those with power, legitimacy, and urgency. Other research confirms that managers are more attuned to the urgency of issues through the direct actions that influential stakeholders take against firms (Odziemkowska & Henisz, 2021). For this reason, we also see organizations trying to avoid powerful stakeholders that can hold an organization directly accountable, which was shown in the case of community policing (Desai, 2018), or stay silent about positive corporate behavior that is not seen as serving the interests of specific stakeholders (Wang et al., 2021). The stakeholder perspective exhibits particular prominence within the literature on the public sector. Within the scope of this research, scholarly investigations offer valuable insights into the role of a highly dynamic “participant arena” (Maron & Benish, 2022; Schmidt et al., 2018). This conceptual framework elucidates how legitimate actors strategically enter the arena at various points to safeguard their interests. Furthermore, in certain instances, these actors may use their influence to exclude certain other parties, thereby bolstering their ability to advocate for their own interests. Consequently, this process could facilitate that elite stakeholders in particular contribute significantly to shaping the overall strategy (Hendriks, 2008), actually contradicting “democratic legitimacy” important among western societies. The participant arena concept holds significant relevance,

particularly within the public sector, yet further academic insights are needed to fully explore its works and implications.

Perspective	Focus	Key concepts	Initiators of change	Legitimacy source	Key strategies for legitimacy	Prominence in public sector literature
Institutional	Influence of institutions on legitimacy judgments by audiences	Widespread logic, proper behavior of organizations	External dynamics or pressures	Alignment with prevailing logic	Adopting or combining existing or new logic	Less prominent compared with the private sector
Sensemaking	Interaction between actors and audiences during the legitimacy process	Framing, perceptions, interpretations, and evaluations	External dynamics or internal recognition of an opportunity for change	Making sense of strategic directions	Issue selling, evangelism, discussions, and negotiations	Less prominent role for the influence of leaders compared with the private sector
Stakeholder	Active role of stakeholders in legitimacy, judgments and influence	Stakeholder legitimacy; legitimacy as a resource, power, and interests	Stakeholders interest	Legitimacy given by stakeholders	Negotiation, compromise in the participant arena and including and excluding actors within the arena	Particularly relevant, the participant arena and democratic legitimacy are emphasized but require further investigation

Table 3 Theoretical perspectives towards legitimacy of strategic change

2.3.2. The focal point of legitimation

In our analysis, we identified specific areas of strategic change, where legitimacy emerged as a significant subject. The research primarily concentrated on strategy formulation, selling, and execution. The majority of studies delved into one of these focal points, with the execution of strategy being the most popular among them, appearing in approximately half of the papers. Nearly 20% of the papers examined at least two of these points, whereas only three studies encompassed all three focal areas. We now outline each of the three focus areas.

Strategy formulation: In this review, several studies examine the legitimation process during the formulation of new strategies. In this study, strategy formulation is conceptualized as a negotiation process involving decision-makers and stakeholders, leading to (partial) decisions regarding the substance of the new strategy. Quantitative research conducted on this subject places significant emphasis on identifying external factors that influence the legitimacy of strategic choices. It demonstrates how the strategy is influenced by external environmental changes, such as democratization (Shi, 2022), the growing significance of social performance (Odziemkowska & Henisz, 2021), the behaviors of partners and competitors (Duysters et al., 2020), shareholder pressure (Chiu & Sharfman, 2011), and even activism (David et al., 2007).

Qualitative research, in particular, reveals the presence of complex dynamics as various actors engage in negotiating strategies to reconcile diverse judgments and interests (Levy & Egan, 2003; Reihlen et al., 2021). The role of ambiguity is emphasized in research that proposes the use of informality and vagueness to garner commitment from diverse interests (Stone & Brush, 1996). More than half of the studies on legitimation during new strategy formation focus on the public sector, and these studies represent less than a quarter of the studies in review. This body of research illuminates how the pluralistic nature of the public sector engenders prolonged and iterative periods of strategy formulation. Proponents and challengers, driven by differing interests and

judgments, strive to find a shared understanding and reach some form of agreement. These studies propose various strategy-making processes and specific legitimation practices that enable organizations to establish common ground (Jalonen et al., 2018) or partial agreement (Sorsa & Vaara, 2020) as the foundation for their evolving strategies. Moreover, an instructive case study from the planning process of a British university (Spee & Jarzabkowski, 2017) illustrates how a new strategy was formulated by establishing joint accounts that effectively incorporated multiple coexisting interpretations, thereby addressing the vested interests of diverse stakeholders. Similarly, another example involves a city council formulating a strategy that satisfactorily meets the vested interests of various constituents through the democratic deliberation process (Ferry et al., 2019). Across these papers, the role of ambiguity is to constrain and facilitate during strategy-making. One public sector study characterizes organizational strategy as the pursuit of the most effective means of maintaining legitimacy among continuous pressure as external audiences attempt to exert overt influence (Triantafillou, 2020).

These studies also shed light on the inherent sequential nature of legitimation during strategy formation. For instance, the temporal aspect of legitimacy is exemplified in research examining how social workers dedicate prolonged periods to advancing strategies they believe would benefit the communities they serve (Aviv et al., 2021). In other investigations, it has

been demonstrated that political decision-makers tend to try to maintain the status quo, using a series of strategies aimed at restoring legitimacy but necessitating new strategies as they encounter new opposition, leading to multiple iterations of strategy formation spanning several years (Schmidt et al., 2018). Similarly, in the case of network administrative organizations (NAOs), protracted processes are observed to consolidate their goals, accompanied by initial efforts to establish internal legitimacy, followed by subsequent endeavors to attain external legitimacy. The researchers note that inclusive NAOs primarily face challenges in achieving internal legitimacy, whereas exclusive NAOs struggle to secure external legitimacy (Maron & Benish, 2022).

Overall, the research highlights the significance of legitimation efforts during strategy formation, particularly within the public sector, where the legitimation of strategies is characterized by instability due to continuous changes in both the content of the strategies and the target audience. This process unfolds over an extended time frame and is deeply intertwined with political dynamics. Sustaining progress necessitates the attainment of sufficient agreement among the involved parties and is characterized by ongoing negotiations and the emergence of agreements. However, the lack of quantitative research limits the ability to draw comprehensive conclusions. Existing research primarily focuses on identifying factors that contribute to

instability rather than exploring how organizations address and manage these complex dynamics. Further (quantitative) investigation is needed to better understand how organizations effectively navigate these legitimacy challenges during multiple iterations of strategy formulation.

Strategy selling: A number of studies within this review have focused on selling a new strategy. Ensuring that the new strategy is seen as legitimate is crucial when proposing a strategic reorientation (McDonald & Gao, 2019), especially when dealing with hostile stakeholders (Hampel et al., 2020). The inability to effectively sell a new strategy can lead to market failure (Kahl & Grodal, 2016) and reduce the chances of raising VC funding (Petkova et al., 2013) or conducting a successful IPO (Martens et al., 2007). Leaders play (Wenzel & Koch, 2018; Shin & You, 2017) a crucial role in selling strategy, but organizations also use evangelism (Massa et al., 2017) and hire people with advocacy experience to help promote their strategy (Grimpe et al., 2019). The literature shows that organizations use language to signal conformity between the strategy and the taken-for-granted. They could be entrepreneurs altering their strategy but also portraying faithfulness to enduring aims (McDonald & Gao, 2019), CEOs using value language signaling conformity to a prevailing norm (Shin & You, 2017), or social intrapreneurs drawing on the logic composite relating to the existing meaning systems to legitimate socially oriented innovations (Alt & Craig, 2016).

When selling a new strategy, organizations also do this by (re)framing their organizational identity or repositioning themselves in relation to their field or a specific category. For example, organizations use naming to indicate their membership in a category to overcome the liabilities of an atypical strategy (Smith & Chae, 2016). Organizations also use storytelling to embed entrepreneurial endeavors by conveying a more comprehensive identity within a broader context (Martens et al., 2007). Alternatively, organizations use language to destigmatize a category to remove a sense of negativity and create leeway for something new. Actors in the US medical cannabis industry have attempted to create a moral public image based on healing and patients' rights in their stigmatized category (Lashley & Pollock, 2020). Other research shows how incumbent organizations reposition their identities in response to increasing competition from an emerging rival form (Hsu et al., 2018). In the case of a failed merger between two pharmaceutical companies, the new identity was delegitimized by its leaders before the breakup (Vaara & Monin, 2010). Alternatively, research shows that organizations can create a broader acceptance of a new strategy change through identification reset work. Encountering significant resistance from audiences whose identification with the venture is threatened in case of a pivot, research shows that organizational identity alteration can remove the affective hostility of stakeholders (Hampel et al., 2020). Interestingly, “not selling” the new strategy could also be a tactic

because strategic silence could be used to circumvent potential criticism (Wang et al., 2021).

In contrast to the extensive literature that focuses on the private sector selling its new strategy to stakeholders, there is a notable gap in public sector research regarding the discourse, discussion, and justification of new strategies. Within the realm of public sector research, certain studies highlight the use of rhetorical legitimation strategies in the context of a new strategy. For instance, Hyndman et al. (2018) examined public sector accounting reforms in the central governments of the United Kingdom, Italy, and Austria, shedding light on the rhetorical strategies used to explain the new strategy. Furthermore, another study reveals how a government agency actively seeks media attention to enhance its visibility and “sell” its institutional contributions (Yeung, 2009). However, despite these few instances, there remains a dearth of research on persuasive tactics used by public sector organizations to sell their new strategies.

Strategy execution: Approximately 50% of the research within the private sector included in this review involves legitimacy or legitimation during the execution of a strategy. These studies encompass various contexts, such as radical pivots (Hampel et al., 2020), creative projects (Mainemelis & Sakellariou, 2022), new ventures (Stigliani & Elsbach, 2018; Plummer et al., 2016), international expansion (Hawn, 2021; Boone & Özcan, 2016), mergers

and acquisitions (Vaara & Monin, 2010), asset divestment (Durand & Vergne, 2015), new organizational forms (Lee & Pennings, 2002), and social-oriented innovations (Alt & Craig, 2016). Conversely, strategic change appears to present additional legitimacy risks compared with operational change. These risks encompass the disidentification of key stakeholders (Hampel et al., 2020), heightened exposure to negative media coverage (Hawn, 2021), potential loss of leadership legitimacy (Chakravarthy & Gargiulo, 1998), and the potential for internal resistance or mutiny (Huy et al., 2014), rendering strategic change a more precarious endeavor than operational change.

During strategy execution, organizations encounter continuous challenges in upholding their legitimacy. To address these pressures, various tactics are used, such as influencing or evading target audiences. In this context, organizations often strive to establish and reinforce their legitimacy through third-party affiliations (Plummer et al., 2016), engaging in identification work (Stigliani & Elsbach, 2018), selectively concealing activities and exploiting hierarchical and knowledge gaps (Mainemelis & Sakellariou, 2022), or establishing legitimacy through a series of small experiments (Malsch & Gendron, 2013). Additionally, private organizations manage potential legitimacy issues by aligning their strategic execution with widely accepted goals or procedures (Philippe & Durand, 2011), obtaining certifications (Eberhart & Armanios, 2021), borrowing from rival ideologies

(Boone & Özcan, 2016), and engaging in a dualistic process of conforming and transforming (Kroezen & Heugens, 2019). These approaches demonstrate at least a minimum level of conformity as a buffer against more radical alterations. There are instances where the developed strategy and its execution become decoupled (Jacqueminet & Durand, 2020), as a strategy signals conformity but conceals more disruptive strategic change. In extreme cases, organizations may even abandon the strategy during its execution (Durand & Vergne, 2015; Vaara & Monin, 2010) due to external pressures and demands. These circumstances reflect the dynamic nature of strategy execution, where organizations must navigate complex environments and make ongoing strategic moves to maintain their perceived legitimacy.

In addition, strategic change execution in public organizations is a delicate balancing act because it involves managing both strategic considerations and political interests. In contrast to private organizations, strategic change implementation in the public sector is often driven by politicized motivations. Research reveals that strategy execution is influenced by the key political interests of influential actors (Hansen, 2022), and it demonstrates how certain parties may be excluded from participation due to political reasons (Hendriks, 2008). An example of this can be seen in the reluctance of public sector organizations to collaborate with important stakeholders in the community policing context (Desai, 2018). Furthermore,

other studies shed light on the continuous pressure faced by supreme audit institutions because governments attempt to exert overt influence over the design and conclusions of their reporting. These findings emphasize the intricate dynamics involved in executing strategic change within the public sector, where political interests often intersect with the strategic considerations of public organizations.

Another notable distinction between the literature on the private and public sectors pertains to the frequency of strategy formulation revisits in public organizations, which often occur during strategy execution, possibly due to the political instability discussed. During the execution phase, strategic discussions persist and adjustments are made. In private sector research, a clear division exists among our three focal points: strategy formulation, selling, and execution. Less than 10% of the research covers two or three topics within a single study. However, in public sector research, this proportion is approximately half. In the public sector, where multiple actors are involved, partial or temporary agreements are frequently reached during strategy formulation, and organizations proceed to implement these agreed-upon aspects. However, they revisit the strategy formulation process as the political landscape evolves (Yeung, 2009) or new insights emerge (Newman, 2001), which triggers a form of strategy reformulation. These revised judgments can result in the development of new strategic plans (Jalonen et al., 2018) or

updated versions of existing plans (Sorsa & Vaara, 2020). Democratic deliberation practices (Ferry et al., 2019) or increased stakeholder involvement over time (Greco et al., 2015) can also trigger strategic adjustments. Introducing new strategy versions can also activate pockets of resistance (Schmidt et al., 2018) and further escalate the pressure for reform. The review indicates that strategic change in the public sector often leads to modifications in the strategy, driven by the emergence of unforeseen benefits and drawbacks or shifts in the political context with new or increased engagement from various stakeholders. Effectively managing this level of instability is crucial for maintaining legitimacy in relation to the formulated strategy and its successful execution. However, existing research on managing this level of instability during strategy execution or integrating it into a cohesive process remains fragmented, leaving many aspects open for further investigation.

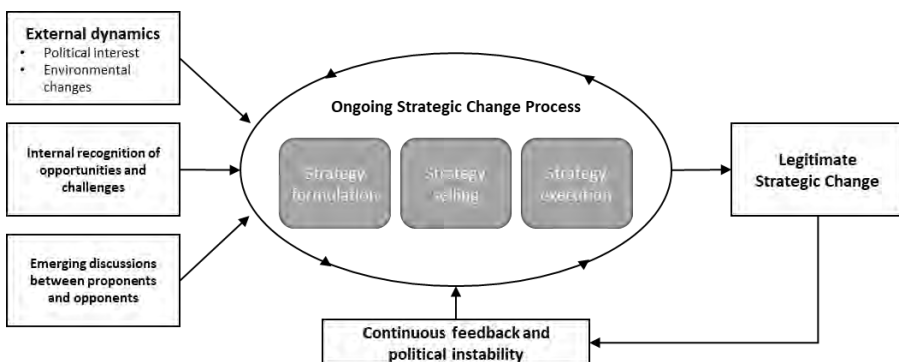


Figure 2 The focal point of legitimation of strategic change in the public sector

2.3.3. The source of strategic change

We have also analyzed the source of the change in our review. Strategic change can be forced upon an organization from the outside, or it can be a self-interested ambition from within the organization. As discussed above, institutional research primarily presumes that strategic change is exogenously driven. In the strategic change literature, we recognize that private organizations need to conform to a norm (Philippe & Durand, 2011), react to changing logic (Benner & Ranganathan, 2012; Shi, 2022), manage multiple institutional demands (Jacqueminet & Durand, 2020; Souitaris et al., 2012), and navigate conflicting logic (Greve & Man Zhang, 2017; Hsu et al., 2018). In these instances, there might still be an endogenous choice to be decided upon, for example, which logic to comply with, how to combine the logic, or how to commit to the goal or procedure (Philippe & Durand, 2011). Zhao et al. (2018) also acknowledge that deterministic pressures change at times, where strategy conformity might be necessary in the early stages of a category; later stages might allow for moderate levels of differentiation and offer opportunities for more independent strategic choices. In addition, among the stakeholder perspectives, we recognize the exogenous pressures on strategy formulation (Odziemkowska & Henisz, 2021) and execution (Agle et al., 1999) as activist shareholders (David et al., 2007), secondary stakeholders (Eesley & Lenox, 2006), and political actors (Levy & Egan, 2003) that influence organizations and senior management (Agle et al., 1999).

Moreover, among public sector organizations, the exogenous influence on strategic change from both institutional forces and stakeholders is clear because changing institutional rules from the central government triggers innovative strategic changes on the municipal level (Ferry et al., 2019) or administrative reforms (Hyndman et al., 2018). Additionally, conflicting institutional demands force a Supreme Audit Institution to make strategic choices (Triantafillou, 2020) and a changing policy context influences managers constructions of “efficiency” and “effectiveness” (Newman, 2001). Moreover, we see a university embarking on a lengthy strategic reorientation process triggered by several institutional changes at once (Spee & Jarzabkowski, 2017).

Key interest from stakeholders is an important trigger for exogenous-driven strategic change. For example, strategy formulation is influenced in the case of the European Court of Auditors, as it transitions from the EU’s financial to a regulatory watchdog in response to reputational judgments from main stakeholders (Tidå, 2022). Several new iterations of strategy formulation by the Dutch government have been triggered because of public backlash (Schmidt et al., 2018), or the strategic role for sustainability has been enhanced because of higher stakeholder engagement (Greco et al., 2015). Similarly, strategy execution is also influenced by stakeholders' judgments. In one case, community policing was influenced (Desai, 2008) by the fear of negative

responses from stakeholders or became politicized in the case of the Office for Standards in Education (Hansen, 2022). Although exogenously driven, we recognize that in some cases, public organizations act autonomously and decide to enact a distinctive strategy within institutional–political boundaries. For example, driven by lively discussions about the future of the Nordic welfare-based system and a city severely affected by postindustrial structural change, a Finnish city embarked on an innovative strategic change (Jalonen et al., 2018). Similarly, another city organization facing national austerity politics used a distinctive public value strategy. Their novel approach also sparked nationwide debates and triggered broader institutional change (Ferry et al., 2019).

Endogenous strategic change in the private and public sectors generally takes a sensemaking perspective. Among private sector research, we see innovative firms hire employees with advocacy group work experience to help “sell” their strategies to major stakeholders (Grimpe et al., 2019), or intrapreneurs help the organization make sense of strategic ventures to finally incorporate them into the corporate strategy (Reihlen et al., 2021) or a new organizational form (Chakravarthy & Gargiulo, 1998). Similarly, an organization helps its core external stakeholders to make sense of a pivot (McDonald & Gao, 2019), or entrepreneurs help their potential customers understand a new discipline (Stigliani & Elsbach, 2018). These studies also

show how dynamic managerial capabilities (Huy & Zott, 2019) and the presentation performances (Wenzel & Koch, 2018) of senior managers play an important role and how they can frame their strategies through media (Petkova et al., 2013), putting rhetorical tactics to the forefront of their sensemaking practices (Vaara & Monin, 2010) and consequently demonstrating how an absence of effective use of rhetorical tactics explains why it can lead to too little legitimacy, for example, when pushing radical technological change (Kahl & Grodal, 2016). Additionally, this research focuses on relational and identity work, for example, by organizations investing in relations with their user community (Hampel et al., 2020) or by creating shared experiences with potential influential customers (Massa et al., 2017), strengthening their identities through affiliations (Plummer et al., 2016), and aligning the strategy with a distinctive principle-based organizational identity (Stigliani & Elsbach, 2018).

The literature on endogenous strategic change in the public sector is limited and focuses on sensemaking. We are presented, for example, with a case of a city organization where proponents and challengers play a “rhetorical game,” moving from contestation to convergence and partial agreement (Sorsa & Vaara, 2020), and we learn how street-level bureaucrats become policy entrepreneurs by collecting and disseminating knowledge and being active participants in policy-formulating arenas (Aviv et al., 2021). In comparison

with the private sector research, political tactics, in addition to rhetorical tactics, are widely used as actors negotiate (partial) deals and make strategic trade-offs among various priorities. From this viewpoint, a legitimate strategy involves a continuous political process to achieve partial agreements.

How these political dynamics during strategic change (strategy formulation, selling, and strategy execution) unfold is still under investigation. In comparison with private sector research, the use of both identity and relational works as part of the legitimation process during endogenous strategic change is discussed in public sector research.

	Endogenous change	Exogenous change	Autonomous exogenous change
Source of change	Self-interest from within	Forced upon from outside	Self-interest from within, triggered by external changes
Perspective	Sensemaking process	Institutional and stakeholder processes	Sensemaking processes within institutional–political boundaries
Private sector characteristics	Relies on dynamic managerial capabilities and presentation performances for sensemaking and legitimation and uses relational and identity work	Conforms to norms, adapts to changing logic, and uses rhetorical tactics for legitimation	Combining and framing norms and logic creatively
Public sector characteristics	Research on endogenous change is limited. Sensemaking and political tactics for legitimation are used	Exogenous influence from institutions and stakeholders, strategic change triggered by changing rules and stakeholder interests	Organizations may act autonomously within political boundaries and participate in a “rhetorical game,” moving from contestation to convergence and partial agreement
Leadership influence	Endogenous responses depend on leaders' characteristics and legitimacy	Exogenous change may be influenced by leadership, but limited research is available	Exogenous change may be influenced by leadership, but limited research is available

Table 4 Overview sources of strategic change

Finally, studies related to the private sector show that endogenous strategic responses depend not only on leadership characteristics (Lewis et al., 2014) and the dynamic managerial capabilities of entrepreneurs (Huy & Zott, 2019) but also on the legitimacy of the leaders themselves (Huy et al., 2014; Chakravarthy & Gargiulo, 1998). Research regarding the attitudes, behaviors, and capabilities of leaders as “champions of change,” serving as a source of legitimation (Hyndman et al., 2018), is limited in the public sector context, with discussions only on the experiences of street-level bureaucrats (Aviv et al., 2021) pushing for endogenous change over a long period.

2.4. Discussion and implications for future research

Although private organizations have strong motivations to revitalize themselves to secure a competitive position, such motivations in the public sector are absent because competition and value creation are more ambiguous and often subject to the interference of highly political audiences (Nutt & Backoff, 1993; Rainey, 2009). In such contexts, competitive threats are often absent, and efforts to differentiate the organization are futile and may even backfire because “being distinctive” may be perceived as a violation of institutional and legal norms (Roessner, 1977). Strategic change in the private sector faces different legitimacy judgments than that in the public sector. For-profit organizations leveraging opportunities to gain a competitive edge or responding to competitive threats to provide a solid justification for initiating a major change effort. In our review, we analyzed how the literature regarding the legitimacy and legitimation of strategic change compares and differentiates between the private and public sectors by analyzing empirical studies from the management and public administration fields. Across the body of research, we investigated three different perspectives (institutional, sensemaking, and stakeholder), the focal points of legitimation (strategy formulation, selling, and execution), and the type of change (exogenous, autonomous, and endogenous).

The extensive body of research on the legitimacy of strategic change in the private sector primarily revolves around institutional and sensemaking

perspectives. In contrast, available research on the public sector is scarce. The public sector's highly regulatory-institutionalized nature and the growing pressure for strategic change raise significant legitimacy concerns, yet surprisingly, the institutional perspective has not received much scholarly attention. In addition, the sensemaking literature for the public sector is underdeveloped, and it fails to recognize the role of leaders as change agents initiating sensemaking processes. The stakeholder perspective holds significant prominence in the public sector literature. The unique multistakeholder, multigoal context, along with the role of democratic legitimacy, turns the legitimacy debate around strategic change into a highly "political game" involving active stakeholders. The interests of stakeholders greatly influence legitimacy judgments, hinting at the existence of legitimacy transactions between stakeholders and organizations (legitimacy as a resource) driven by their mutual interests. However, how and when these resources are exchanged remain unclear. Further research is needed to understand the mechanisms of legitimacy transfer by stakeholders, its impact on organizational strategic change, and associated costs. Additionally, exploring the dynamics of the "participant arena" in the public sector, where political actions determine who participates, requires academic attention, which includes investigating the influence of elite stakeholders and potential risks concerning the democratic legitimacy of strategic change.

Our review highlights that organizations, including those in the public sector, use various tactics to legitimize strategic change, focusing on strategy formulation, selling, and execution. The dynamic and evolving nature of audiences and interests in the public sector makes strategic change precarious. Reaching consensus is challenging, leading to “unfinished” strategy formulation and partial or temporary agreements. Unforeseen benefits, drawbacks, or shifts in the political landscape, accompanied by changing stakeholder engagement, create pressure to readjust strategic directions in later stages. Effectively managing this level of instability is vital for maintaining legitimacy and ensuring successful execution. However, the current research on managing instability during strategy execution is fragmented, and the concept of temporality remains underexplored in this context. An important question is whether a more agile approach involving small strategic changes that are quickly executed and legitimized could be more effective. Further investigation is needed to understand how organizations can successfully navigate legitimacy challenges during multiple iterations of strategy formulation and execution. Additionally, there is a significant research gap in the public sector concerning the discourse surrounding new strategies. Only a few studies explore the persuasive tactics used by public sector organizations to promote their new strategies, highlighting the need for further investigation into strategy selling.

Our research identifies different types of changes, specifically highlighting the distinction between exogenous and endogenous changes. In the public sector, strategic change often results from external factors such as institutional or stakeholder pressures. However, we acknowledge that there are also cases where public organizations triggered by exogenous forces act autonomously and implement distinctive strategies within the boundaries of their institutional and political contexts, which we call autonomous change and should be investigated more closely. Research on endogenous strategic change in the public sector is also limited and primarily focuses on sensemaking; however, understanding endogenous change requires considering external constraints. Public organizations face the problem of making audiences understand their new strategies while navigating stakeholder interests and prevailing logic. Further research is needed to explore how public sector organizations engage in endogenous strategic change because agents of change are likely to confront taken-for-granted ways, regulatory norms and practices, and vested interests. We presume that endogenous change in the public sector is restricted and involves recurring negotiations and trade-offs with evolving exogenous demands.

Finally, the work performed by agents of change in the public sector remains understudied. It is still unclear what attitudes, behaviors, and capabilities leaders possess as “champions of change” that enable them to serve

as sources of legitimacy in the public sector compared with the private sector literature. The public sector is often associated with a weaker form of leadership, which can be attributed to labor market matching processes and the bureaucratic nature of public organizations (Özcan & Reichstein, 2009). These factors contribute to a lower rate of entrepreneurship among public sector leaders and public servants who tend to be more risk-averse and resistant to change (Rainey, 2009). Additionally, leaders within public sector organizations have limited authority as political decisions often shape the organizational landscape, and their actions are subject to potential political scrutiny and risks (Koch et al., 2006). Further quantitative research focused on the role of public sector leaders is necessary to comprehensively understand when and how these leaders can better contribute to endogenous change in the public sector. Such research could provide insights into the specific factors that influence the potential for endogenous change and the extent to which leaders contribute to this process.

2.5. Conclusion

This research highlights the highly political and unstable nature of the legitimacy debate surrounding strategic change in the public sector. The unique multistakeholder, multigoal context creates an evolving “participant arena,” which has been superficially discussed in the literature. Despite increasing pressure for efficiency and effectiveness in public organizations, leaders

undertaking autonomous and endogenous change trajectories could benefit society. However, we currently have limited knowledge about the triggers and success factors for these “champions of change.” Despite this limitation, the literature demonstrates that new strategic innovations are possible, and creative agents have opportunities to pursue distinctive strategic routes. These pathways may deviate from traditional (strategy formulation–strategy execution) approaches, which involve iterative negotiations, partial agreements, and intense political work to navigate institutional–political constraints. The legitimation process for such strategic changes remains largely unknown, and further research is required to uncover these aspects. Bridging this gap is crucial because it has practical and real-life implications. Encouraging more scholars to recognize the importance of strategic change in the public sector is vital for advancing our understanding of this area.

Appendix A: Empirical research on legitimization of strategic change and related terms

ID	Study	Field	Research	Industry	Focus point of legitimization	Context	Perspective	Legitimation tactics	Types of change
1	Shi (2022)	Management	Quantitative	Private, music industry	Strategy formulation	Strategic reorientation, conflicting influential stakeholders during democratization	Institutional	-	Exogenous
2	Manemelis & Sakellariou (2022)	Management	Qualitative	Private, MNC	Strategy execution	Strategic autonomy, evolving creative projects through formal or informal channels	Stakeholders	Rhetorical work: Selective concealment, strategic use of time, exploitation of hierarchical and knowledge gaps, shared wins framing.	Endogenous
3	Wang, Jia, Xiang, et al. (2021)	Management	Quantitative	Private sector, Publicly traded firms	Strategy selling	Corporate social responsibility. Social performance, feedback, communication strategy.	Sensemaking	Rhetorical work (visual expressions)	-
4	Wang, Jia, & Zhang, (2021)	Management	Quantitative	Private sector	Strategy selling	Strategic silence regarding corporate philanthropy	Stakeholder	Rhetorical work (Strategic silence)	-
5	Reiflen et al., (2021)	Management	Qualitative	Private sector, Manufacturing MNE	Strategy formulation; Strategy selling, strategy execution	Strategic venturing; integration into corporate strategy	Sense making	Rhetorical work; relational work; practice work	Endogenous
6	Hawn (2021)	Management	Quantitative	Private sector, Emerging market MNE	Strategy execution	(Ir)responsible behavior during international expansion (corporate social responsibility)	Institutional	Rhetorical work;	Endogenous
7	Odziemkowska & Hemisz (2021)	Management	Quantitative	Private sectors, firms from 36 countries	Strategy formulation	Actions and interactions of secondary stakeholders with an interest in corporate social performance and variation in firm-level CSP across countries	Stakeholder	-	Exogenous
8	Eberhart & Armannos, (2021)	Management	Quantitative	Private sector, emerging industries	Strategy execution	Entrepreneurial entry (discontinued) certification decisions	Institutional	Practice work;	Exogenous
9	Sosa & Varra, (2020)	Management	Qualitative	Public sector, City organisation	Formulating strategy, executing strategy	Ambiguous; reform of public sector organization	Sensemaking	Rhetorical work; political work	Endogenous
10	Jacqueminet & Durand, (2020)	Management	Quantitative	Private sector, Energy MNE	Strategy execution	Firms' response to multiple institutional demands, corporate social responsibility	Institutional	Decoupling from strategy	Exogenous
11	Lashley & Pollock, (2020)	Management	Quantitative	Private sector, US medical cannabis industry	Strategy selling	Responses in core-stigmatized categories	Sensemaking	Rhetorical and practice work (while also continuing stigmatized behavior)	Exogenous

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12	Hampel et al. (2020)	Management	Qualitative	Private sector; photography industry	Strategy selling	Dealing with hostile stakeholders in case of a pivot	Sensemaking	Relational work; identification work	Endogenous
13	Duyssers et al. (2020)	Management	Quantitative	Private sector; publicly traded firms	Strategy formulation	Firms' tendencies to explore based on exploration levels of partners and competitors	Institutional	Practice work	Exogenous
14	McDonald & Gao (2019)	Management	Qualitative	Private sector; financial-technology sector	Strategy selling	Justifying strategic reorientation to various audiences by new ventures	Sensemaking	Rhetorical work	Endogenous
15	Deslaurine et al. (2019)	Management	Quantitative	Private sector	Strategy execution	Building organizational resilience in the context of crisis through strategic social and environmental practices	Institutional	Practice work	Exogenous
16	Kroezen & Heugens (2019)	Management	Qualitative	Private sector; beer brewing industry	Strategy execution	Institutional regeneration as field actors rediscover, repurpose and reuse remnants	Institutional	Rhetorical work; practice work	Exogenous
17	Grimpe et al. (2019)	Management	Quantitative	Private sector; innovative firms	Strategy selling	Transferring stakeholder legitimacy by hiring people with advocacy experience	Stakeholder	Practice work (hiring practices)	Endogenous
18	Q. Huy & Zott (2019)	Management	Qualitative	Private sector; entrepreneurial firm	Strategy execution	Systematic behavior senior managers can use to maintain and gain support of stakeholders in strategic change	Sensemaking	Rhetorical work (emotional regulation)	Endogenous
19	Zhao et al. (2018)	Management	Quantitative	Private sector; console video game industry	Strategy selling	Emerging and evolving pro-categories	Institutional	Identification work	-
20	Wenzel and Koch (2018)	Management	Qualitative	Private sector; technology firm	Strategy selling	Staged genre of strategic communication	Sensemaking	Rhetorical work	Endogenous
21	Stiglmayr & Elsbach (2018)	Management	Qualitative	Private sector; service design industry	Strategy formulation; strategy execution	New ventures in a nascent industry in the absence of a well-established discipline	Sensemaking	Practice work; rhetorical work	Endogenous
22	Jalonen et al. (2018)	Management	Qualitative	Public sector; city organization	Strategy formulation; strategy execution	Long-term strategic process and practices using strategic ambiguity	Sensemaking	Rhetorical work; political work	Endogenous
23	Hsu et al. (2018)	Management	Quantitative	Private sector; medical cannabis dispensaries	Strategy selling	Conflicting demands from audiences	Institutional	Identification work	Exogenous
24	Desai (2018)	Management	Quantitative	Public sector; local law enforcement agencies	Strategy execution	Collaborative engagements with stakeholders	Stakeholder	Disengagement from stakeholders	Exogenous
25	Carlous and Lewis (2018)	Management	Quantitative	Private sector; publicly traded firms	Strategy execution	Risks of perceived hypocrisy; decoupling of implementation and communication	Sensemaking	Rhetorical work (strategic silence)	-
26	Massa et al. (2017)	Management	Qualitative	Private sector; cool climate wineries	Strategy selling	Building a critical mass of support for new ways of doing things	Sensemaking	Rhetorical work (evangelism)	Endogenous
27	Spee & Jarzabkowski (2017)	Management	Qualitative; process oriented	Public sector; British university	Strategy formulation	Reaching strategic agreements in pluralistic settings	Sensemaking	Rhetorical work (creating joint accounts); political work	Exogenous
28	Greve & Man Zhang (2017)	Management	Quantitative	Private sector; publicly traded firms	Strategy execution	M&A decisions regarding conflicting institutional logic and power sources and the rise of market capitalism logic	Institutional	-	Exogenous
29	Shin & You (2017)	Management	Quantitative	Private sector; publicly traded firms	Strategy selling	CEO's signaling conformity to a prevailing norm	Institutional	Rhetorical work (letters to shareholders)	-

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30	Boone & Ozzan (2016)	Management	Qualitative	Private sector; Islamic banks	Strategy execution	Competing in environments with oppositional logic during geographical expansion	Institutional	Practices work (hiring practices)	Endogenous
31	Plummer et al., (2016)	Management	Qualitative	Private sector; new ventures	Strategy execution	New ventures in pursuit of initial external capital	Sensemaking	Relational work (third-party affiliations)	Endogenous
32	Smith & Chae (2016)	Management	Quantitative	Private sector; hedge funds	Strategy selling	Organizational naming as a strategic choice to overcome liabilities of arbitrariness	Sensemaking	Rhetorical work (strategic naming)	-
33	Tracey & Phillips (2016)	Management	Qualitative	Private sector; social enterprise	Strategy selling	Stigmatization precipitating an identity crisis	Sensemaking	Identity work	Exogenous
34	Kahl & Grodal (2016)	Management	Qualitative	Private sector; insurance market for computers	Strategy selling	Failure in the face of radical technological change	Sensemaking	Rhetorical work (discursive strategies that do not communicate effectively with customers)	Exogenous
35	Durand & Vergne, (2015)	Management	Quantitative	Private sector; arms industry	Strategy execution	Stigmatized industries under attack by media characterized by social contestation and hostile audiences	Sensemaking	Departure from strategy (asset divestment)	Exogenous
36	Q. N. Huy et al. (2014)	Management	Qualitative	Private sector; information technology company	Strategy execution (failed)	Shifting legitimacy judgments by middle management during radical organizational change	Sensemaking	-	Exogenous
37	Lewis et al. (2014)	Management	Qualitative	Private sector	Strategy execution	Strategic responses by CEOs to institutional pressures	Institutional	-	Exogenous
38	Malsch & Gendron (2013)	Management	Qualitative	Private sector; accounting sector	Strategy executions	Institutional innovation created by a conflict between different logics	Institutional	Practice work (series of experiments aimed at extending jurisdiction)	Exogenous
39	Bremer & Ambos (2013)	Management	Qualitative	Private sector; MNC	Strategy execution	Overcoming institutional duality across a network of geographically and culturally dispersed subsidiaries	Institutional	Practice work (social controls)	Exogenous
40	Miller et al. (2013)	Management	Quantitative	Private sector; family firm	Strategy execution	Family firms, subject to unusually powerful motivations to conform	Institutional	-	Exogenous
41	Pekova et al. (2013)	Management	Quantitative	Private sector; technology start-ups	Strategy selling	Attracting attention by early firms from media to increase likelihood of VC funding	Sensemaking	Rhetorical work (media attention)	Endogenous
42	Bonner & Ranganathan (2012)	Management	Quantitative	Private sector; publicly traded firms	Strategy execution	Analysts' recommendations during radical technological change	Institutional	Practice work (share repurchase)	Exogenous
43	Soutaris et al. (2012)	Management	Qualitative	Private sector; venture capital programs	Strategy executions	Resolving competing forces from different institutional environments	Institutional	Practice work (organizational structure)	Exogenous (or professional TMT)
44	Chiu & Sharfman (2011)	Management	Quantitative	Private sector; S&P 500 firms	Strategy formulation	The firms visibility and scrutiny of stakeholders rather than economic performance motivates managers to engage actively in CSP	Stakeholder (institutional)	-	Exogenous
45	Philippe & Durand (2011)	Management	Qualitative	Private sector; large firms (cross-sector)	Strategy formulation; Strategy execution	Exploring the strategic implications of conformity to the environmental	Institutional	Practice work	Exogenous (conform to the goal or procedure)

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46	Khaire (2010)	Management	Quantitative	Private sector, new ventures	Strategy execution	transparency to firm reputation	Institutional	Practice work (mimicking structures and ceremonial activities)	Exogenous
47	Yaara & Momin (2010)	Management	Qualitative	Private sector; pharmaceutical companies	Strategy selling (2-); Strategy execution	(Poster)Merger organizational dynamics and discursive legitimation that led to failure	Sensemaking	Rhetorical work; political work	Endogenous
48	Martens et al. (2007)	Management	Qualitative	Private sector; high-tech companies	Strategy selling	Resource acquisition through IPO's influenced through narratives	Sensemaking	Rhetorical work; identity work	-
49	David et al. (2007)	Management	Quantitative	Private sector; publicly traded firms	Strategy formulation	Shareholder proposal activism reduces CSP. Activism engenders diversion of resources away from CSP into political activities used	Stakeholder	Political work (managers settling proposals filed by "salient" shareholders)	Exogenous
50	Fiss & Zajac (2006)	Management	Qualitative	Private sector; German publicly traded companies	Strategy selling; strategy execution	Antecedents and consequences of how firms frame strategic change	Sensemaking (institutional)	Rhetorical work (specific language; institutional appropriate); practice work (decoupling)	-
51	Fesley & Lemox (2006)	Management	Qualitative	Private sector	Strategy execution	Actions taken using power, legitimacy, and urgency arise out of the nature of stakeholders to elicit positive responses from firms to their requests	Stakeholder	-	Exogenous
52	Lee & Pennings (2002)	Management	Quantitative	Private sector; Dutch professional services firms	Strategy execution	Adoption level of a new governance structure at the firm through market feedback	Institutional	-	Exogenous
53	Sharma (2000)	Management	Qualitative	Private sector; Canadian oil and gas industry	Strategy formulation	Managerial interpretations of environmental issues influencing corporate choice of environmental strategy	Sensemaking	-	Exogenous and endogenous (associated with interpretations as threat or opportunity and organizational context)
54	Agle et al. (1999)	Management	Qualitative	Private sector; large US companies	Strategy execution	Relationships among the stakeholder attributes (power, legitimacy, urgency, and salience), CEO values and corporate (social) performance	Stakeholder	-	Exogenous
55	Chakravarthy & Gargiulo (1998)	Management	Qualitative	Private sector; global telecommunications equipment manufacturer	Strategy execution (failed)	Maintaining leadership legitimacy in the transition to new organizational forms	Sensemaking	Practice work; political work	Endogenous
56	Levy & Egan (2003)	Management	Qualitative	Private work; US and European oil and automobile industries	Strategy formulation	International negotiations to control emissions of greenhouse gases	Stakeholder	Political work	Exogenous

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57	Hansen (2022)	Public administration	Quantitative	Public sector; government agency	Strategy execution	Delegating authority to agencies by political superiors by invoking a formalization strategy.	Stakeholder	-	Exogenous (strategy does not limit agency politicization)
58	Tidd (2022)	Public administration	Qualitative	Public sector; European Court of Auditors	Strategy formulation; Strategy execution	How reputational considerations shape the ways in which accountholders manage their strategic role.	Stakeholder	Practice work; Identity work (becoming the EU's "regulatory watchdog")	Exogenous
59	Maron & Benish(2022)	Public administration	Qualitative	Public sector; two network administrative organizations	Strategy formation	Governance networks as means to attempt to resolve disputes and advance collective network goals	Stakeholder	Political work (to include or exclude different and even competing interests)	-
60	Aviv et al. (2021)	Public administration	Qualitative	Public sector; local social services	Strategy formation	Street-level bureaucrats as policy entrepreneurs despite their limited resources, formal authority, and political capital	Sensemaking	Rhetorical tactics; political tactics	Endogenous
61	Triantafyllou (2020)	Public administration	Qualitative	Public sector; supreme audit institutions	Strategy formation, strategy execution (Strategy may be understood in terms of pursuing the most effective way of maintaining legitimacy)	Simultaneous pursuit of conflicting objectives (relevance and independence) regarding a parliament characterized by minority governments	Institutional	Political work; practice work (dual organizational setup)	Exogenous
62	Ferry et al. (2019)	Public administration	Qualitative	Public sector; city council	Strategy formation, strategy execution	Using a public value strategy to address austerity localism	Stakeholder; institutional	Rhetorical work (democratic deliberation); political work (mobilizing citizens against central government); practice work	Exogenous
63	Hyndman et al. (2018)	Public administration	Qualitative	Public sector; central government	Strategy selling	The introduction of accounting reform in central governments of the United Kingdom, Italy, and Austria	Sensemaking	Rhetorical work	Exogenous (2x); Endogenous (1x)
64	Schmidt et al. (2018)	Public administration	Qualitative	Public sector; majority coalition	Strategy formation; strategy execution	Institutional crisis negated by counter response and triggering more reform-oriented strategies	Stakeholders	Rhetorical work; practice work	Exogenous (each strategy encountered opposition from outside the policy sector)
65	Greco et al. (2015)	Public administration	Qualitative	Public sector; local councils	Strategy execution; strategy formulation	Introduction of sustainability reporting, triggering some stakeholder involvement and no real strategic approach	Stakeholder	Political work (Political negotiations)	Exogenous
66	Yeung (2009)	Public administration	Qualitative	Public sector; competition and consumer agencies	Strategy selling	Impression management by funded agencies to prove their institutional contribution	Institutional	Rhetorical (orchestrated publicity campaigns)	Exogenous
67	Hendriks (2008)	Public administration	Qualitative	Public sector; network governance organization	Strategy formulation	Inclusivity of network governance in energy reforms finds that partnerships are dominated by industry and government elites at the expense of democratic engagement	Stakeholder institutional	Political work	Exogenous

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68	Newman (2001)	Public administration	Qualitative	Public sector; UK civil service	Strategy formulation; strategy execution	Manager assessments of the implementation of the new policy constructed by external and shifting evaluations	Stakeholder	Political work	Exogenous
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CHAPTER 3

**DRIVING INNOVATION WITHIN
PUBLIC SECTOR
ORGANIZATIONS: CREATING AND
LEVERAGING LIMINAL SPACE
FOR LEGITIMACY**

3. DRIVING INNOVATION WITHIN PUBLIC SECTOR ORGANIZATIONS: CREATING AND LEVERAGING LIMINAL SPACE FOR LEGITIMACY

ABSTRACT

Managers of public organizations face the challenge of implementing innovative solutions in the absence of competitive incentives and under strong institutional pressures. This paper presents findings from a multiyear qualitative study conducted in a Dutch municipality, showcasing how leaders can introduce unprecedented innovations while managing internal and external demands under high institutional and political pressures. The study proposes a tailored, nonlinear process model for using liminal space to innovate for public organizations. It highlights three key elements: (1) employing provocative practices and internal changes to broaden viable options, (2) using political strategies to gain external acceptance, and (3) adapting innovations for stability. Overall, the paper sheds light on the legitimacy challenges and complexities faced by innovation-oriented leaders in highly institutionalized contexts.

3.1. Introduction

Successful management of innovation has been universally acknowledged as a cornerstone for growth, survival, and efficiency across organization types (Utterback & Suárez, 1993). Commonly directed toward profit-driven

industrial contexts, the research assumes the existence of strong incentives for organizations to innovate to enhance competitiveness and ensure survival (Blind, 2012; Franco & Landini, 2022; Malerba, 2002). In the public sector, however, such incentives are often absent due to the ambiguous nature of competition and value creation, which, contrary to market competition, are shaped by highly political groups (Nutt & Backoff, 1993; Rainey, 2009). Competitive threats are often scarce in this context, and efforts to differentiate the organization can be futile or even counterproductive, as being distinctive may be seen as a violation of institutional and legal norms (Roessner, 1977). As a result, members of public organizations tend to be less motivated to pursue innovation beyond efficiency-oriented, minor improvements (De Vries et al., 2016; Hartley et al., 2013). Even if they do, their efforts are more likely to face legitimacy challenges because their actions may be perceived as inappropriate by peers, managers, and external stakeholders such as governments, field associations, auditors, and constituents (Powell et al., 2008).

Innovation challenges in public organizations can be studied from a sociological legitimacy perspective (Suchman, 1995) as these efforts involve navigating constraining institutional norms and effectively addressing legitimacy concerns raised by various stakeholders (Niosi, 2002; Uyarra et al., 2020). In response to the mounting pressure on public organizations to enhance

efficiency and effectiveness (Cabral et al., 2019), leaders aim to introduce innovations that can significantly elevate value for citizens. Nevertheless, these aspirations are met with intricate evaluations of appropriateness and desirability by key actors shaped by socioeconomic policies, deep-structural attributes of the political system, citizen demands, party political ideologies, elite decision-making processes, and the administrative framework (Pollitt en Bouckaert, 2017). These challenges become particularly paramount when leaders strive to implement extensive series of innovations on a scale unprecedented within peer organizations (Kuipers et al., 2014). Unfortunately, there is a dearth of evidence and development of public-sector-specific theories regarding how leaders navigate the tension between their aspirations to deliver value through innovations and the legitimacy challenges associated with such innovations within public organizations.

To address this issue, we conducted a multiyear participatory field study in a Dutch municipality (Hollands Kroon), which successfully pursued innovation without a mandate from the central government. It became the first municipality globally to successfully introduce a portfolio of innovative services and processes. Hollands Kroon underwent a remarkable transformation, transitioning from a hierarchical organization to the world's first documented self-managed municipality. Additionally, they shifted their service delivery approach from traditional counter-based civil services to

digital and home delivery services, completely abandoning the concept of a physical city hall. Within this context, our study specifically examined the actions of administrative leadership and their interactions with external institutional and political stakeholders and internal actors throughout the change process, with the aim of providing novel services to citizens.

On the basis of our findings, we develop a process model for the legitimation of innovations in the public sector that considers the idiosyncrasies of public organizations. Our model delineates how leaders initiate a process of change that expands the liminal space of opportunities for innovation, resulting in a higher capacity for developing innovative processes and services and convincing internal and external stakeholders to support the implementation of those innovations. We illuminate the complex process through which leaders in public organizations can navigate their institutional–political demands to introduce unconventional innovations by influencing what is perceived to be desirable and appropriate internally and externally.

Instead of adopting an incremental strategy aimed at minimizing tensions (Vickers et al., 2017), we propose a multistage, nonlinear approach for navigating internal and external legitimacy issues related to innovation management. This approach begins with the internal expansion of cognitive space for considering viable innovations by challenging the status quo through provocative ideas while establishing a change identity. Subsequently, leaders

can achieve early wins by leveraging this space through experiments and substantiate innovations by forging partnerships to effectively handle potential resistance. They can also solidify the changes through affirming actions in nonstrategic areas and downward adjustment of innovations in line with mounting sociopolitical pressures.

Our contribution to the literature on innovation legitimation (Dutton & Duncan, 1987; Gioia & Chittipeddi, 1991; Gioia et al., 1994; Schwenk, 1989) lies in our focus on public sectors under significant political pressures. Unlike previous research assumptions that often emphasize industries characterized by greater autonomy and freedom to innovate, we concentrate on public sectors where political pressures wield substantial influence and organizations face constrained incentives and authority beyond higher-level mandates. This shift challenges conventional notions of innovation because it underscores how political pressures reshape the innovation landscape and necessitate a change process as a precursor to enabling innovation. In these contexts, organizations in these contexts must navigate complex internal changes and stakeholder dynamics to foster meaningful innovation within a constrained environment. We illuminate a complex process that not only widens the range of innovation options deemed acceptable by employees but also involves intricate stakeholder management strategies—a critical factor for expanding an organization's room for change and fostering innovation (Christensen et al.,

2018). This endeavor must be approached carefully to prevent potential backlash and sanctions (Goodstein et al., 1994; Smith & Grimm, 1987). Our theoretical framework not only highlights how public organizational leaders adapt to their environment but also underscores their proactive role in shaping the landscape to accommodate a more diverse set of viable innovations.

Second, our study makes a distinctive contribution to the literature on change processes, particularly in the context of public sectors under significant institutional pressures. Traditionally, change research has been divided into two contrasting views: the incremental approach, which advocates gradual and cautious changes in response to institutional pressures (Henfridsson & Yoo, 2014; Koreh et al., 2019), and the radical approach, which indicates bold and immediate transformations (Garud et al., 2002; Greenwood & Hinings, 1996). However, our findings challenge this dichotomy and propose a novel nonlinear approach. Instead of adhering to either the incremental or radical path, our approach advocates for initiating change with bold, radical steps, thus challenging established norms and actively expanding the boundaries of what is considered legitimate. This early focus on legitimizing the liminal space creates a robust foundation for subsequent endogenous changes. Such a nuanced approach considers both the necessity of bold action in response to institutional pressures and the need to refine and adapt these initiatives over time. This departure from the traditional incremental versus radical debate

aligns with the existing literature on the significance of nonlinearity and sequence in major change efforts (Amis, Slack, & Hinings, 2004), further underscoring the importance of our findings.

3.2.Theoretical background

3.2.1. Innovation in the public sector

Scholars have extensively studied innovation for almost a century. Since Schumpeter introduced the concept of “creative destruction” (1942), a wealth of literature has studied innovation’s economic and societal impacts. In the 1970s, scholars delved into innovation’s management and organizational aspects, and concepts such as “technological innovation” and “organizational innovation” gained attention as researchers examined how firms could strategically innovate to gain competitive advantages (Utterback, 1971; Baldrige & Burnham, 1975). Only decades later has the focus on innovation within the public sector emerged, garnering attention and recognition for its importance.

Triggered by the “New Public Management” concept advocating business-like approaches in the public sector, scholars explored innovative applications for public service enhancement (Hood, 1991). As innovation gained traction within politics and administration, it was seen as a catalyst for public sector improvement (Walker, 2006). Various innovation domains have

emerged: service, administration, democracy, and policy (Meeus & Edquist, 2006; Hyndman et al., 2018; Ferry et al., 2019; Aviv et al., 2021). However, realizing benefits from public sector innovation remains uncertain (Salge en Vera, 2012) given unique challenges such as diverse public expectations and political pressures (Bekkers et al., 2011; Nutt & Backoff, 1993), regulatory restrictions (Johns, O'Reilly, en Inwood, 2006), and risk-averse cultures (Borins, 2001). Despite its practical importance, scholarly research varies in assessing innovation's impact and success criteria (De Vries, Bekkers, en Tummers, 2016), underscoring the distinctive hurdles faced by public sector innovations.

In recent years, the global environment has been confronted with a range of severe challenges, such as demographic changes, environmental issues, public health crises, and humanitarian emergencies. Consequently, governments worldwide are under increasing pressure to enhance their effectiveness and deliver improved outcomes to society, with the aim of building a more resilient future (Vivona, 2023). Against this background, research and practice indicate that governments should embark on ambitious missions to address grand challenges, spur innovation, and create public value (Demircioglu & Audretsch, 2017; Damanpour & Schneider, 2009).

It is crucial to highlight that although fostering innovation is pivotal in addressing shifts in social, political, technological, environmental, and

organizational landscapes, our comprehension of attaining this objective within the public sector remains circumscribed, particularly given its idiosyncratic and unique character. Consequently, an imperative exists for a more in-depth exploration of innovation within the public sector.

3.2.2. Innovation legitimacy in highly regulated and political environments

The legitimacy of organizational actions, behaviors, and characteristics, including those related to innovations, has been of fundamental interest to scholars across the social, organizational, and political sciences. Legitimacy is the judgment of audiences regarding the acceptability, desirability, or appropriateness of an organization (Suchman, 1995). Extensive literature has demonstrated that these judgments exert a profound influence on organizations, compelling them to adopt strategies, structures, and practices that are taken for granted (Meyer en Rowan 1977). Nonconfirmative actions (DiMaggio en Powell, 1983), such as innovations, can result in tangible penalties that restrict access to resources (Zuckerman, 1999; Thornton & Ocasio, 1999) or symbolic penalties aimed at stigmatizing the organization (Hampel en Tracey. 2017). It has been established that legitimacy is not only an inherent property possessed by organizations but also a phenomenon that can be influenced. The legitimacy-as-process perspective (Suddaby, Bitektine, en Haack, 2017) emphasizes that researchers should focus not only on

legitimacy as a static state but also on the interactive process by which legitimacy is constructed. According to this perspective, the legitimation or legitimization process is crucial for the success of change initiatives because it involves ongoing social negotiation among multiple participants. Legitimacy emerges as the outcome of this interactive process, underscoring its significance, for example, when enacting and implementing major innovations.

The literature on legitimation in relation to the public sector has a rich history (Ruef en Scott, 1998), shedding light on certain domain-specific characteristics. The highly institutional nature of the public sector renders legitimacy of utmost importance while making the legitimation of change more complex. Unlike their private sector counterparts, public sector organizations are driven by several intangible social and political objectives rather than purely economic motives such as profits and shareholder wealth (Morris en Jones, 1999). This distinction is amplified by the presence of numerous stakeholders with varying degrees of power and divergent interests (Gray, Purdy, en Ansari, 2015), which can give rise to a range of legitimacy challenges and result in inertia (Zajac en Kraatz, 1993). Moreover, the political nature of the public sector engenders struggles between proponents and opponents (Kellogg, 2011; Heinze & Weber, 2016), leading to different commitments to conflicting logic (Maguire et al., 2004), thereby further

complicating the legitimation of change. Adding to the complexity, the prevailing logic in the public sector is often upheld by the most stringent of the three institutional pillars, the regulatory pillar, which includes monitoring and sanctioning mechanisms and provides little room for innovative initiatives (Scott, 2014).

The ways in which these conflicting forces are managed and reconciled remain insufficiently theorized (Compagni, Mele, en Ravasi, 2015). More specifically, there is a dearth of understanding regarding the legitimation of innovation in the public sector. Empirical insights on this topic are limited and focus on cocreation (Whicher en Crick, 2019) and open innovation (Yuan en Gasco-Hernandez, 2021) as means to legitimize innovation in the public sector. Given this paucity of research, it is unsurprising that scholars have called for further investigation in this area.

3.2.3. Leadership and endogenous change in public organizations

In the public sector, major changes are predominantly driven by exogenous factors. These factors include institutional pressures, such as universities facing changes in funding schemes and economic redevelopment initiated by a city council (Spee en Jarzabkowski, 2017), reputational issues confronting the European Court of Auditor (Tidå, 2022), a central government dealing with an institutional crisis (Schmidt, Boersma, en Groenewegen, 2018), or law enforcement expecting negative stakeholder feedback from powerful

stakeholders (Desai, 2018). However, in some instances, major change is endogenously instigated by managers (Hyndman et al., 2018) serving as “champions of change.” Although considerable work has been invested in the management literature on the role of leadership in innovation (Crossan & Apaydin, 2010; Mumford et al., 2002), limited attention has been paid to the potential relevance of leadership in public sector organizations (Kuipers et al., 2014; Vivona, 2023). Existing literature on innovation in the public sector, which is preoccupied with exogenously driven change, does not adequately capture the dynamics of leaders' endogenous ambitions of leaders (Pitts en Fernandez 2009). This disparity is unfortunate because leaders in the public sector face distinct circumstances.

The complexity of the external environment surrounding public organizations differs significantly from that of private organizations. It involves several actors with diverse interests, positions, and strategies (Kickert et al., 1997; Kickert, 2010). Private sector leaders are primarily accountable to their shareholders, public organizations bear a broader and more diverse accountability to a range of financial and nonfinancial stakeholders, often holding equal power (Kanter en Summers, 1994). This places distinct pressures on public sector leaders as they navigate the potentially conflicting demands imposed by various stakeholders (Rainey, 2009; Jung, 2014). Unlike the pursuit of competitive and financial motives commonly seen in the private

sector, public sector leaders face significant pressure to create greater value using public resources, which involves dealing with ambiguous and contested definitions of public benefits (Klein et al., 2013). Moreover, these leaders operate within highly bureaucratic organizations where change is impeded by complex political and legal dynamics (Nutt en Backoff, 1993b). In addition, leaders within public sector organizations have limited authority, as much is decided on the political level and their actions are constrained by potential risks of political scrutiny (Koch et al., 2006). These factors contribute to weaker leadership in the public sector.

Leading innovation in the public sector resembles the “David vs Goliath” tale, where the underdog faces the all-powerful political–institutional forces demanding stability and conformity (DiMaggio en Powell 1983). Nonetheless, findings do suggest that entrepreneurial leaders in the context of the public sector influence the effectiveness of public sector organizations and the ability to achieve their goals (Vivona, 2023) and contradictions between rigid institutional and political pressures and emerging external expectations (Seo, Creed, en Sloan, 2002) stimulate some leaders to consider abandoning the prevailing expectations to take advantage of an opportunity (Battilana et al., 2009; Hardy & Maguire, 2008), but this does instigate legitimacy issues, making legitimation a central issue for the agents who lead innovative

initiatives with many unanswered questions regarding how leaders navigate the legitimacy challenges related to major innovation in public organizations.

3.3. Research context and methods

Given the limited empirical work on both public sector leadership and innovation in public organizations, our study offers a unique opportunity to study the legitimation efforts of leaders and their impact in this highly institutional–political context. The empirical data were collected through intensive, longitudinal field-based research by the lead researcher who had secured direct access to over 50 municipalities in the Netherlands from 2010 to 2019. Through these observations, we noted that no other entity undertook major innovative initiatives in the scope and scale of the change as our focal municipality, Hollands Kroon. We successfully established a robust research collaboration agreement that granted us exceptional access to empirical data. This allowed us to build an information-rich case, but still realistically (Miles en Huberman, 1994). Through a combination of retrospective and participatory field research, we validated the fundamental overturning of various aspects of its practices and routines, doing things radically different from their peers and describing major innovation in the midst of powerful institutional and political pressures. The combination of identifying an extreme case in a public organization and rich access to data (Eisenhardt & Graebner, 2007) provided an appropriate setting for longitudinal single case research to address our

research question. We used this rich case (Eisenhardt, 1989; Pettigrew, 1990) to elaborate our grounded theory (Glaser en Strauss, 1967) through an ongoing iterative process of simultaneous data collection, data analysis, theory building, and new decisions about which data should be collected next (Suddaby 2006). Therefore, we conducted an inductive, longitudinal, field-based case study (Corbin en Strauss, 2008). Our original research question aimed to understand how public sector leaders successfully drive innovation. As our research proceeded, we understood that innovation in the midst of powerful institutional and political forces was tightly linked to legitimacy issues, and we focused on understanding how leaders navigate legitimacy challenges that arise during their attempts to bring about innovation.

3.3.1. Case description

Hollands Kroon is a Dutch municipality with approximately 50,000 inhabitants. Typical municipal products, tasks, and processes are determined by national legislation, and formal oversight is managed by multiple agencies and institutions. In addition, expectations are shaped by highly influential field associations. Moreover, normative rules are deeply rooted as Dutch civil servants take an oath by which they promise to act cautiously and to be reliable and incorruptible. In contrast to leadership in the private sector, organizational leaders within municipalities have limited authority (Nutt en Backoff, 1993b), as most power resides with the political leadership. The political leaders of a

municipality are the college comprising the mayor and aldermen. They are checked by chosen local representatives who are members of the municipality council. In this constrained field of political and institutional forces, the organization was able to execute its innovative ambitions in three broad periods.

The *first period* (2011–2013) began with the Ministry of the Interior and Kingdom Relations announcing the merger of four rural municipalities in January 2011. During this period, the municipality is primarily focused on setting up an organization with less bureaucracy and management with more empowered and responsible civil servants, and a large number of new initiatives are implemented, including a major reduction in management and the removal of many taken-for-granted practices.

The *second period* (2013–2017) concerns the implementation of a new innovative strategy. In October of 2013, the board launches a strategic plan, called “The Point 2018.” The strategic plan is presented as a [movie](#) and calls for a transition toward SMTs over a period of 4 years, during which the “old” departmental structure and middle management are phased out. Additionally, it aims to make the way public services are delivered smarter, which leads to a unique home delivery concept and the closing of all physical service counter and the town hall.

At the beginning of the *third period* (2017–2020), the general director and the concern controller were forced to resign, followed by two aldermen due to major project overruns. In this period, the innovations of Hollands Kroon have been under scrutiny. In reaction to political pressures, a new plan, “Balance 2018,” was launched aimed at restoring (some) control. During this period, the board is focused on regaining legitimacy while protecting its innovative practices.

3.3.2. Data collection

Our inductive, theory-building approach was ongoing, moving back and forth between data collection and the emerging theoretical understanding between organizational actions and legitimacy processes (Miles & Huberman, 1994). To obtain the full perspective, we conducted three rounds and used a combination of retrospective interviews and archival data. The combined data sources were used to (1) build an understanding of the historical events and context, (2) trace the innovative strategies and practices that the organization initiated and at what point in time, (3) understand the decisions and legitimating tactics that the leaders engaged in, (4) trace the shifting legitimacy judgment across audiences, and (5) cross-check the observations and interpretations of our informants (Huber & Power, 1985; Miller & Cardinal, 1997).

Interviews	Number		Purpose
Board members	12	Appendix A	i, ii, iii, iv, v
Team members	44	Appendix A	ii, iii, iv, v
Organizational plans/reports	Number	Exemplary units	
Strategic and execution plans	16	Balance 2018; evaluation of Balance 2018	i, ii, v
Political reports	20	Council reports	v
Financial reports	18	Annual reports; program budgets	ii, v
Employee and customer research	18	Employee satisfaction report	ii, v
HR reports	4	Reports about in and outflow of employees	ii, v
Visual data	Number	Exemplary units	
YouTube videos	69	The Point 2018	i, ii, v
Flyers and brochures	12	Infographic of strategic vision	i, ii, v
Corporate presentations	2	“How does Hollands Kroon work”	i, ii, v
Political documents	Number	Exemplary units	
Political plans	2	Coalition agreement 2014–2018	v
Media	Number	Exemplary units	
National	5	Articles in the national paper	i, ii, v
Local	21	Articles in the local paper	i, ii, v
Professional	20	Articles in the field publications	i, ii, v
Book “Pole position”	1	Book written by the first board	i, ii, v
Field documents	Number	Exemplary units	
Field associations	3	Municipalities on their way to 2020 (2015, VNG)	i
Other municipalities	12	In five steps toward a modern organization (2012, D66)	i

Table 5 Overview of data sources

The first round of data collection occurred in the mid-2019, and it aimed to understand the historical events and context and trace the strategies and tactics that the leaders engaged over the full period. Our data sources comprised archival data and interviews with several key decision-makers. These interviews were relatively unstructured for better understanding of the events that unfolded across the years and for constructing the timeline. This group was “purposively” selected (Bernard en Bernard, 2013) because of their unique knowledge in relation to strategic actions and reasoning over the years. In the second round of data collection at the end of 2019 and the beginning of

2020, additional archival material was collected to validate observations and interpretation. Semistructured interviews were conducted to learn how organizational members viewed and responded to the innovative strategies and practices. The employees interviewed were homogeneously sampled (Saunders, Lewis, en Thornhill, 2003) among employees who had been around since the early years. Furthermore, we requested informants from different teams to observe if the teams had reacted differently. During these interviews, we learned more about the strong reciprocal relationship between legitimacy and innovation. After generating initial ideas about this relationship, we initiated a third purposeful sampled round of interviews (Bernard en Bernard, 2013) at the beginning of 2021. This final round collected more detailed data on the legitimizing tactics. We interviewed the board managers for the second time and selected new civil servants. The interviews were conducted in Dutch and were taped and transcribed (Appendix A: overview of interview data). Fifty-six interviews delivered 52 h and 7 min of audio and yielded 1,307 pages of transcript.

3.3.3. Data analysis

We relied on a broad range of data sources and multiple iterations between our data and the emerging interpretive framework in relation to the events that occurred over 9 years (Miles & Huberman, 1994). The analysis proceeded in stages. We first constructed a timeline of key events and developed a

comprehensive understanding of the overall case by reading and coding the initial interviews and archival materials. This stage is equivalent to “open coding” as performed in grounded theory (Strauss en Corbin, 1990). These codes unfolded three reciprocal spheres of codes related to practice, identity, and institutional work. We used these spheres as our frame for a new round of coding, starting all over again. At this time, we have also begun identifying quotes from our informant. As our coding progressed, we were able to create more focused and refined codes (Miles en Huberman, 1994). The most representative quotes were captured in a separate quotation database that is appended to this paper (Appendix B). Through numerous iterations and a final round of interviews, we refined the theoretical arguments by going back and forth between first- and second-order codes, and aggregating theoretical dimensions (Gioia et al., 2013). We brainstormed alternative conceptual frameworks until we reached unanimous agreement, which consisted of three temporal themes demonstrating the flow within aggregated dimensions in time (Langley et al., 2013), as presented in the findings sections.

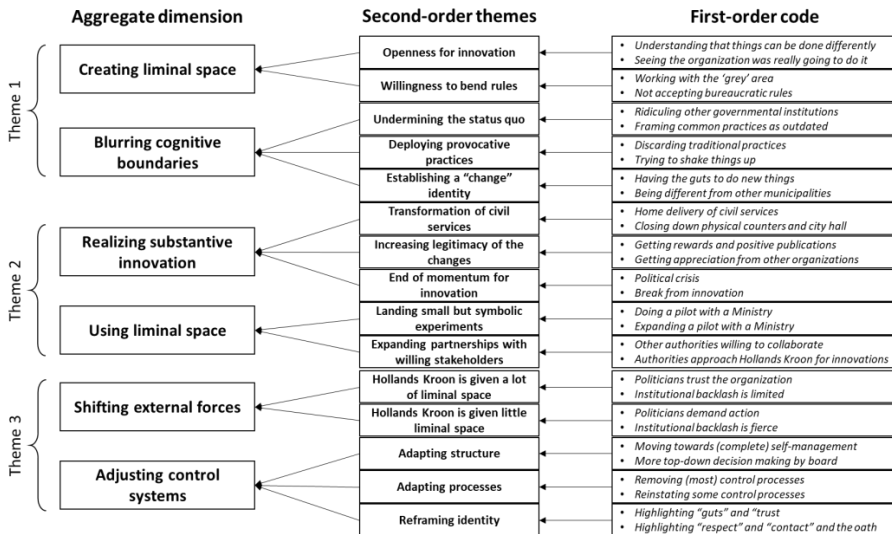


Figure 3 Data structure

3.4. Findings

In this section, we describe three themes that emerged from our data analysis: (1) creating liminal space through the blurring of cognitive boundaries, (2) realizing substantive innovations using liminal space, and (3) adjusting control systems to accommodate shifting external forces.

3.4.1. Theme 1: Creating liminal space through the blurring of cognitive boundaries

Like many other public sector organizations, Dutch municipalities operate in an environment that is characterized by strict institutional rules and pressure to comply with established norms and regulations. Deviation from the taken-for-granted is very likely to lead to legitimacy issues and resistance. In contrast,

Hollands Kroon was able to create space for innovation without facing repercussions through three sets of actions: undermining the status quo, deploying provocative practices, and establishing a “change” identity.

Undermining the status quo. From the start Hollands Kroon set out to “change government” as one of our informants puts it (ID nr 26). They were of the opinion that “the systems had become more important than the people,” according to a board member (ID nr 4) and felt “we should be better.” As the new general director told the organization during his opening speech on January 2, 2012, municipalities were bureaucratic, old-fashioned, and not in touch with the needs of their constituents. Hollands Kroon would be the opposite. One of our informants (ID nr 45) recalls the following:

I still remember that [the first general director] said “For years, governments have focused on the 10% percent of the civil servants who are cutting corners. We care for the ninety percent who don't.” Hence, we got a lot of freedom. There were a lot of people who said “That's not possible, you can't get that much freedom. That's not going to work.” But it did, you just have to trust that everyone has the same intentions as you.

Internally, other governmental organizations were ridiculed (ID nr 26) for their traditional way of working and taken-for-granted practices. They were framed as inefficient and bureaucratic without adding real value to citizens. A symbol of this mentality was the civil servant’s oath. In the Netherlands, civil servants swear an oath by which they promise to be, among other things, cautious and reliable. The new municipality abandoned this oath to reject the existing norms

and values of the Dutch municipality system (ID nr 1). The four original municipalities were also seen as being too much part of this system from which Hollands Kroon was trying to distance itself. Therefore, all relics referencing the previous period were steadfastly forbidden within the new municipality, signaling that Hollands Kroon would move away from the status quo (ID nr 3).

Deploying provocative practices. During the initial period, Hollands Kroon implemented practices that were very different from what people were used to. The intention of the board was to shake things up and “break the old barriers” as the first general director (ID nr 3) described it. On January 2, 2012, the municipality was launched in a revolutionary fashion. From one day to the next, everything changed. The servants were not to return to their familiar places of work; instead, a new municipality office was opened, and all four existing offices were closed. Within the new office, a new way of working was introduced. People did not have their own desk; instead, a flexible office concept was adopted. Moreover, the traditional punch clocks were gone, and any form of time registration was abandoned. The concept of holidays was also canceled. Employees no longer had a fixed number of days off. They had the freedom to work (or not) when they wanted. Additionally, expenditure approvals, a traditional practice that was deemed too bureaucratic and against

the principle that civil servants were trusted, were eliminated and expense claims were automatically approved.

Our informants describe this early moment as radical (ID nr 14), a big bang (ID nr 41), a cold turkey change (ID nr 1), a chock (ID nr 20), and confusing (ID nr 45). The method for implementing these changes was intended to shake things up and create space for something new. As an early director (ID nr 4) states:

We didn't want to rebuild something new; we primarily wanted to remove the old. And by doing so, you automatically direct people toward the new and create space for people to develop something new themselves.

Moreover, after this major intervention, the organization continued to provoke and challenge conventions. Activities deemed too bureaucratic, ineffective use of public money, or not adding value to citizens were altered or removed. In several cases, this even means breaching and bending legal rules.

Establishing a "change" identity. Hollands Kroon's leadership attempted to create a new type of public sector organization that would be more "flexible and adaptive" and connected to its environment. The board recognized that this meant that a new mentality was required among the civil servants. Therefore, the board's top priority was to redefine what the municipality stood for. The municipality was launched with a new name (Hollands Kroon), a new visual identity, and a set of new core values. Notably, some new core values directly contradicted the traditional civil servant's oath. Among the new values were

“guts” and “trust,” intended to encourage civil servants to try new things and make their own decisions without asking permission. The new values were communicated continuously; they were plastered on the walls of the new office; and an inspiration guide was created to explain each value. From the beginning, people were stimulated to take the initiative and show their guts. The organization communicated the message of “show guts, we trust you” through a range of methods, notably by cultivating an environment that encouraged open and convenient expression of employees' opinions and ideas, facilitated by platforms such as online forums. The recently established central values were reinforced through targeted recruitment efforts aimed at attracting individuals who share the same mindset. This was achieved through the implementation of unprecedented traineeship programs branded as “communicators with guts,” which also incorporated elements of a talent show process known as “the Voice” for recruitment purposes. These programs were intentionally designed to foster and promote two core values: “contact” and “guts.” Despite facing skepticism from some employees who found the idea of selecting candidates based on 2-min pitches to be ridiculous and believed that “the board had gone mad” (ID nr 26), the organization proceeded with this approach and successfully attracted 200 candidates. The “talent show” event remains memorable for many informants as the moment when Hollands Kroon demonstrated its distinctiveness. As a symbol of this achievement, one of the

red chairs from the talent show was prominently displayed in the municipality office's lobby for several years. One of the early directors (ID nr 5) highlights that, particularly in the initial phase, they deliberately pursued extreme measures to demonstrate and substantiate Hollands Kroon's new and daring central values:

Some of the things we did were truly over the top, but they were conscious decisions to show the people that we were serious, that we wanted Hollands Kroon to be different and that this was also possible. So, we did a lot of things more extreme, than we would have done normally.

By undermining the institution, Hollands Kroon could question the rationale behind the status quo. Through provocative practices, Hollands Kroon proved that one could get away with breaking with the status quo and actually have success. Through establishing a "change" identity, Hollands Kroon was able to make "doing this different" central to what the organization stood for, offering additional justification for its unconventional actions. This all added to blurred cognitive boundaries, creating more openness for innovation. As one of our informants (ID nr 1) described:

People started experimenting with other forms of service and new processes. People increasingly got used to the idea that they could do things differently. They understood they were allowed to think differently and come up with new ideas and that they were actually allowed to do something with it. [...] People started to make their own choices. Both in their own products, but also in their way of working, without asking their managers for permission. They just did. So, people were becoming more independent.

In addition, a willingness to bend and break rules was developed. In the first period, the municipality ignored, for example, financial, social, tax,

archiving, and public domain legislation. In many cases, these were tolerated, and, in some cases, these acts led to institutional backlash and needed to be adjusted. For example, the cancelation of holidays went against labor laws, but through a deal with the employee council and unions, it was kept in place. The cancelation of expenditure approvals was a breach of financial standards. The accountant threatened not to sign off on their annual report if Hollands Kroon did not comply. In response, the board decided to organize a yearly “signing event” for everybody to see, where the board signed all the bills of the previous year without checking them. This way the accountant could not object and as a bonus, a “taken-for-granted” practice was publicly stigmatized, further undermining the institutions.

The provocative actions and the “change identity” were supported by local politicians. Served by their own interests, political leaders have participated in challenging the status quo, creating more doubt about what is legitimate and what is not. This blurring of cognitive boundaries helped create a new liminal space, as civil servants became more open to trying new things and even willing to break with taken-for-granted rules. The absence of a major institutional backlash along with good (non)financial results helped expand the liminal space.

3.4.2. Theme 2: Realizing substantive innovations using liminal space

Using the new liminal space, Hollands Kroon set out to launch more strategic innovations. At the end of 2013, Hollands Kroon presented its first strategic plan, called “the Point 2018,” which among other things called for the development of the “smartest” civil services in the Netherlands. Public organizations operate in a highly regulated environment, which makes radical innovation without institutional support unlikely. However, Hollands Kroon could use this momentum to legitimize innovation through two sequential actions, as explained below.

Landing symbolic experiments. A major goal of the organization was to close its physical counters and abandon its town hall, replacing them with digital and home-delivered services. To deviate from common practices required in most cases cooperation from key institutional actors, such as ministries and local politicians. Driven by its strategy Hollands Kroon began connecting with national agencies to explain its ambitions and see if there was any interest in helping them move toward a model of home delivery of civil services. In most instances, these early plans were rejected because of legal restrictions. Although several parties were interested, only one ministry was open to executing the idea with Hollands Kroon. The Ministry needed securities to deal with the potential backlash on this “dubious” initiative. An agreement was reached, which meant that a limited pilot project could be undertaken. The pilot

would be evaluated after a period and would only involve home delivery of the passport. The actual requesting of the passport still needed to be done at the counter of the town hall, where people could be identified in person. Although not very customer friendly, it was a good starting point. An informant (ID nr 14) describes the following:

To do home delivery of our services, the cooperation from institutions outside our organization is required. You require the ministries. We got permission to start with home delivery of passports. At first, citizens were still required to do the intake at our office, but we could deliver the passport at home. Eventually, we were also given permission to do the intakes remotely. At the same time, we were trying to do the similar things with driver's licenses; this was the responsibility of another ministry, but they refused. So, we were working in a very innovative way, but for the citizens, it was very confusing. We were offering great services for passports, but not for driving licenses, but it was a start.

As the passport pilot proved to be feasible with little institutional and political backlash, the Ministry allowed for an expansion including a digital passport intake process and gave the pilot a more permanent status.

Expanding partnerships with willing stakeholders. Collaboration with a prominent institutional actor gave legitimacy to Hollands Kroon's objectives. By surveying the new home delivery experience among its citizens and showing that the new service was given an 8.7 out of 10 rating by the public, they were able to prove their success, which further added to the legitimacy of the strategy. After the passport pilot, the Ministry responsible for drivers' licenses looked more favorable at the home delivery concept of Hollands

Kroon, which led to yet another pilot. Over time, Hollands Kroon was able to expand innovations with institutional stakeholders by showing success and citizen appreciation. Although many of the ideas of Hollands Kroon were rejected early on by governmental authorities, due to their success, more actors were willing to collaborate with Hollands Kroon on innovative projects. In time, it was no longer only Hollands Kroon inviting other institutions to try something unconventional. An increasing number of institutions have invited Hollands Kroon to participate in their new ideas. A director (ID nr 3) explains how they could continuously initiate or take advantage of new opportunities:

We made sure that we were where it needed to happen, that we were talking to the correct stakeholders, so the moment that there were some thoughts about a pilot from a national agency, we would immediately say let's do it and often we were able to make it happen. And then you see the flywheel effect, that an institution like the RDW [Netherlands Vehicle Authority] or a ministry that wants to try something new, thinks let's talk to the "crazies" in North Holland [Hollands Kroon municipality].

Between 2014 and 2018, Hollands Kroon forged new institutional alliances with several ministries, other institutional agencies, and like-minded municipalities. In addition, Hollands Kroon partnered with private organizations for cloud transformation to innovate its social care services and attract international technology companies to the region.

Using the liminal space created in the earlier period, Hollands Kroon was able to first negotiate experiments with symbolic value and later expand partnerships with willing stakeholders to realize substantial innovations. The

starting point, delivering passports at homes, sparked new opportunities and collaborations with multiple institutional actors. Eventually, all civil services were delivered in a hybrid model of digital and home delivery, and the physical counters were permanently closed. In addition, the HK [Hollands Kroon] bus was initiated as a mobile counter driving through the region. As Hollands Kroon accumulated innovations and proved success, interest in the organization skyrocketed. Over 300 national and international organizations have recently visited Hollands Kroon to learn about their innovations. In 2016, Hollands Kroon was a World Smart City finalist at the Smart City Expo. Beginning in 2017, the most influential Dutch government field publication conducted a six-part series on the transformation of Hollands Kroon further proving the legitimacy of its strategy and innovations.

3.4.3. Theme 3: Adjusting control systems to accommodate shifting external forces

Like many public sector organizations, Dutch municipalities operate in an environment characterized by complex institutional–political dynamics consisting of multiple rules and interests. Up to 2017, the way of working at Hollands Kroon was frequently readjusted to further the empowerment of employees and stimulate innovation. Institutional challenges were the local politics that embraced the Hollands Kroon vision and “change identity” that accommodated the creation and use of liminal space. In 2017, the opposite

happened. At that time, a political crisis was set off because of a major financial overrun on a project. The local politicians, who had been supportive of Hollands Kroon innovations and legitimacy-conferring actors for years, reversed and demanded control and had no appetite for innovation. The growing momentum for innovation had collapsed, as one of our informants (ID nr 31) described, “we went on a 1.5-year break from innovation” because the local politicians realigned themselves with institutional rules, forcing Hollands Kroon to readjust earlier decisions to deal with declining political support.

Our case study shows how in the earlier periods Hollands Kroon, continued to loosen and remove control systems to create room for innovation, and at a later stage, it introduced more control to (re)gain trust of institutional players. Below, we explain how Hollands Kroon (re)adjusted its structure and processes and reframed its identity as the dynamics between political and institutional forces shifted.

Adapting structure. Hollands Kroon adapted its structure over time. It started with a flat structure with one management layer and a board, transitioned toward self-management, and finally ended up with something best described as “controlled” self-management.

In 2011, the new municipality was designed to be “flexible and adaptive.” The first general director persuaded political leaders to approve a

flat structure that only consisted of a board, one management team, and civil servants. In contrast, each of the original municipalities consisted of three to four management layers. A total of nine departments were created, each run by one manager who was assigned with coaching their people and empowering them to make their decisions.

After early successes and appreciation from political leaders, the board decided to further push their vision of a nonbureaucratic government agency by removing the last remaining management layer. In 2014, 8 SMTs were onboard, followed by another 10 in 2015. At the end of 2015, the appreciation for the new way of working had grown, and many of the employees, still part of the traditional departmental structure, became impatient. This second half was moved into the new structure in 2016, 1 year ahead of schedule. From the start of the SMT model, a governance structure with a board was established. Each team was linked to one board member, and each quarter, the entire team met with this person to discuss the progress and adaptations of their plans. In the second half of 2016, the board decided to further embrace the self-management model by also removing the governance structures between the board and teams, making teams completely self-reliant without any board supervision.

After the political crisis of 2017, due to a major overrun by a team, this decision was rolled back. The political actors ordered the board to take control.

As a result, a governance structure between the board and teams was reinstated and tighter than before; for example, all innovation budgets were now under the supervision of the board. Moreover, all strategic decisions would be made by the board, as the team's core responsibilities would be focused on tactical–operational affairs.

Adapting control processes. Our case study also shows how Hollands Kroon adapted its control processes over time, first focused on loosening control and making people and later teams responsible, to a state that demanded more formal accountability and reporting.

From the start, Hollands Kroon's vision relied on empowered civil servants making the best decisions for their constituents. Three months after the launch Hollands Kroon adopted a result-oriented way of working, which meant that each employee was responsible for their results. On a yearly basis, civil servants had to define their results and devise their execution plan. Managers help employees define their results, provide feedback, and monitor progress. Managers were not to interfere with operational tasks such as the time schedules and education needs of their people, which was for the civil servant themselves to decide, without oversight.

As the self-management model was implemented, team members were expected to coach each other, and all management responsibilities were

transferred to the teams. Within each team, two people were made responsible for HR, including for recruitment and guidance of sick colleagues, and two persons were assigned to finance, making sure the budgets were in order. The teams themselves would decide who carried these responsibilities and how. Traditional staff departments, such as finance and HR, have disappeared or were reduced to small teams with little oversight responsibility over the way other teams work. The guiding control mechanism for each team was their own business plan.

The 2017 crisis became national news and was labeled the failure of “self-management.” The political actors instructed the board to restore control over the municipality. A director (ID nr 7) describes the situation at the time:

The organization was under a lot of pressure from internal and external forces. A part of the council thought about doing an intervention and pulling the plug out of the whole concept [self-management]. Also, people from inside the organization thought that their moment had come. These internal non-believers figured that there was room to pull back from our trajectory. This group of people thought we had gone too far and didn't believe an organization should function this way.

To deescalate, the board initiated a new plan, called “Balance 2018.” In addition, a planning and control cycle and sharpened financial processes were introduced to better manage expenditures. In addition, some radical initiatives from the previous period were sacrificed, such as, peer-to-peer salary and bonus reviews. Although these decisions were considered misaligned with the Hollands Kroon philosophy, they were deemed necessary to rescue the self-

management model. “Balance 2018” framed self-management as a partial success that needed to be professionalized. The introduction of “Balance 2018” said it like this:

Self-management is in a technical sense a success. All employees have been onboarded in a self-managed team. Now, we need to further professionalize our work within this context of self-management and this takes time. We will focus on the basics and create space for the teams to grow. And the board will facilitate this growth.

The result was a more tuned down version of self-management with more traditional control practices, which helped restore trust in the self-managed model of Hollands Kroon.

Reframing identity. Core values played a central role in shaping the identity of Hollands Kroon and were seen as the guiding principles for all actions at Hollands Kroon. From the start, the values were referenced frequently in all communications, and as one of the directors (ID nr 5) said, “we would reference to them at any given opportunity.” As time passed, the values were also integrated into organizational practices. For example, the values shaped the selection criteria for new employees and were the foundation for measuring the success of teams.

The political crisis of 2017 also impacted how the organization reflected its core values. Although the labels remained the same, the priorities shifted. To realign their identity more with external expectations, the board reinstated the traditional civil servant oath, which was a clear signal that

Hollands Kroon would no longer be so different from the field. In the previous period, the focus had been very much on cultivating the core values “guts” and “trust.” Although the willingness to take a risk was still considered valuable and more aligned with the oaths, the focus shifted to taking calculated risks (ID nr 17). In internal communication, core values such as “respect” and “contact” were more strongly accentuated and especially “guts” faded to the background. One director (ID nr 7) describes:

It used to be that everyone who was not focused on innovation and guts and acted in ways that didn't fit that Hollands Kroon philosophy was suppressed. I believe it was needed at the time to make the change happen, but we entered a new phase and we needed to become more balanced. We also required other people, people who were more critical and cautious, like you see in the teams with a more financial orientation, they were not allowed to speak their mind before and now they are.

A fellow board member (ID nr 1) added that it was important to show the people that the organization was not only about “craziness” and “change” but also about “quality” and having a “strong foundation.” The board believed that the organization in this latter phase required a more moderate culture that was challenging but also inclusive for a broader base.

After tightening the control systems in 2017 and 2018, external pressure on the organization faded, and more liminal space was created. Halfway 2019, the administrative leaders took the initiative and again presented an ambitious strategic plan, called “Focus 2023.” The plan embraced

digital innovation and a data-driven way of working. Simultaneously, the core values were changed to include the new value “Innovation.”

As our research shows, over time, the pressure on public sector organizations varies. Depending on the level of trust, especially from politicians, the organization was given almost (or even none) of the liminal space to act out their strategy. As the liminal space shrunk, the organization adjusted its control systems to be more aligned with external expectations, whereas in times of trust, the organization could use these systems to support innovation. These shifting external forces make major change fickle and uncertain and make frequent readjustment and even u-turning necessary to possibly return to course at a later stage.

3.5. Discussion and contributions

3.5.1. Process model for the legitimation of innovations in the public sector

On the basis of our findings, we theorize a process model regarding how leaders navigate legitimacy challenges related to innovation in public sector organizations. Institutionalized fields, such as the public sector, make it difficult for agents of change to execute independent and large-scale innovations that are different from the taken-for-granted. To break away from the status quo (panel 1), we highlighted the role of leaders in first expanding

the liminal space (panel 2) as a way to expand cognitive and legitimate options (panel 3). As this type of change is risky, we also see it as an important task for leaders to manage institutional backlash (panel 4) and finally stabilize the situation in a new aligned status quo (panel 5).

Status quo (panel 1). Most of the time, institutionalized sectors can be characterized as stable (Greenwood en Hinings, 1996) with homogeneous practices across the sector based on regulatory and cognitive frameworks protected by powerful authorities. Within this context, the cognitive options for change appear to be limited, and the opportunities for legitimizing change are even more constrained because of taken-for-granted norms and rules. Contrary to existing views, our research shows that the liminal space in the public sector is larger than one would expect, as most actors are aware of the system's imperfections and political forces tend to emphasize these shortcomings. This offers an ambitious leader an opportunity to kickstart change, as Hollands Kroon did. By deploying provocative practices within the liminal space, an organization can prove the validity of options outside the range of what is considered legitimate. By stigmatizing and even ridiculing the current situation and establishing a "change" identity, an organization can extend the liminal space and activate the search for more alternatives to pre-existing cognitive frames.

Extended liminal space (panel 2). The legitimacy of more radical options is complex. Public organization leaders eager to embark on innovative change will find it difficult to find support to help them legitimize this kind of change, which is mandatory because of the power given to authorities (Nutt en Backoff, 1993b). The extended liminal space provides public organizations with more options to find partners that can help create legitimacy. Hollands Kroon achieved this legitimacy first by engaging in small but symbolic experiments and later using the success of these experiments to forge more permanent partnerships with legitimacy-conferring players, thus increasing the range of cognitive options and their legitimacy. The new legitimacy boundaries further intrigue stakeholders and inspire the search for new options. For example, in the case of Hollands Kroon, the closing of the town hall led to the idea of an HK bus driving through the region as a kind of “mobile counter.”

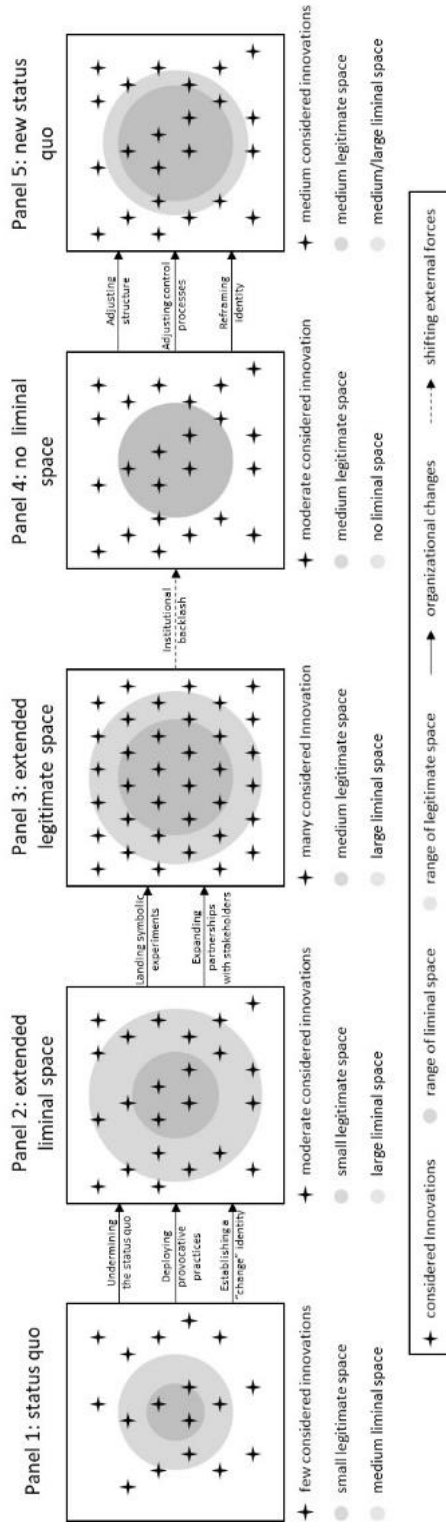


Figure 4 Process model for the legitimization of innovations in the public sector

Extended legitimate space (panel 3). Panel 3 appears to be an ideal state for a public sector organization. The organization has a good range of legitimate options, many alternative options, and an extended liminal space offering possibilities for major innovations, but we do not see this panel as permanent. Similar to Hollands Kroon, it is a temporal state because of shifting external forces. The tension between political interests and institutional rules creates an unstable situation. Institutional backlash is to be expected, especially if an organization takes risks by trying options in the liminal space without the protection of full legitimacy, which can fail. As this happens, political actors and institutional authorities will align and demand legitimate behavior and tolerate little or no alternative options. At this time, the liminal space for the organization will be minimal or nonexistent. A crisis like this will also reduce cognitive options as people are no longer stimulated to think differently.

No liminal space (panel 4). As the liminal space goes, the organization is in a precarious position because its previous innovative initiatives are under attack and might even be in danger of being rolled back. At this time, leaders should regain their trust. They can do this in two ways: by sacrificing initiatives within the liminal space and adopting taken-for-granted, possibly symbolic, practices in the legitimate space. In this way, the organization can demonstrate sufficient levels of conformity to survive the political storm and restore trust among its critical stakeholders. In the case of Hollands Kroon this was conducted

successfully by adopting more traditional control processes, adjusting its structure, and reframing the organizational identity to be more aligned with the field.

New status quo (panel 5). If organizational actions in response to shifting external forces are conducted successfully, the most important innovations are rescued, and the liminal space will reappear. Over time, this space can be expanded to create leeway for new innovations.

Our model offers insights into how ambitious leaders of public sector organizations can pursue major innovations while facing inescapable legitimacy issues within a highly institutionalized and political context.

3.5.2. Theoretical contributions

Our first contribution is to the innovation legitimation (Flink & Kaldewey, 2018; Nowacki & Monk, 2020) discourse by focusing on the idiosyncrasies of innovation in public sector organizations without policy-making authority. We explore the cognitive and political dynamics of enabling innovation rarely studied in previous research. Historically, the public sector has been cast in a conservative light, often seen as resistant to innovation because of the specter of stakeholder backlash. Contrary to this narrative, our research identifies the public sector as a promising, albeit immensely challenging, space for differentiation and pioneering ventures. Notably, we highlight the intriguing

potential for innovation to emerge endogenously and without mandate or support from the government and policymakers. Our argument transcends a binary perspective on legitimacy and instead presents it as a broader continuum, elucidating several strategic avenues for enabling innovations. This perspective accentuates the importance of internal organizational forces as instrumental drivers of innovation.

Our second contribution pertains to the broader landscape of change management. In contrast to established paradigms, our research positions itself uniquely against the backdrop of classical theories. Scholars such as Henfridsson and Yoo (2014) and Fernandez and Rainey (2006) have predominantly advocated an incrementalist perspective on change, whereas our approach champions the virtues of immediacy and sweeping shifts. In particular, we underscore the potential of the often-underestimated liminal spaces, positing them as foundational enablers for transformative endeavors. We emphasize the importance of strategic maneuvers, from engaging in provocative experiments to directly challenging stakeholders. This deviates from the traditional pathway of cautious stakeholder alignment (Grillitsch et al., 2019; Uyarra et al., 2020). By highlighting these novel strategies and illuminating the expansive scope of liminal domains, our work introduces fresh strategic avenues for effective change management, pushing against the confines of traditional paradigms. This nonlinear perspective on innovation,

particularly within the highly political context, demands high levels of persistence and responsiveness, including readjustments and even u-turns, to successfully execute and sustain innovations.

3.5.3. Managerial contributions

In the realm of public sector management, our findings offer insights into how to leverage the gap between what is perceived as legitimate and what is perceived as illegitimate to pursue innovation. Being adept in political astuteness means that leaders can maneuver through entrenched institutional contexts, tapping into the potential to guide innovation efforts effectively. Furthermore, it is essential to recognize that traditional models of incremental change may not always be the most effective. Our research emphasizes the merits of an approach rooted in early, rapid, and extensive shifts that can legitimize previously “in-between” or liminal areas. This not only broadens the scope of strategic possibilities but also sets the stage for transformative action.

Often, public sector leaders are told to continuously align with stakeholders. However, there might be more to gain by daring to challenge these very stakeholders through provocative experiments. By pushing these boundaries, leaders can foster expansive cognitive frameworks, making room for durable strategic metamorphoses. This approach also underscores the importance of recognizing larger-than-anticipated liminal spaces within

organizations. Identifying and legitimizing these can enable the organization to realize the untapped potential for innovative change.

3.6. Conclusion

On the basis of our findings, we have developed a process model tailored to the idiosyncrasies of public organizations that links innovation and legitimacy issues through the concept of liminal space and demonstrates how the creation and usage of liminal space by leaders is crucial for successful impactful innovation. Our model offers five panels of organizational states connected by a potential pathway that can help ambitious public sector leaders navigate major innovations while dealing with legitimacy issues.

Instead of adopting an incremental approach to minimize tensions, we propose a multistage, nonlinear approach that leaders can use. This approach begins by focusing on extending the liminal space by undermining the status quo, being provocative, and establishing a change identity. Subsequently, efforts are made to use and expand this space by demonstrating success through experiments and forming partnerships with legitimacy-conferring actors. Our model also highlights the importance of a leader's abilities to manage and stabilize situations in times of institutional backlash, which is likely to occur when innovating in the liminal space without the security offered by full legitimacy.

Appendix A: Overview of interview data

ID	Sex	Role informant	History	Round 1	Round 2	Round 3
1	M	Manager (2012–2013), Transition team (2014–2016), board member (2017–2019)	Joined 2011	XX		X
2	M	Manager (2012–2013), Transition team (2014–2016)	Joined 2012	XX		
3	M	Board member and general director (2012–2016)	Joined 2011	X		X
4	M	Board member (2012–2017), general director (2016–2017)	Joined 2011	X		X
5	F	Board member (2012–2017)	Joined 2011	X		X
6	F	Board secretary (2012–2017)	Joined 2011	X		
7	M	Board member (2016–)	Joined 2015	X		
8	N	Board member and general director (2017–)	Joined 2017	X		X
9	M	Team member Effect (I)	Anna Paulowna		X	
10	M	Manager (2012–2014), Team member Areaal projecten (I)	Wieringen		X	
11	M	Team member Areaal projecten (II)	Niedorp			X
12	F	Team member Persoonsinformatie (I)	Wieringen		X	
13	F	Team member Persoonsinformatie (II)	Niedorp			X
14	F	Team member Consult (I)	Wieringen		X	
15	M	Team member Consult (II)	Wieringenmeer			X
16	F	Team member Inkoop (I)	Anna Paulowna		X	
17	F	Team member Inkoop (II)	Joined 2012			X
18	M	Team member Vastgoed & Grondzaken (I)	Joined 2013		X	
19	M	Team member ICT (I)	Wieringenmeer		X	
20	M	Team member ICT (II)	Wieringenmeer			X
21	F	Team member Contact (I)	Wieringenmeer		X	
22	F	Team member Contact (II)	Joined 2012			X
23	F	Team member Financiën (I)	Wieringenmeer	X		X
24	F	Team member Financiën (II)	Anna Paulowna		X	
25	M	Team member BDA (I)	Anna Paulowna		X	
26	F	Member transition team (2014–2016), Team member BDA (II)	Niedorp	X		X
27	M	Team member RO (I)	Wieringenmeer		X	
28	F	Team member RO (II)	Joined 2015			X
29	F	Team member PBD (I)	Anna Paulowna		X	
30	M	Team member PBD (II)	Anna Paulowna			X
31	M	Manager (2012–2013), Team member Data (I)	Joined 2013	X	X	
32	M	Team member Data (II)	Anna Paulowna			X
33	M	Team member Areaalbeheer (I)	Wieringenmeer		X	
34	M	Team member Areaalbeheer (II)	Anna Paulowna			X
35	M	Team member Belastingen (I)	Niedorp		X	
36	F	Team member Belastingen (II)	Anna Paulowna			X
37	F	Team member Applicaties (I)	Wieringen		X	
38	F	Team member Applicaties (II)	Niedorp			X
39	M	Team member MOR (I)	Wieringenmeer		X	
40	M	Team member MOR (II)	Niedorp			X
41	M	Team member Flexteam (I), Regionale Samenwerking (II)	Wieringen		X	X
42	M	Team member Flexteam (II)	Wieringenmeer			X
43	F	Team member Vergunningen (I)	Niedorp		X	
44	M	Team member Vergunningen (II)	Wieringenmeer			X
45	F	Team member Regionale Samenwerking (I)	Niedorp		X	

Appendix B: Representative quotes first-order quotes

<p>Openness for innovation (second-order code)</p>	<p>Seeing the organization really change</p> <p><i>In the early days a lot of people thought, my work will remain the same. Nothing will change, because I've been working for the municipality for twenty years and the process that I work on is the same for all municipalities. But in reality, a real culture change was demanded, actually somewhat imposed by the board. We had to become much more flexible and become much more independent ourselves. People initially thought, that's not for me. But it became concrete when they actually saw managers behaving differently. [...] I noticed that people gradually realized that they needed to take more responsibility. This happened from left to right and from top bottom. People started to understand that they were responsible for organizing their work and also stating what they needed to organize their work. So, when you get stuck somewhere and you have for example insufficient capacity, it is up to you to make it known. State what you need, so that you can deliver the result that people expect from you. It took a while before that process got off to a good start, but it happened. (ID nr 15)</i></p> <p><i>It was messy. I recall we arrived here on January 1st and everyone was told that we would be working in a flexible manner. We received a phone and laptop and we were supposed to find a spot to work. That was quite difficult, because everyone was used to having a place of their own, a picture next to the computer. And suddenly that wasn't there anymore. What happened is that people actually just sat down in groups with people from their new departments. And yes, we didn't know our colleagues very well either, because we used to be from four municipalities and at once we were one. And yes, that messy and also a bit insecure. And yes, people did find it difficult. But I belonged to the group that saw the change and was quite happy that something was happening. (ID nr 45)</i></p> <p>Getting used to doing things differently</p> <p><i>In the first phase of our organization, the innovation came from a small group of people, the real believers, but there was still also a lot of resistance in the organization. After two or three years, most people were used to the fact that they were allowed to come up with ideas themselves and started to try new things carefully. We saw beautiful initiatives appear. [...] They started experimenting with other forms due to the fact that a climate had been created that allowed people to think differently. [...] They started experimenting with other forms of service. And that was possible because internally people were increasingly used to doing things differently, thinking differently. They knew it was allowed to come up with new ideas and then do something with them. So, we began experimenting with our services. We launched pop-up counters, simple tables with an old cloth for example at a retirement home and we asked residents "where would you like to be served at the townhall counter or in the pop-up tent?" to let people see and feel it and discover what would a resident choose. (ID nr 1)</i></p>
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<p><i>I also found it [launch of the new municipality] a bit scary for a while. There was a lot of talking among colleagues and some colleagues left. So, I thought that was a little scary. But on the other hand, it was also very nice because so many things happened. You could also make your own choices, which I really liked. You could really grow, continue to develop and try something new and make your own choices and take responsibility. We could experiment with new ideas. I really liked that. It was no longer that old-fashioned municipal feeling, where you sit behind your desk and do what you are asked. (ID nr 13)</i></p>	<p>Willingness to bend the rules (second-order code)</p> <p>Not accepting bureaucratic rules</p> <p><i>As a municipality, we also sell small pieces of land to the people who own the ground next to it. Often these pieces do not have the correct [legal] status for citizens to use it for their homes. To make adjustments requires a very bureaucratic procedure. But this is of course not what people are waiting for and neither are we. We then proposed to treat these cases as what is called a crumb adjustment [other procedure not designed for this situation]. This is a simple, generic and fast procedure and we wanted to file these cases as such. This plan was on the tricky. As a team we were divided. We had someone who has a legal background in our team, who said this can't really be done. After a lot of back-and-forth discussions, we came up with a creative formulation that was satisfactory for all, that offered a good enough explanation why we would be by passing the legislative procedure and use this short procedure. We put it forward to the college and they also decided this was acceptable. Now instead of waiting at least six months like the other people in the Netherlands have to do, people here get their permission in eight weeks and at a much lower cost. (ID nr 27)</i></p> <p><i>We work in a very pragmatic way, very informal. When people submit objections, which in the past was always a formal writing procedure, we actually say from the start "let's call, if you do not agree, then we will see what we can do". Such a process actually has very little impact and fits very well with our attitude. We are here for the public and what we are doing has to be right for them. And if we are not doing that in a good way, we have to look at that. So first we discuss what's going on and whether we can work it out in an informal matter and often we can work it out very quickly. If that doesn't work, the formal procedure is always open. But that is not the way we prefer to do things. We're will first try to get to an understanding in a simple way without bureaucracy. (ID nr 36)</i></p> <p>Explaining the rules less strictly</p> <p><i>You have to have people who understand how the rules work. If you do stuff irresponsible, you will achieve nothing, because you are dealing with legislation. And you need to understand how far you can stretch those. We are keen on that. You do need to know the bandwidth within which you can play. Are we staying within the rules, are we going to far or are we walking on the edge? And if you know this you can also explain the situation to parties. I think we often don't prefer to be on the safe side. And of course, at Hollands Kroon you are allowed to take the risk. We won't throw the rules in the trashcan. But in our field, there is a huge grey area. And that means that other municipalities tend to explain the rules a little more strictly than we do. (ID nr 27)</i></p>
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<p><i>The birth registration story is a very nice one. The board had the ambition to move towards digital and remove the counters as quickly as possible. So what should we do with that? It was clear that we needed to offer services to the citizen in a different way. Well, then we decided that we would bring the birth registration to people's homes ourselves. First, you investigate if you can learn from other municipalities. Better to steal a good idea, then to conceived a bad one. But no municipality in the Netherlands was doing this. So it was up to us to figure it out. In our field, a deed is a very serious document. For a civil servant, crossing the street with a deed is like swearing in the church. It is not allowed. At the end we decided that we would make the deed at the office and then take it to the parents without a signature and sign it on location. We often have to explain this to colleagues from other municipalities. Many still think that this is not allowed. But we think that as long as the deed has not been signed, it is not yet an official deed. So that is the leeway we created for ourselves. (ID nr 12)</i></p>
<p>Pushing back against traditional ways</p>
<p>Presenting other institutions as slow and incapable</p>
<p><i>We don't have to engage in long and elaborate discussions or seek approval first. For many things, you can simply make the decision yourself. And if it doesn't work out, well, you quickly say, "Hey, we're facing an issue." And we will resolve that issue also promptly. We work much faster, than another municipality that follows a more traditional approach, but that's is also expected here (ID nr 29).</i></p>
<p><i>We tried to establish a collaboration within the social domain with three other municipalities, but our differences really hindered us there. I'm convinced that collaboration between municipalities is quite challenging, but in our case, it was even more difficult because there was always mistrust towards us. After years of dealing with those idiots, we didn't want to be dragged into their way of doing things and their thinking anymore (ID nr anonymous)</i></p>
<p>Presenting other civil servants as old-fashioned</p>
<p><i>You have to undergo a change, moving from an old-fashioned civil servant to a modern new civil servant at the time. For a large group of people, it was quite a challenge. I think it was accelerated greatly by eliminating the entire layers of management. Because then, if you're truly an old-fashioned civil servant, you can no longer hide behind your manager (ID nr 23).</i></p>
<p><i>I think it was greatly accelerated by eliminating the entire layers of management. Because then, if you're truly an old-fashioned civil servant, you no longer have the option to hide behind your manager. They're no longer there. As long as there are it still allows the organization or the employees to continue doing things in a traditional way, while hiding behind a manager. Those managers are no longer. (ID nr 28)</i></p>
<p>Deploying provocative practices</p>
<p>Discarding familiar practices</p>

<p><i>The merger on January 1 was a real big bang. Offices were gone, your own workplace was gone, there was a new work environment. We no longer were required to fill out timesheets. We didn't have to get approval for expenditures. Everything was completely different. Vacation days were gone, more of these kinds of things. Most controls were abandoned. And these were quite concrete steps to show that we were really going to do things differently. [...] You saw that new ways had to be discovered, also because many things were removed and that was sometimes quite painful. People sometimes didn't want to let go of things. That was quite difficult. A lot of direction was needed, at that point still from the managers. But I do things these first steps really worked. By doing everything into one heap, you can really start creating something new. (ID nr 4)</i></p>	<p><i>We told the managers you are no longer deciding who does what trainings, you are no longer deciding who has when free time. You are only talking about results. We will not steer on time; we will steer on results. So that was a huge revolution, also for the managers. They had to manage differently. That was really hard for them. They really had a lot of trouble with that and we really had to intervene. We had to fire three managers in the first half. (ID nr 5)</i></p>
<p>Trying to shake things up</p>	<p><i>In the beginning, we fired three managers because they couldn't adapt well to the new role and to show to organization, that we were for real. That certainly brought about a shock effect as well. (ID nr 26)</i></p>
<p>Establishing a “change” identity</p>	<p>Making “change” business as usual</p>
<p><i>On January 2nd, we launched the new organization, met the deadlines, and during the gathering, the first message right away was, "It's great that we have achieved this, but if you think it's going to be calm now, you're mistaken because we are at the beginning of significant changes". The new organization needed to be energized and understand that change is the only constant factor." (ID nr 1)</i></p>	<p><i>They (the board) were truly committed to the change, and while problems did arise from it, they didn't just leave you to solve them on your own; they genuinely came to your aid. So, you could see a certain cultural shift happening, and surprisingly, within a short period, there was a strong willingness to embrace change. Well, normally, a cultural shift takes much longer. But in this case, it was so extreme, and it truly happened throughout the entire organization. Well, that's certainly a positive outcome (ID nr 45)</i></p>
<p>Being different from other municipalities</p>	<p><i>Since the merger in 2012, there had been a strong focus on innovation. It needed to be a municipality that does things differently than any other. The focus was much less on having control and monitoring. That was really not in the genes of the board at the time. It was very</i></p>

<p><i>focused on setting up a new kind of municipality, different from everyone else. They mainly focused on conditioning the core values. The meeting rooms were also named similar like our core values. Everybody had to have the guts, show passion, trust each other, your name it. (ID nr 7)</i></p>	<p><i>A recurring topic was what type of culture are we going to shaping? Are we going to be like Anna Paulowna [on of the original municipalities] yes or no? And the answer was very clearly NO, we are not going to maintain any culture of one of the four old municipalities. We are going to be something completely differently. And I think the message was “everything you’ve thought in the past, forget it. Because it’s just not going to be like that anymore”. And by being so extreme, it was clear that we were doing things differently. We were not a variant of one of those old 4 municipalities. And in this case, they really pulled the band aid off in one go, but I think it did help to do it so radically, and often over the top and crazy. But this way did encourage people to do things in a completely different way. And yes, it took some getting used to for some. I understand that too. (ID nr 42)</i></p>
<p>Transformation of civil services</p>	<p>Home delivery of civil services</p> <p><i>The contact with citizens today is very different from, for example, 5 years ago. And these old ways are actually still common in the most of the Netherlands. Most citizens go to the town hall, stand in front of a counter and have contact with someone from citizen services. We work in a different way in this municipality. And that is very much digital and by e-mail. And if there is really is no other option, an appointment will be made and we will do home visits. It is digital unless. [...] After this interview I will go on a home visit for a birth certificate. In other municipalities it is still traditional, the father goes to the town hall to declare the birth of a child. We also have assistance from other team, because, for example, the passports and driving licenses are all brought to the citizen at home. A number of cars drive around every day and they go on a home visit after an appointment has been made. And they bring passports, driver’s licenses and identity cards. (ID nr 12)</i></p>
<p><i>Hollands Kroon sees citizens as customers and wants to approach them as such. For example, the passport is simply delivered to your home, the birth registration can be done digitally. This means that the physical counters will close in two years. The management wants to approach customers in a radically different way. The attitude towards constituents needs to change, much more customer-oriented. “We think it terms of what is possible instead of what is not possible. We want the best possible service for our residents and businesses” says Arthur Cremers. Most employees agree with the municipality’s new working method. And perhaps more importantly, so do the residents. Research by Hollands Kroon itself shows that they rate citizen services on average with an 8.7. (Binnenlands Bestuur)</i></p>	<p>Closing down physical counters and city hall</p> <p><i>Soon all counters will close. Not an easy task, since Hollands Kroon is the third largest municipality in the country in terms of surface area (more than 66,000 hectares). With ‘only’ more than 47,000 inhabitants and centers spread over all corners of the area, this is quite a</i></p>

<p><i>big ask . Hollands Kroon is therefore fully committed to 'digital' and applies the principle of 'click, call, face'. This means: online as much as possible, then by telephone and if that is not possible, a personal meeting will follow at people's homes. Travel documents are delivered free of charge, including evenings and weekends. Parents can register the birth of their child from home and the birth certificate of their child will then be delivered to their home. The result of the digital revolution is that all municipal counters will close, the last according to the current schedule in 2019. This way of working also allows costs to be kept low. (Binnenlands Bestuur)</i></p> <p><i>We were one of the first to say, you don't have to come to the counter anymore, because we do everything digitally or we come to you. We removed all counters. And that was very nice, because Hollands Kroon is a large area if you have to travel 40 kilometers on your bike to get an extract of your citizenship, that is not funny. So those were very recognizable and major changes for the outside world. Same goes for the birth registration, you are not stuck at a counter with your papers. We come to you with a nice gift. That sets a very different tone towards the citizen. (ID nr 2)</i></p>
<p>Increasing legitimacy was attributed to the changes</p>
<p>Getting rewards and positive publications</p>
<p><i>At one point, things were going really well. We felt on top of the world. We had just been finalists for the Smart City award, and all those things were fantastic, but perhaps also because of that we focused too much on innovation and secretly forget to properly secure all internal matters as well (ID nr 15)</i></p>
<p><i>When we left, Arthur became the general director, and Binnenlands Bestuur, a magazine for the government, approached him. They wanted to dedicate six articles, one each week, to Hollands Kroon, highlighting everything that was going well and wonderful, and so on. They agreed to it. (ID nr 5)</i></p>
<p>Getting appreciation from other organizations</p>
<p><i>At a certain point, we started receiving weekly visits from various organizations, both from the public and private sectors, and even from outside the country. They wanted to know, what we were doing and interested the changes we were implementing in our organization and the services we provided. During the years 2015 and 2016, we had approximately 300 organizations visiting us (ID nr 26)</i></p>
<p><i>During that time, we were invited frequently to speak at conferences and such events. Other municipalities were very interested in what we were doing and we received a lot of compliments. For instance, I was asked to give a presentation about how our data strategy at a major conference (ID number 32)</i></p>
<p>End of momentum for innovation</p>
<p>Political crisis</p>
<p><i>In 2017 there was a crisis going on. There was little political confidence in the organization and in the chosen path in terms of self-management. We did manage to regain that confidence. Various projects were initiated to rebuild trust. Our team was directly involved in</i></p>

	<p>these, because we were active in these projects. And of course, we were in close contact with the board, so we could do suggestions where things could be done better. In this period, we certainly were able to restore our image and improve our contact with the outside world. (ID nr 25)</p> <p>What I think happened very well when Wim [the third General Manager] came in, is that he brought peace back and he repaired the image of the organization among the politicians. That's what he's did very well and of course this was made possible through results that we achieved with our 'Balance 2018' plan. He really framed this in a very good way towards the college and the council and that was needed in because of the crisis. And even when the college increased the pressure, he stood for the plan and persevered our philosophy, but we did have to fight for this. (ID nr 7)</p>
	<p>Break from innovation</p>
	<p>In the period following the political crisis, we took a moment to pause. We took a break from innovation What we call finding balance, taking a day of balance [Dutch proverb "balans dagje] or, in our case, a year of balance, so to speak. And now I see that we are moving forward again and setting ambitious goals for our services, aiming for an 8.5 level of service. (ID nr 31)</p> <p>We had the "Balance" program, which serves as the successor to "The Point 2018" [first strategic plan]. What you see in that, we required a moment of tranquility where everyone could take a break following the departure of some individuals. No craziness, no innovation, just building a stronger foundation. It allowed everyone to reset their mindset, and at a certain point, when the Balans program came to an end, you could see people starting to ask, "What are we going to do next?" So, from within the organization itself, there was a renewed need and energy to take the next step (ID nr 8)</p>
	<p>Landing small but symbolic experiments</p>
	<p>Doing a pilot with a Ministry</p>
	<p>Laws always lag a bit behind the actual situation. Sometimes you can discuss this with an institution and at other times you cannot. Sometimes you might get a little leeway to organize something different. One of those examples is, for example is the delivering of passports at home. In the beginning this was unthinkable. Back in the days we also attempted to make digital voting possible, but finally it got rejected. How great that would have been in the current period with Corona, if everyone could have voted digitally. We always tried to walk on the edge and Wim [first general director] also raised this with the various national organizations. And because of that we were sometimes able to make a deal or do a pilot, other times those kinds of parties just kept the door closed. (ID nr 15)</p>
	<p>We have experimented a lot for example with digitally signing contracts for leases and exploitation agreements, to make them much less bureaucratic. We spent a lot of time on this and ran a pilot to see if we could really do all of this digitally. Ultimately, the notary offices were the institutions that did not want to participate in this, because they still wanted that 'wet' signature and we need the notary offices, to cooperate, because it ultimately goes through them. There was great software that allowed us to do all of this digitally. But the notary</p>

<p><i>offices in the end they didn't want that, because of security reasons. We will try again soon, because now there are of course new systems with extra security. So we hope it will get off the ground next time. (ID nr 18)</i></p>	<p>Expanding a pilot with a Ministry</p> <p><i>Our vision on public services was written in 2014. And at that point delivery of travel documents had the interest of the Ministry of General affairs. And later, we also did first pilots with the digital applications for driving licenses with the RDW. These were actually quite complex processes. They were endless little steps from then until now, but if you look at where we are now it is very much what we envisioned back then. Just take a look at how we are handling people moving now through the use of e-service. In the beginning we worked with a PDF, which was printed and manually processed, now it is all done digitally. Our public services have really developed over the years. But these are small steps. You try new things, experiment see what works, what is allowed. The same goes with applying for travel documents at people's homes. That started somewhere in 2016 as a pilot. That has developed over time. First you start by handling the application for the travel document digitally, so people only have to do the last bit at the counter and eventually to a moment where we bought cars and drove to the people to retrieve that signature ourself. (ID nr 30)</i></p>	<p><i>We also wanted to expand the home delivery to the drivers licenses [after the passports]. The driver's license delivery service was done through a courier. But they are not civil servants, so they were not allowed to sign. And that was a problem for the RDW [Netherlands Vehicle Authority]. So we decided to adjust the process. That is how Hollands Kroon works, we try to be flexible with the rules to make things possible. We initially made arrangements with the couriers, that just before delivery, they would notify the responsible civil servant. We would receive the signal digitally, because everything was already automated, and he or she would certify the document from home. Later we decide to do the delivery them ourselves. So then we took over from the delivery service. To make this possible the mayor actually waived his formal authority and transferred it to the RDW for a certain period. (ID nr 30)</i></p>	<p>Expanding partnerships with willing stakeholders</p>	<p>Forming partnerships with willing stakeholders</p> <p><i>We tried to make deals with our regional municipalities, which sometimes worked, sometimes didn't, but also with Microsoft. We discussed the passports and driving licenses with the Ministries of Transport and of Internal Affairs. Our deal with Inclusio [for Social Care] is also very good example of how we did things really differently. These deals were based on understandings each other's intentions and willingness to help each other, but also because there was a click. And that's how I think you should work together. Agriport is also a very good example. Of course we have an autonomous position as a higher authority, but we are also able to have a collaborative relationship with Agriport, as a company that is very important for the region. And I think that is a characteristic of Hollands Kroon, that we dare to commit ourself to others instead of saying we are a governmental institution, we cannot do that, because we have a certain responsibility and that is what you often see. You must also dare to commit to other parties. (ID nr 4)</i></p>
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<p><i>Microsoft is investing in local priorities in the Netherlands. Collaborating closely with a team of local landscape architects, Microsoft planted 150 native trees and 2,300 square meters of shrubs, grasses, and groundcovers around the campus that blend in harmoniously with the Noord-Holland landscape. This project marks the start of a long-term effort to ensure that datacenters blend into the natural landscape of the Wieringermeer polder. (Microsoft)</i></p>
<p>Authorities approach Hollands Kroon for innovations</p>
<p><i>We always discussed our ideas to the important stakeholders. The moment you want to do, what we did for example with the driving licenses and identity cards [home delivery], you have a problem because of legal restrictions. You have to make sure you are at sitting at the table where decisions are being made. We did that very often, making sure that were in contact with the right stakeholders, so to moment a little leeway was arose we could jump at it. And then we immediately said "let's do it, we can do it" and we often could. And that way you create a kind of flywheel effect, where other authorities have an idea to try something new and say "let's just ask that crazy municipality in North Holland, if they are up for it. Let's go there and talk". This way you get some kind of reinforcing power. (ID nr 5)</i></p>
<p><i>And at some point, parties started to approach us, because we had acquired a certain image. We really noticed that the rest of the Netherlands started to like what we were doing an then they would ask us if we wanted to do an experiment with them. So, we participated in a lot of these experiments, partly because we reached out in order to create opportunities and partly because we had an image of being open to innovation, which triggered parties to give us a call. So it worked two ways. (ID nr 4)</i></p>
<p>Hollands Kroon is given a lot of leeway</p>
<p>Politicians give support</p>
<p><i>In that entire first phase, both internally and externally, we only explained why we thought things should change and we did not ask for people's opinion in that first phase, because when people are confronted with the question "what do you think of it?", then people will respond immediately. We weren't waiting for that first response. We wanted to avoid getting into a discussion about what is right and wrong. Because our model was not perfect, not fantastic and not right or wrong, but we thought it was appropriate for that moment. Only with the College [consisting of the mayor and aldermen], we invested a lot of time explaining our vision and stating that we believed that this was the path we should take. We asked their support for the full 100%. If I was going to make such a change, I really need the college, not as a sparring partner, but really as a pillar of support. If they didn't want to, then eventually we would be left hanging. We really asked to college the question, if they were with us. And yes, they committed fully, I don't know if it was luck or momentum, but the college was actually enthusiastic right away. (ID nr 3)</i></p>
<p><i>The big story; the vision, they [the college] had to be committed to that. And you do that through breakout sessions with the college. You try to act as much as possible aligned with our philosophy and also make it the philosophy of the college. You don't want them to say yes, because we wanted it. No, we needed to go deeper. We wanted them to be intrinsically motivated. And we made it very concretely. We did</i></p>

	<p>have serious discussions in relations to very specific cases together with them. To name a few the changes in the social domain, the new purchasing organization, the VDH legislation. In these instances, we wanted to do things really differently, but we always did it together with the alderman at such moments. (ID nr 4)</p>
	<p>Institutional backlash is limited</p>
	<p>Politicians give political assignments, but as long as we delivery on our promises, they should not interfere with it. That was a bit of a fight, but I think Wim managed it just fine. We were able to continue with what we were doing, as long as we achieved your result. I think the council was slightly critical, but I did not experience that they were against us or did not support the changes. No, I think they quickly saw that the changes also delivered results. The ICT systems performed well; the cutbacks were achieved. So yes, Wim played that game well, he managed to keep the politics out. (ID nr 17)</p>
	<p>One of the first things we did with the college was to make a planning, for the first year. What do you want to have at what specific time and are we [the organization] able to deliver on that? And we always pushed the organization to deliver on these. Hence it we said “on date X we deliver Y”, then we would actually deliver. Ultimately, if you want to have free rein, then you need to deliver on what you agreed on with the college. If you do that you, you can fight with employees, you can be in a mess with partners. If you continue to deliver your products, then you create your own leeway. I made sure the organization was aware of this. If we promise something to college, we would also deliver. (ID nr 3)</p>
	<p>Hollands Kroon is given little liminal space</p>
	<p>Politicians demand action</p>
	<p>An initial analysis of the HPO research [external research] offers a striking similarity with findings that are also experienced by us as management: we are doing very well on in the green domain [self-management and creativity], yellow [people and motivation] and red [business and goal-oriented] and we urgently need to improve on the blue domain [planning and processes]. The college also recognizes this and indicates that the priority for the coming year is on operational quality and less on innovation [...]. We're not going to do anything new. We are going to give substance to a necessary leap in quality within the organization in order to realize our ambition and be demonstrably and concretely a smart organization. (Plan Balans 2018)</p>
	<p>The organization was under a lot of pressure from internal and external forces. A part of the council thought about doing an intervention and pulling the plug out of the whole concept [self-management]. Also, people from inside the organization thought that their moment had come. These internal non-believers figured that there was room to pull back from our trajectory. This group of people thought we had gone too far and didn't believe an organization should function this way. (ID nr 7)</p>
	<p>Institutional backlash is fierce</p>

	<p><i>The departure of the two senior officials follows strong criticism from the municipal council and a (rejected) motion of censure from the opposition regarding the financial management of Hollands Kroon. Particularly due to overspending of nearly four hundred thousand euros in the ICT domain, surpassing the budget, and since this is not the first time that this expense category has been exceeded, responsible alderman Theo Meskers and the council faced severe criticism. For years, council members have been dissatisfied with the often unclear and insufficiently transparent way in which they are informed about the financial affairs of Hollands Kroon. (Noord-Hollands Dagblad)</i></p>
	<p><i>Self-management can end disastrously. At the municipality of Hollands Kroon, they sowed self-management and reaped chaos. Budget overruns abound. Aldermen's lives are less secure than cattle in the Oostvaardersplassen nature reserve. And as a sad low point, there's an enormous number of lawsuits by citizens against their own municipality. (Algemeen Dagblad)</i></p>
	<p>Adapting structure</p>
	<p><i>Moving towards (complete) self-management</i></p>
	<p><i>In 2018, our organization will consist of a large number of independent teams. These are organized per process and provide products and services. With independent teams, we need less management. In 2018 there will therefore only be one management layer, the board of directors. In concrete terms, independent teams make concrete agreements on their results with the management and team members make concrete agreements on their results with each other. Employees organize the work themselves without direct control from above. Independent teams take on new colleagues themselves and have their own budgets. In addition, each independent team investigates how they can work smarter. [...] We are convinced that this organizational form gives employees more room to realize their own results and thus to optimize our services. We believe that in such an environment, we are able to get the best out of themselves. Hence, create more value for the organization and society for which we work (De Stip 2018)</i></p>
	<p><i>Hollands Kroon strives for as little hierarchy in the organization as possible. Under the three-person board of directors, in theory, every employee is equal. For example, the position of manager no longer exists and almost all employees work in one of the thirty-two 'self-managed teams'. No layers, no bureaucracy, that's the idea [...] Far-reaching flexibility is required from the staff, such as being available in the evenings and at weekends. The employees get a lot of freedom in return. "Even if you go on holiday for 17 weeks a year, we don't care," said former director Anja van der Horst in 2015 in the Volkskrant [Dutch newspaper]. "As long as your work doesn't suffer" (Binnenlands Bestuur)</i></p>
	<p><i>More top-down decision-making by board</i></p>
	<p><i>In my experience, teams are now given less leeway to fully determine their own course and future development. There you can really see that there has been a movement backwards. From a time where each team could really decide what they wanted to do, now it is "nice that you want to do that. And maybe it's good for you too. But we are focused on organizational interests". So there you really see us taking a</i></p>

	<p><i>step back. We are going back to the basics and the organizational interest instead of doing all kind of innovative stuff. We are certainly still self-managing in operational terms, but on a strategic level we are much more controlled. Self-management in the day-to-day business is still very much alive and there is no management on it, but your year planning and goals, they need to be agreed with the board. (ID nr 41)</i></p>
	<p><i>I am proud of what we have achieved with this organization within four years. Running an organization without management and with a limited board. And nevertheless, we do our jobs very well, most people take their own responsibility and also do it well. I am also happy with the current management, which on the one hand continues to encourage self-management, but on the other hand, has started to manage a little more tightly. Which was what we needed. I really think that is wise. So yes, I am proud as how we are currently working without many management layers and continue to do a good work. (ID nr 16)</i></p>
	<p>Adapting processes</p>
	<p>Removing (most) control processes</p>
	<p><i>The period 2014 – 2016 was our real the transition. We examined the entire organization, bringing processes together differently and transforming towards teams responsible for these processes. So when you talk about the transformation to self-management, you also need to talk about a tilting of process, because that's how teams were set up and coincidentally, we also thought that would better without a manager or a supervisor. For the organization, the transformation is still mainly the route to self-management. But underlying it is about making processes more effectively and efficiently and being able to better meet your customer demand (ID nr 1)</i></p>
	<p><i>"Balance 2018" [the strategic plan] was, intended to restore balance, as the balance was lost. We needed to restore processes that had been removed, for example, the reports, reporting, and obtaining reliable reports. Another point was when I look at the finance department, there were simply no processes in place, not enough quality. We didn't even have a long-term maintenance plan for the building, all those basic things. I do know Wim [first general manager] had said, "Yeah, we're not going to do all that." I also understand that he needed money to initiate change, but I don't think that works that way. (ID nr 8)</i></p>
	<p>Reinstating control processes</p>
	<p><i>A lot of energy is lost because people and teams are each reinventing the wheel for themselves. In-, through- and outflow of personnel, digital archiving, implementation of the Social Domain administration, maintaining the maintenance management system, improving the website, budget management... there are many processes that we want to optimize and that we can do smarter. In this plan we indicate where our main focus will be in 2018, based on four pillars:</i></p> <ul style="list-style-type: none"> • <i>improving the policy cycle (planning & control cycle)</i> • <i>strengthening control over project-based and programmatic work</i> • <i>improving our external services</i>

<p>• <i>smarter design of internal control</i> <i>[...] The policy cycle – or, as mentioned earlier, the planning & control cycle – is not sufficiently alive within the organization of Hollands Kroon. During the past term, the municipal council has made considerable progress in being able to steer on the performance indicators in the budget. It is now up to the board and the organization to ensure that the objectives are made concrete and tangible. (Plan Balans 2018)</i></p>	<p><i>Balance [the plan] was of course meant to bring balance back, because the balance was missing and we needed to repair a number of things, for example, reporting and ensuring that we received reliable information. Another point was to invest in the financial department, which simply lacked quality. We didn't have a multi year building maintenance plan, all kinds of basic things. I know that Wim [the first general director] in his time killed a lot of these things and I also understand how this created financial leeway to execute the change, but I don't think it works that way. You can't do it that way. So we've done a lot of recovery work. We have made considerable improvements in quality at Finance and with internal audits. We have trust [one of the core values] in our people and that's good, but control is better. Ultimately, we try to combine the two in one model. That's a bit of a challenge. (ID nr 8)</i></p>
<p>Reframing identity</p>	<p>Highlighting “guts” and “trust” <i>There is indeed a very different culture. When you look back, you see what a big step has been taken. You see people have grown to be able to make independent choices. People dare to make these choices and they trust that it is the right thing to do. Of course, there is support if we get stuck and we have help at our disposal to allow people to grow and it didn't happen all at once. It went in small steps, but in time I think most teams have just learned to make a good risk assessment and ask themselves what is the worst that can happen if we do things in a different way. And in most instances people just make the sensible choice. When I talk about our own team, we always look for the maximum leeway and be creative, but always within the legal restrictions, because you simply have to comply those. (ID nr 17)</i></p>
<p><i>We didn't believe that we could even work that way. At a certain point you see that things are going in the right direction. That things actually work. And then you get to a point that that you think “Okay, so it's possible.” Only two years ago I thought this would not possible and we actually said among colleagues “They are not nuts. What are they all doing. This can never work”. But a turnaround in our thinking did happen and we got more confident. And then we slowly got into it. [...] And you try to challenge more things. You start to question, why are we acting this way? Yes, because that's the law. Then you think “What's the added value of this way?” The whole mindset just changes. And then you go looking for other options. (ID nr 13)</i></p>	<p>Highlighting “respect” and “contact” and the oath</p>

	<p><i>This phase requires something new from our organization. In the previous period we made important steps forward with this organization. We showed Guts and Passion [core values]. Now in terms of our development we are stabilizing. And then those values are not so necessary or at least not so much stimulated. In projects that we do, which I am involved in, they are less visible. Yes, Guts and passion have faded. If I am honest, I wouldn't mention them as our core values at the moment. If you evaluate our core values, I think we are good at giving Respect. Contact with the outside slightly less, but within the organization things are going well. (ID nr 41)</i></p>
	<p><i>I think guts [core value] was very important under Wim [the first general director]. We had to manifest ourselves as Hollands Kroon and show how different we were from the average municipality. Now we are in calmer waters. Ok, we may be different and we approach things in a different way, but we also want to think it through carefully. It's a bit more steady, instead of all those wild ideas that we used to put forward. (ID nr 28)</i></p>

CHAPTER 4

**STRATEGIC OPTIONS FOR LOCAL
GOVERNMENTS FOR ECONOMIC
DEVELOPMENT: AN FSQCA
APPROACH**

4. STRATEGIC OPTIONS FOR LOCAL GOVERNMENTS FOR ECONOMIC DEVELOPMENT: AN FSQCA APPROACH

ABSTRACT

One of the key priorities of all local governments is the promotion of economic development and the formation of an environment conducive to entrepreneurship. Although previous research has explored local policies influencing economic activity, most studies have considered the impact of these decisions in isolation, neglecting their interdependence at the level of economic strategy and how different strategies directly influence economic activity. This study delves into the intricate web of strategic capital allocation decisions within the public sector to investigate their impact on local economic activity. Utilizing fuzzy-set Qualitative Comparative Analysis (fsQCA), our investigation reveals concrete configurations that municipalities have at their disposal to support economic development and boost economic activity. We discuss how these strategies vary depending on the size of the municipality as we draw insights from data gathered from 337 municipalities in the Netherlands. Our research enriches the existing body of literature concerned with the role of local government strategies in boosting entrepreneurial activity, and we propose fsQCA as a suitable approach to unravel the predominant “budgeting trade-off” dilemma faced by the public sector.

4.1.Introduction

Research highlights the substantial influence wielded by local governments on their economic landscapes, showcasing their capacity to foster economic development through various avenues. First, they exert control over regulatory factors. Local authorities possess the capacity to streamline the process of starting and operating businesses, reduce bureaucratic hurdles, and enhance business ease by cutting through the red tape associated with licenses and permits (Stenholm, Acs, en Wuebker, 2013). Second, local governments are instrumental in shaping normative factors. They can actively work to alter societal perceptions of businesses and their roles within a given community, thereby igniting the entrepreneurial spirit (Demircioglu en Audretsch, 2017). Third, they hold sway over the cognitive antecedents of entrepreneurship. Local governments can promote entrepreneurship awareness and influence prevailing attitudes toward risk and innovation, thereby cultivating an environment conducive to entrepreneurial endeavors (Obschonka e.a., 2013).

Moreover, the actions of local authorities transcend mere administrative tasks. They invest in facilitative factors, offering resources and support services that benefit businesses. These may encompass funding opportunities, mentorship programs, and various support services, collectively creating a nurturing ecosystem for economic development (Skica

et al., 2018). Furthermore, local governments play a pivotal role in enhancing structural factors. They are tasked with establishing and maintaining critical infrastructure, providing public services, and improving the overall business environment, all of which are integral to economic development (Skica et al., 2018). The aforementioned considerations serve as a reflection of a municipality's priorities, needs, and strategic direction, possessing the potential to profoundly mold the economic environment in which businesses can prosper (Alvedalen en Boschma, 2017).

Research has underscored the significant and far-reaching impact local governments wield over entrepreneurial activities and broader economic development (Stam, 2015). Although an array of policies for economic development has been considered in the literature, most have been considered in isolation, and a holistic approach to budgeting strategy has not been proposed thus far, partly because of the limitations of traditional correlational research designs (Kraus, Ribeiro-Soriano, en Schüssler, 2018). Such methods tend to focus on single dependent variables within a complex environment marked by equifinality and asymmetry. Thus, we use fsQCA to address our research question: "What configurations of municipal economic capital spending strategies are most effective in promoting entrepreneurial activity at the local level?"

Through this investigation, our study seeks to make a meaningful contribution to the existing body of research on local economic development, as reflected in higher entrepreneurial activity and the strategic allocation of capital by local governments. Our findings underscore the strategic significance of adopting a holistic approach to resource allocation, emphasizing the exploitation of synergies across various economic spending domains in response to public pressure on agencies to do more with less (Ho, 2018), primarily within large and medium municipalities. We argue that economic development is not only the result of isolated municipal actions but also a product of carefully configured elements. By doing so, we also answer the call for more work on the concept of budget balance (Rubin, 2015). In our research, we identify three configurations that have the greatest impact on local economic activity. Additionally, we aim to demonstrate the use of fsQCA in unraveling complex budgeting dilemmas (Rubin, 2007; Posner, 2009), thereby contributing to the scholarly community's understanding and appreciation of this analytical tool.

4.2.Theoretical background

4.2.1. Local governments and economic development

Municipal governments play a pivotal role that extends beyond routine administrative tasks, significantly affecting the socioeconomic dynamics of their communities. They influence the economic conditions necessary for

community prosperity (Skica, Bem, en Żygadło, 2013). They shape critical factors, including resource availability, the establishment and upkeep of essential infrastructure, the provision of public goods and services, and the overall business environment (Skica, Golejewska, en Bielak, 2018). Research has shown that municipalities contribute to economic development not only by investing in urban renewal (Gordon, 2003) and public infrastructure, such as roads, water (B. D. Lewis, 1998), and broadband (Kolko, 2012), but also by stimulating tourism (Horne, 2000; Rogerson & Rogerson, 2019), tax increment financing (Byrne 2010), and investing in crime prevention and education (Porter, 1997). Even heritage conservation can be perceived as not so much as a cost but as an investment of municipalities with real returns and a driver of business growth within historically conserved spaces (Shipley en Snyder, 2013). Many of these examples are “indirect” benefits on the local economy of municipal spending, but most local authorities also spend a proportion of their budgets on direct economic development support (Helmsing, 2001), as most municipalities have separate departments in charge of these activities (Feiock en Kim, 2001). Among others, they invest in creating a good business climate, entrepreneurial development and economic gardening, one-stop business assistance centers, start-up and venture financing, small business development centers, enterprise zones, research, and promotion (Blakely en Leigh, 2013). Although we know

economic development at the municipal level is a multifaceted process (Acs, Desai, en Hessels, 2008), we do not fully understand how local businesses benefit from this direct investment by local governments.

4.2.2. Economic capital spending and economic development

Joseph Bower (2017) succinctly emphasized that “the problem of resource allocation is the essence of strategy.” In the realm of resource-based literature, scholars have researched the distribution of both financial and nonfinancial resources (Folta, Helfat, en Karim, 2016). Various forms of resource allocation, such as capabilities (Maritan, 2001), human and technological resources (Danneels, 2007), and managerial time (Arrfelt, Wiseman, en Hult, 2013), have been the focus of scholarly investigation. The allocation of capital has garnered particular attention because of its practicality. The allocation of financial resources is readily identifiable, observable, and quantifiable, rendering it amenable to empirical research (Bower, 1972). Moreover, financial resources are intrinsically linked to other resources, as capital investments transform financial resources into nonfinancial resources to achieve specific objectives or desired outcomes (Amit & Schoemaker, 1993; Helfat & Peteraf, 2003). In contrast to research in the private sector, the study of capital allocation in the context of the public sector is relatively scarce. Some studies have examined the strategic role of budget allocation in the public sector by focusing on stakeholder

influence (Gomes, Osborne, en Lisboa, 2022), the role of merit and political considerations (Gilmour en Lewis, 2006), or the strategic responses following a crisis (Carmeli en Cohen, 2001). More importantly, researchers have highlighted the failure of budgeting approaches to address the major challenges of our time (Rubin, 2007; Posner, 2009), whereas little exploration has been conducted on the specific configurations of investment areas that increase organizational performance. In this research, we contribute to the very limited existing evidence on how budget allocation aimed at economic development can stimulate real returns in the form of increased entrepreneurial activity. This gap in our knowledge not only is of academic relevance but also holds important practical implications in the context of increasing pressure on governments to enhance their effectiveness in delivering improved outcomes for society (Vivona, 2023).

4.2.3. Economic capital spending and economic development

One of these improved outcomes of direct economic investments in the local economy by municipalities is related to the development of businesses (Blakely en Leigh, 2013). New businesses serve as the driving engine of modern economies, propelling innovation, employment generation, and economic stability (Acs et al., 2008; Audretsch et al., 2015). Municipalities widely recognize the pivotal role of new businesses in their economic development endeavors, with a central focus on the proliferation of these

enterprises encapsulated in the “net new firms” (NNF) metric (Fritsch and Wyrwich, 2014). This metric quantifies the net increase in the number of businesses within a specific region, which is calculated by subtracting the count of ceased operations from newly established businesses. Grounded in precise calculations rather than abstract concepts, this metric provides a definitive and quantifiable measure of economic activity within a given locality.

The success or failure of local businesses is influenced by the conditions in which they operate. Municipalities, through their decisions on capital allocation, play a significant role in shaping these conditions and consequently affecting the number of NNF. However, the specific mechanisms by which different categories of municipal economic expenditure influence the establishment of new businesses remain largely unexplored. This represents a critical gap in our current understanding of the influence of local economic strategies used by municipalities. Our work seeks to further understand the role of strategic resource allocation in the public sector by establishing connections between direct economic capital expenditures and the number of NNF within their regions.

4.3. Methodology

4.3.1. Research context

Our research is situated in the context of Dutch municipalities, which constitute one of the three levels of government in the country, alongside provincial and national governments. Municipalities bear local responsibilities, encompassing areas such as housing, traffic management, the local economy, public order, culture, and education. Additionally, they participate in executing national tasks, including spatial planning, employment and income initiatives, youth care, and the provision of care for the chronically ill and elderly. Moreover, municipalities are authorized to issue official documents such as passports, identity cards, and driver's licenses. Financially, municipalities receive funding from the national government and possess the authority to levy taxes independently (Montesquieu Instituut, 2023; Central Government, 2023). The governance structure of municipality adheres to the council–manager system (Mouritzen en Svava, 2002). Local representatives, who are members of the municipality council, are responsible for political decision-making. The board of the mayor and aldermen are tasked with implementing the council's decisions. Together, the council, aldermen, and mayor form the political organization, whereas the chief executives shoulder administrative responsibilities. The administrative organization is structured into domains, each aligned with specific municipal responsibilities. These domains include public order and

safety; social affairs and employment; care, welfare, and public health; education; spatial planning and housing; traffic and transportation; culture, sports, and recreation; and economic affairs (Prodemos, 2023).

In this study, we focus on economic affairs because they represent the main instrument of local governments for economic development. This is an area with relatively little regulatory expectations, offering corporate managers significant flexibility in allocating investments in this domain. The Netherlands serves as a good research context for unraveling the relationship between municipal resource allocation and local economic growth. The country boasts a robust infrastructure for data collection, affording us the opportunity to compile a comprehensive dataset encompassing municipal economic spending and the emergence of NNF. Each Dutch municipality exhibits unique spending allocations across similar categories, providing an interesting matrix of combinations to examine from a configurational perspective. Data for this study were sourced primarily from the Central Bureau of Statistics of the Netherlands (CBS) and the Netherlands Chamber of Commerce (KvK). These two organizations offer access to a wealth of data related to various aspects of municipalities, including intricate financial details on municipal spending categories and data on the growth of the local economy.

4.3.2. Method

This study uses a comparative case analysis methodology with a configurational approach, specifically fsQCA, which is a set-theoretic method that applies Boolean algebra to investigate complex causation through cross-case comparative analysis. Unlike traditional statistical methods, which have limitations in capturing the interactive effects of three or more antecedents on an outcome (Ragin, 1987; Ragin et al., 2008), fsQCA can identify the possible configurations of conditions that yield a specific outcome and reveal the equivalent pathways leading to the same outcome (Ragin, 2008). We posit that fsQCA can offer a more nuanced understanding of the effect of local economic development on economic activity because it explores the configurations of conditions that produce a desired outcome, rather than merely examining the net effect of a single condition. FsQCA operates on the assumption that conditions operate interdependently to influence the outcome (Rihoux en Ragin, 2008). Moreover, fsQCA accommodates equifinality and asymmetry. Equifinality means that multiple, equally effective configurations can lead to the same outcome (Pappas en Woodside, 2021). Asymmetry indicates that the conditions relevant for one configuration may not be pertinent for another configuration that leads to the same outcome (Misangyi et al., 2017). This approach is well suited to our study because it can account for the intricate nature of municipal expenditure and its impact on economic activity. FsQCA facilitates such an understanding

by exploring how various combinations of the independent variables (i.e., categories of municipal economic spending) can result in a common dependent variable (i.e., “NNF”).

4.3.3. Data and sources

Municipalities have options to allocate capital within their economic affairs units across four distinct areas, each with its own strategic focus: economic development, physical business infrastructure, business counters and business schemes, and economic promotion.

Economic development (ED): Municipalities allocate resources to foster cluster development and strengthen various sectors and networks (Alvedalen en Boschma, 2017). They achieve this through initiatives such as stimulating collaborative projects between research institutions and companies; engaging in local, regional, supraregional, and international partnerships to fortify economic structures and innovation; and cooperating with the business community and knowledge and research institutions. Additionally, they drive economic growth through the development of urban and district-oriented economic programs (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2018).

Physical business infrastructure (PBI): Municipalities invest in physical business infrastructure, which includes activities aimed at creating conducive physical conditions for various forms of business activities (Banister &

Berechman, 2001; Audretsch, Heger et al., 2015). This entails tasks such as land exploitation for business parks, development and maintenance of business locations, (re)development of business premises, restructuring and sustainability of business locations, and investments in shopping areas and strips (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2018).

Business counters and business schemes (BCBS): Municipalities allocate resources to support and provide services to businesses through business counters (Stenholm, Acs, en Wuebker, 2013). This also includes supporting and educating new entrepreneurs, attracting and facilitating new businesses, providing financial support schemes for businesses, and regulating activities such as street trade and markets (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2018).

Economic promotion (EP): Municipalities invest in promotional activities to enhance their visibility and appeal (Anttiroiko, 2015). These efforts are directed at attracting new businesses and workers to the municipality and luring other institutions to strengthen the municipality's profile. This involves investments in supralocal, regional, national, and international knowledge and economic networks (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2018).

The data on these four categories were obtained from three datasets provided by CBS, referred to as IV3 Open data Gemeente (2017, 2018, and 2019).

Variable	Abbreviation	Variable description	Data source
Economic development	ED	Euros per inhabitant spent on general policies to strengthen local economic activity	CBS, IV3 Open data Gemeente (2017, 2018, and 2019)
Physical business infrastructure	PBI	Euros per inhabitant spent on creating physical conditions for all forms of business activity	CBS, IV3 Open data Gemeente (2017, 2018, and 2019)
Business counter and business schemes	BCBS	Euros per inhabitant spent on business and entrepreneur-oriented support and service provision by the municipality	CBS, IV3 Open data Gemeente (2017, 2018, and 2019)
Economic promotion	EP	Euros per inhabitant spent on this task field include activities aimed at “putting the municipal economy on the map”	CBS, IV3 Open data Gemeente (2017, 2018, and 2019)
Net new firms	NNF	Number of started businesses per 10.000 inhabitant minus number of started businesses per 10.000 inhabitant	Handelsregister KvK 2022

Table 6 Variable description and data source

An essential aspect of the economic growth of a local community lies in the emergence and expansion of (new) businesses, which is encapsulated in the metric known as “NNF” (Fritsch en Wyrwich, 2014). In this study, we quantified local economic activity as the net count of new enterprises per 10,000 residents within each municipality, serving as our dependent variable. This calculation involves subtracting the number of businesses that have ceased operations from the count of newly established businesses within a given year. The use of NNF numbers as a measure of economic activity aligns with the dynamic nature of the local business environment and is

consistently endorsed by the OECD (2011). This approach offers a definitive and quantifiable means of assessing the level of economic activity within a specific locality (Fritsch en Wyrwich, 2014).

In our research, we derive data regarding the stopped and established businesses from the Dutch Chamber of Commerce (KvK). With these four independent and one dependent variables, we endeavor to elucidate the relationship between strategic resource allocation and economic growth and explore the potential exploitation of synergies across the categories and within specific contexts.

4.3.4. Data collection and preparation

To gauge the variables of interest, we initiated the data collection process by identifying the requisite datasets. We amassed data concerning municipal economic spending across four distinct categories for the independent variables and acquired information on the net number of new firms within each municipality for the dependent variable. These data were extracted from the comprehensive online databases provided by CBS and KvK. We harnessed the CBS municipal budget datasets to compute the average spending across four economic spending categories for 2017, 2018, and 2019.

The NNF variable was derived from the “Started businesses” and “Stopped businesses” data for each municipality, sourced from the KvK

database. This variable represents the difference between the number of newly established businesses and those that ceased operations per 10,000 inhabitants in each municipality. The data were collected for the 2022 period, considering a minimum 3-year delay period for the investments to manifest their effects.

As the Dutch municipal sector experienced a consolidation trend (Allers en Geertsema, 2016), the number of municipalities in our dataset decreased from 2017 to 2022. Our analysis relies on the KvK data from 2022, which encompasses 337 municipalities, with five municipalities excluded from the dataset. To consider the disparities in resource availability associated with municipalities of varying sizes, we segmented the dataset into three distinct subdatasets based on population size, aligning with the classifications of small, medium, and large municipalities defined by the Dutch national government (Ministerie van Sociale Zaken en Werkgelegenheid, 2019). The “0–50K” subdataset comprised small municipalities with populations ranging from 0 to 50,000 ($n = 253$). The “>50–100K” subdataset encompassed medium municipalities with populations ranging from 50,000 to 100,000 ($n = 53$). The “>100K” subdataset included large municipalities with populations exceeding 100,000 ($n = 31$). This categorization facilitated a nuanced analysis that considered the diverse contexts and conditions of municipalities of varying sizes.

4.3.5. Data calibration

In fsQCA, the conditions (ED, BPI, BCBS, and EP) and the outcome (NNF) are treated as sets, and each case is assigned memberships within these sets.

The original data representing the conditions and outcomes for each case were transformed into fuzzy membership scores ranging from 0 to 1, as detailed by Ragin (2008). This transformation is facilitated by the establishment of three key thresholds using direct calibration methods: full membership, crossover point, and nonmembership point (Ragin, 2008).

Although ideal calibration is theory-based or relies on substantive knowledge, in this specific context, no external theoretical or natural basis for calibration guidance could be identified in the data. In accordance with research practice guidelines (Pappas en Woodside, 2021), we established the thresholds for full membership, crossover point, and nonmembership at the 95th, 50th, and 5th percentiles, respectively. For the calibration process, we used the fs/QCA 3.0 software. The calibration is conducted using the formula: $x = \text{calibrate}(y, n1, n2, n3)$, where “y” represents the original variable, “x” denotes the converted variable after calibration, “n1” signifies the full membership range, “n2” indicates the crossover point, and “n3” represents the nonmembership threshold. A comprehensive breakdown of the calibration computation is provided in Table 7.

Variable	0–50K subdataset			50–100K subdataset			>100K subdataset		
	n1	n2	n3	n1	n2	n3	n1	n2	n3
ED	205	11	0	73	14	0	56	23	6
PBI	485	44	-179	336	57	0	262	37	-66
BCBS	22	4	0	59	8	0	24	7	0
EP	146	10	0	40	9	0	39	13	0
NNF	128	48	-305	139	60	26	163	87	28

Table 7 Fuzzy set membership calibrations

4.4. Data analysis

This research examines fsQCA, which is popular for integrating fuzzy sets with QCA. fsQCA is one way of finding specific configurations of causal antecedents to derive the main estimation results. This study intends to examine causal asymmetry, equifinality, and synergistic effects. When the sets of causal variables are organized to estimate the actual study results through their presence and absence, complimentary occurs. Given that the data were segmented into three distinct subdatasets, each of these groupings was evaluated independently. This procedure guarantees that the unique attributes and circumstances of each municipality size category are comprehensively considered.

4.4.1. Necessity analysis

FsQCA is a set-theoretical method that separately tests sufficient and necessary relationships. The analysis of the necessity condition, which is conducted for both the presence and absence of the condition, determines whether any form of causal condition is needed for high NNF through municipal economic spending (ED, PBI, BCBS, and EP). In our study, we

first conducted a necessity analysis to examine whether any single condition is necessary for high NNF. In line with the literature (Ragin, 2008; Schneider & Wagemann, 2012), we establish a consistency threshold for the necessity analysis at 0.9. Table 8 lists the results of the necessity analysis for high NNF. (The symbol “~” denotes the absence of the variable in question.) As each condition’s consistency is no higher than 0.9, none of the conditions alone is necessary for high NNF. In contrast, the conditions affecting NNF are systematic and complex, warranting further analysis of the synergistic influence of multiple conditions. In small municipalities, in particular, we observe a notable correlation between the absence of investment in economic development and promotion and NNF.

Net new firms Set of conditions	Large municipalities		Medium municipalities		Small municipalities	
	Consistency	Coverage	Consistency	Coverage	Consistency	Coverage
Economic development	0.612544	0.666414	0.619556	0.723404	0.504164	0.953568
~ Economic development	0.746341	0.601348	0.855111	0.570412	0.943515	0.723874
Physical business infrastructure	0.708014	0.762763	0.496000	0.690167	0.771237	0.935770
~Physical business infrastructure	0.820906	0.666290	0.845778	0.516698	0.873561	0.866657
Business counter and business schemes	0.666899	0.722264	0.527556	0.739103	0.506047	0.843350
~ Business counter and business schemes	0.762369	0.616338	0.892000	0.543313	0.872402	0.708064
Economic promotion	0.648084	0.711009	0.577334	0.662080	0.513795	0.917971
~ Economic promotion	0.747735	0.598772	0.879111	0.592570	0.944529	0.742303

Table 8 Necessity analysis for high NNF

4.4.2. Truth table

The truth table was analyzed using the fuzzy set truth table algorithm. Configurations based on two generally accepted rules, consistency and frequency, were included (Ragin, 2008; Ragin et al., 2008). We set the consistency cutoff point at 0.9 because this indicates a clear gap (Vis, 2009). This score is considered acceptable in the literature (C. Q. Schneider en Wagemann, 2012). As a result, configurations that do not meet this value (or that have a fuzzy outcome value lower than 0.50000) are indicated with a “0” in the “Outcome” column and are excluded from the minimization procedure. Because the “50–100K” and “>100K” subdatasets are medium sized, we set the frequency threshold at one case per configuration. For the large “0–50K” subdataset, we set the frequency threshold at three cases per configuration (Nikou et al., 2022). Appendix A presents the results of this process and the truth tables for each of the three subdatasets.

4.4.3. Sufficiency analysis

Fs/QCA 3.0 produces three types of solutions: complex, intermediate, and parsimonious. The intermediate solution is widely recognized as the superior approach in business-related research, outperforming both parsimonious and complex solutions (Cheng et al., 2013; Kraus et al., 2016). However, the intermediate solution, complemented by the parsimonious solution (Fiss, 2011), can distinguish between core and peripheral conditions (Douglas, Shepherd, en Prentice, 2020). Core conditions are consistently present in

intermediate and parsimonious solutions; peripheral conditions appear only in the intermediate solution. Core conditions are key ingredients because they remain in the solution even with difficult counterfactuals, whereas peripheral conditions are stripped away (Greckhamer et al., 2018). Therefore, this study used both solutions in the results. Appendix B presents the results of the intermediate, parsimonious, and complex solutions for each of the three subdatasets.

4.5. Results

Our analysis explored configurations sufficient for high NNF. For both large and medium municipalities, our analysis offers configurations that consistently link to the presence of high NNF. Once again, we encountered a surprising outcome of smaller municipalities. Our analysis did not discover any consistent configuration of investments in the four economic dimensions that led to high NNF for these smaller municipalities. Essentially, there seems to be no specific combination of expenditures across these dimensions that consistently results in high NNF for smaller municipalities. Conversely, for large municipalities, the analysis provided two configurations accounting for 48.7% of the phenomenon, and for medium municipalities, we identified one similar and one new configuration, jointly explaining 45.0% of the phenomenon.

	Large municipalities		Medium municipalities	
	Path 1	Path 2	Path 2	Path 3
ED	●			●
PBI		●	●	×
BCBS	●	●	●	●
EP	●	●	●	
Consistency	0.916388	0.895833	0.956845	0.934483
Raw coverage	0.381882	0.449477	0.285778	0.361333
Unique coverage	0.0376307	0.105227	0.0884445	0.164
Overall consistency	0.903101		0.94403	
Overall coverage	0.487108		0.94403	

Table 9 Configurations sufficient for high NNF

Full black circles denote the presence of conditions, and crossed open circles denote their absence; large symbols denote core conditions; small symbols denote peripheral conditions; and blank spaces denote conditions that are irrelevant to the outcome.

Path 2 results in high NNF among both large and medium municipalities and has the largest raw and unique coverage among the first group. PBI, BCBS, and EP are core conditions in the intermediate and parsimonious solutions.

Path 1 offers an alternative route to high NNF, with ED, BCBS, and EP as core conditions. Regardless of the absence of PBI, the configuration with ED and BCBS offers the path with the highest raw and unique coverage among medium municipalities, with ED and BCBS being the core conditions and the absence of PBI being the peripheral condition.

4.6. Discussions and contributions

Previous studies have considered the net effects of individual policies on economic activity but mostly in isolation. No research has previously considered budget strategies in their entirety, compared them, or directly

associated them with higher economic activity. This research achieves this by focusing on the four different aspects (and possible interdependencies) of municipal economic spending and linking them to the NNF within the region.

Our findings offer a set of important implications. First, our results confirm that direct economic policy does help communities grow their economies when assessed from the perspective of new net firms. This confirms current research that accentuates the role of economic development policy on economic growth (Blakely & Leigh, 2013), entrepreneurship (Obajin Olugu, 2014), and small business development (Rante en Warokka, 2013). A novel finding in this context is that although this positive impact appears to apply to large and medium municipalities, it does not hold for small municipalities. Specifically, our findings reveal (a) no configurations of economic expenditures consistently indicate high NNF and (b) a significant correlation between the lack of investment in economic development and promotion and high NNF. Although this may initially seem counterintuitive, it aligns with the nature of public sector expenditures, particularly in smaller municipalities, where budgets are often zero based rather than performance based (Rivenbark en Kelly, 2006). Consequently, allocating fewer resources to specific categories with limited impact on NNF can generate a favorable cumulative effect on the overall outcome because it may lead to increased spending in highly effective categories, and vice versa. Additionally, because

no combination of economic expenditures appears to correlate significantly with high NNF in smaller municipalities, the NNF in these areas benefit more from indirect investments in the local economy, such as housing, education, or transportation, rather than direct economic policies. Therefore, we infer that the impact of direct investments in economic activities by local governments is associated with the size of the municipality, a factor not previously addressed in earlier research.

Second, our research highlights the multifaceted nature of economic policies, revealing distinct dimensions with varying impacts. We identified four key dimensions from our dataset and confirmed their significance across various publications from numerous municipalities and the Association of Dutch Municipalities (VNG). Economic development involves municipalities allocating resources for cluster development, sector strengthening, and network building through collaborative projects, partnerships, and urban-oriented economic programs. Physical business infrastructure entails investments in land exploitation for business parks, development and maintenance of business locations, and sustainability efforts to create favorable conditions for business activities. Business counters and schemes encompass municipal support services for businesses, including counters, entrepreneur education, attraction of new businesses, financial support schemes, and regulation of activities such as street trade and markets.

Economic promotion involves municipalities investing in activities that enhance visibility and appeal, targeting businesses, workers, and institutions across local, regional, national, and international levels. Our research underscores a crucial finding that these dimensions do not have a linear impact on NNF. To optimize municipal investment outcomes, strategies must be meticulously crafted, considering the synergies or lack thereof in the right combination of investments. Our research indicates that, in many cases, these combined investments may not yield high NNF, highlighting the intricate nature of economic strategy and the substantial risk of ineffective use of taxpayers' contributions through investments with limited impact. This sheds light on why certain local economic development programs may result in minimal economic growth (Dewar, 1998).

Third, our findings present three specific strategies associated with achieving high NNF. For larger municipalities, a successful approach involves substantial investments in economic development, business centers, and business schemes, coupled with investments in economic promotion, as these elements synergize effectively. Additionally, in the case of medium municipalities, a strategy leading to high NNF entails significant investments in both economic development and promotion, without the necessity for substantial investments in physical business infrastructure. Finally, a third strategy, applicable to both large and medium municipalities,

involves elevated investments in physical business infrastructure, business counters and business schemes, and economic promotion. Contrary to traditional correlational research, our method allowed us to identify a set of strategies that have the highest direct impact on economic activity.

Fourth, our study highlights the relevance of strategic resource allocation and its relationship to municipal characteristics. As previously mentioned, our research underscores that the effectiveness of economic policy is contingent on the size of the public organization. Small municipalities aiming for heightened economic development do not appear to derive specific benefits from any configuration of economic spending— involving the four key spending domains—whereas diverse configurations prove effective for medium and large municipalities. Our work contributes to existing research that links organizational features to the impact of strategic resource allocation (Bardolet, Brown, en Lovallo, 2017) and responds to calls for more comprehensive insights connecting resource allocation decisions to organization-level performance (Maritan & Lee, 2017; Busenbark et al., 2017). It also contributes to the body of literature concerned with the concept of budget balance (Rubin, 2015). This body of literature would benefit tremendously from meaningful comparative analyses between local governments, as is the case in this study. Importantly, our study is the first, to the best of our knowledge, to directly consider the size of local governments

when investigating the link between resource allocation strategies and budget balance and performance.

Finally, we contribute to the field of public administration by demonstrating the use of fsQCA in unraveling the intricate relationships between allocated resources and outcomes. Existing research has revealed that public organizations often fail to align their strategic objectives with the corresponding resource allocation, resulting in the inefficient use of taxpayers' money (Poister en Streib, 2005). FsQCA holds significant promise in improving our understanding of what works and what does not and in addressing issues of equifinality (Pappas en Woodside, 2021) and asymmetry (Misangyi e.a., 2017) associated with resource allocation decisions in local or regional governments. This approach works especially well because it allows us to extract value from the standardized accounting and reporting principles within the institutionalized context of the local government. We used fsQCA to evaluate the influence of economic development-focused expenditures, but its applicability spans all categories. This provides avenues to investigate relationships within and between expenditure categories, presenting a novel method to unravel the predominant “budgeting trade-off” dilemma faced by the public sector—a long-standing struggle in the literature (Posner, 2009). This not only enhances our understanding of resource allocation dynamics

but also contributes to optimizing the value derived from taxpayer contributions.

4.7. Limitations and future research directions

Our research was able to clarify which configurations of municipal economic capital spending strategies are most effective in promoting entrepreneurial activity at the local level, but it is essential to acknowledge the constraints of this investigation. First, our analysis of economic expenditures relies on an average across several years. However, it does not capture the impact of changes and developments over time, which could be significant as the patterns of local government spending and their impact on entrepreneurship may vary over the years due to factors such as economic fluctuations, political decisions, and societal trends. Therefore, future studies should explore these dynamic shifts using time series data, offering a comprehensive understanding of how the interplay between local government spending and entrepreneurial activities evolves over time. Second, although the fsQCA method is proficient at handling complex, nonlinear relationships, it operates inherently with binary distinctions—conditions are either present or absent. This binary approach, although advantageous in terms of clarity, may oversimplify the relationships under scrutiny. The impact of the conditions may vary in intensity, and the binary lens of fsQCA might obscure these gradations. Subsequent investigations should consider the use of different

methodological techniques capable of detecting such variations, allowing for a more nuanced understanding of the relationships at play. Moreover, although the findings of this study support generalizability, they are rooted in the Dutch context and may not seamlessly apply to other geographic settings due to variations in institutional frameworks, cultural traditions, and economic circumstances. Although the insights gained here may be relevant in other contexts, their direct transferability may be limited. Therefore, future research should replicate similar studies in various geographic settings to assess the universality or specificity of the identified solutions, thus providing a more comprehensive understanding of the role of municipal spending in promoting economic development across diverse environments. Finally, this study, despite covering a wide spectrum of municipal expenditure categories, does not encompass all potential determinants that influence local economic development. Factors such as societal values, community networks, or the effectiveness of local institutions, which can significantly impact entrepreneurial initiatives, were not included in the analysis. Their omission may lead to a less comprehensive portrayal of the factors influencing entrepreneurship. Consequently, future research endeavors should strive to incorporate these additional elements, deepening our understanding of the entrepreneurial landscape and aiding municipalities in developing more holistic strategies to stimulate entrepreneurship.

Appendix A: Truth tables

Truth table large municipalities (dataset >100K)

ED	PBI	BCBS	EP	number	NNF	Raw consist.	PRI consist.	SYM consist.
0	1	1	1	2	1	0.921095	0.566372	0.581818
1	0	1	1	1	1	0.919386	0.67939	0.679389
1	1	1	1	1	1	0.908088	0.707603	0.707602
0	0	1	1	3	0	0.889894	0.406504	0.420168
0	1	0	1	1	0	0.86963	0.260504	0.260504
0	0	0	1	2	0	0.852103	0.335366	0.335366
0	1	1	0	1	0	0.848752	0.248175	0.248175
0	1	0	0	1	0	0.844706	0.349754	0.349754
0	0	0	0	3	0	0.843074	0.355556	0.366973
1	1	1	0	1	0	0.834163	0.421966	0.421966
0	0	1	0	2	0	0.828	0.085106	0.0902252
1	1	0	0	1	0	0.823529	0.254777	0.254777
1	0	0	0	3	0	0.794466	0.395349	0.403162
1	0	0	1	3	0	0.790977	0.371041	0.376147
1	0	1	0	1	0	0.789127	0.260116	0.260116

Truth table medium municipalities (dataset 50–100K)

ED	PBI	BCBS	EP	number	NNF	Raw consist.	PRI consist.	SYM consist.
0	1	1	1	2	1	0.959502	0.509435	0.509435
1	0	1	0	2	1	0.949631	0.677165	0.677166
1	1	1	1	1	1	0.943248	0.0645158	0.0714283
1	0	1	1	1	1	0.926254	0.0384629	0.0384629
0	1	1	0	2	0	0.887381	0.14433	0.150538
1	1	0	0	2	0	0.860825	0.18797	0.18797
0	1	0	1	4	0	0.857143	0.265823	0.302159
0	0	1	0	2	0	0.852294	0.247664	0.247664
0	1	0	0	3	0	0.846228	0.299559	0.322275
0	0	0	1	2	0	0.81631	0.238908	0.243055
1	0	0	0	7	0	0.81203	0.421053	0.421053
0	0	1	1	4	0	0.811434	0.0309281	0.0322583
1	0	0	1	4	0	0.780441	0.161172	0.161765
0	0	0	0	11	0	0.73419	0.290809	0.309038

Truth table small municipalities (dataset 0–50K)

ED	PBI	BCBS	EP	number	NNF	Raw consist.	PRI consist.	SYM consist.
1	1	0	0	5	1	0.996799	0.936455	0.936454
1	1	1	1	3	1	0.995139	0.545458	0.600004
1	1	1	0	4	1	0.994873	0.842521	0.914528
1	0	0	1	8	1	0.991719	0.68868	0.760413
1	0	1	1	5	1	0.991575	0.527275	0.527273
0	1	1	1	6	1	0.991169	0.756252	0.756249
1	0	1	0	5	1	0.990762	0.761585	0.766665
0	1	0	1	7	1	0.990265	0.775591	0.810699
0	1	0	0	15	1	0.988231	0.865127	0.936842
0	1	1	0	9	1	0.987837	0.821077	0.905404
1	0	0	0	17	1	0.985021	0.797778	0.939793
0	0	0	1	25	1	0.968612	0.541767	0.621917
0	0	1	1	18	1	0.965825	0.381891	0.464116
0	0	1	0	23	1	0.963091	0.638889	0.736656
0	0	0	0	58	1	0.9528	0.712253	0.874126

Appendix B: Intermediate, harmonious, and complex solutions

Solutions large municipalities (dataset >100K)

--- COMPLEX SOLUTION ---

frequency cutoff:	1			
consistency cutoff:	0.908088			
		raw	unique	
		coverage	coverage	consistency
		-----	-----	-----
ED*BCBS*EP	0.381882	0.0376307	0.916388	
PBI*BCBS*EP	0.449477	0.105227	0.895833	
solution coverage:	0.487108			
solution consistency:	0.903101			

--- PARSIMONIOUS SOLUTION ---

frequency cutoff:	1			
consistency cutoff:	0.908088			
		raw	unique	
		coverage	coverage	consistency
		-----	-----	-----
ED*BCBS*EP	0.381882	0.0376307	0.916388	
PBI*BCBS*EP	0.449477	0.105227	0.895833	
solution coverage:	0.487108			
solution consistency:	0.903101			

--- INTERMEDIATE SOLUTION ---

frequency cutoff:	1			
consistency cutoff:	0.908088			
Assumptions:		raw	unique	
		coverage	coverage	consistency

	-----	-----	-----
ED*BCBS*EP	0.381882	0.0376307	0.916388
PBI*BCBS*EP	0.449477	0.105227	0.895833
solution coverage:	0.487108		
solution consistency:	0.903101		

Solutions medium municipalities (dataset 50–100K)

--- COMPLEX SOLUTION ---

frequency cutoff:	1		
consistency cutoff:	0.926254		
	raw	unique	
	coverage	coverage	consistency
	-----	-----	-----
ED*~PBI*BCBS	0.361333	0.164	0.934483
PBI*BCBS*EP	0.285778	0.0884445	0.956845
solution coverage:	0.449778		
solution consistency:	0.94403		

--- PARSIMONIOUS SOLUTION ---

frequency cutoff:	1		
consistency cutoff:	0.926254		
	raw	unique	
	coverage	coverage	consistency
	-----	-----	-----
ED*BCBS	0.380444	0.166222	0.934498
PBI*BCBS*EP	0.285778	0.0715556	0.956845
solution coverage:	0.452		
solution consistency:	0.94429		

--- INTERMEDIATE SOLUTION ---

frequency cutoff:	1
consistency cutoff:	0.926254

Assumptions:

	raw	unique	
	coverage	coverage	consistency
	-----	-----	-----
ED*~PBI*BCBS	0.361333	0.164	0.934483
PBI*BCBS*EP	0.285778	0.0884445	0.956845
solution coverage:	0.449778		
solution consistency:	0.94403		

Solutions small municipalities (dataset 0–50K)

--- COMPLEX SOLUTION ---

frequency cutoff: 3

consistency cutoff: 0.9528

	raw	unique	
	coverage	coverage	consistency
	-----	-----	-----
~EP	0.944529	0.0160766	0.742303
~PBI	0.873561	0.00253451	0.866657
~ED	0.943515	0.0105729	0.723874
BCBS	0.506047	0.000217259	0.84335
solution coverage:	0.994641		
solution consistency:	0.645928		

--- PARSIMONIOUS SOLUTION ---

frequency cutoff: 3

consistency cutoff: 0.9528

NO PARSIMONIOS SOLUTION

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 3

consistency cutoff: 0.9528

Assumptions:

Fostering Innovation in Public Sector Organizations

	raw	unique	
	coverage	coverage	consistency
	-----	-----	-----
~EP	0.944529	0.0160766	0.742303
~PBI	0.873561	0.00253451	0.866657
~ED	0.943515	0.0105729	0.723874
BCBS	0.506047	0.000217259	0.84335
solution coverage:	0.994641		
solution consistency:	0.645928		

CHAPTER 5

**WE HAVE A MANDATE TO
INNOVATE. WHAT NOW? A STUDY
OF INNOVATION CHALLENGES IN
SELF-MANAGED TEAMS**

5. WE HAVE A MANDATE TO INNOVATE. WHAT NOW? A STUDY OF INNOVATION CHALLENGES IN SELF-MANAGED TEAMS

ABSTRACT

Self-managed teams (SMTs) have been a vehicle for organizations to achieve greater agility and innovation. Originally used in software development teams, agile methodologies are now widely applied across various sectors and industries. However, it remains unclear how the transition to agile structures can be managed in teams with inherently different tendencies and focuses. The case of a Dutch public organization that transitioned to a fully decentralized, SMT-based structure across a heterogeneous set of units, offers a unique opportunity to study variations in challenges and innovation outcomes despite a similar top-down mandate for all teams to innovate. On the basis of the case analysis, we derive a typology that indicates that the innovation performance of SMTs during such a transition is contingent on their ability to manage the tension of (1) complying with existing rules and regulations while (2) pursuing groundbreaking new solutions and services. Additionally, our analysis reveals four main strategies that managers can use to shift teams to a different operating model within the framework, if necessary. With its findings, we hope that our study will provide specific guidance for managers leading the transition to an agile or decentralized way of working while maximizing their teams' optimal performance.

5.1. Introduction

Organizations have been progressively gravitating toward SMTs to harness greater agility and innovation. Although applied in different contexts and sectors over the past decades, the rise of agile and other development practices in the technology sector has resulted in an increased popularity and implementation of SMTs in organizations (Grass et al., 2020; Cooper & Sommer, 2016). Previous research explains the innovation challenges in SMTs (Annosi, Foss, en Martini, 2020) and explains this variation by examining the organizational context in which such teams are embedded (Ahmadi et al., 2021; Ahmadi et al., 2017; Baer, 2012) and emphasizes the role of leadership in mitigating these challenges (Khanagha et al., 2022). This underscores that adoption of a self-managed approach unfolds over a long time (Ciriello et al., 2022; Tripp & Armstrong, 2018) and requires a considerable shift in a team's mindset and culture (Conboy, 2009).

However, although we know about the determinants of success in SMTs, extending their application to more diverse and heterogeneous teams presents a plethora of unresolved challenges not covered by previous research (Ågren et al., 2022). The contingency perspective on team innovation research (Somech, 2006), particularly in the SMT context (Grass, Backmann, en Hoegl, 2020), contends that organizational practices must adapt on the basis of team level and external factors. Consequently, when transitioning to SMT structures

with distinct tendencies and focuses, it is pertinent to consider variations across teams. The heterogeneous nature of such teams could introduce challenges related to compliance, innovation pursuit, and alignment with the new structure. This discrepancy and the potential for misalignment suggest a critical gap in our understanding from previous research that has been typically focused on homogeneous groups of teams.

We turned our attention to Hollands Kroon, a Dutch municipality that ventured into a large-scale transformation, transitioning from a hierarchical structure to becoming the world's first documented self-managed municipality. This evolution was not only administrative: the municipality radically altered its service delivery by shifting from traditional counter-based civil services to advanced digital and home delivery methods, even going to the extent of relinquishing city offices. This unique transition is emblematic of the challenges and potential transformations that organizations can encounter if they widely adopt agile practices across units and functions to stimulate innovation. Given the profound nature of this change and the diverse units within a municipality, Hollands Kroon serves as fertile ground to delve deep into our research question: *What are the dynamics that produce a heterogeneous innovation response among SMTs during the transition to a self-managing paradigm and what strategies can leaders employ to manage the emerging tensions?*

Drawing from the optimal distinctiveness theory (Brewer, 1991), which contends that entities, be they individuals or groups, navigate a tension between uniformity (conformity) and differentiation (uniqueness), we provide a fresh lens on the challenges SMTs encounter when aiming to innovate. Brewer's theory indicates that there exists an optimal space where entities effectively balance these competing needs, given their own mission. In the context of our study, innovation can be viewed as an act of differentiation, a way for teams to stand out and introduce novel solutions, whereas compliance reflects an act of uniformity, aligning with established norms and regulations. However, it is pivotal to grasp that the "optimal" blend between innovation and compliance is not universal. Instead, it varies on the basis of the unique attributes and pressures each team faces. Hollands Kroon based its radical innovation strategy on a narrative built around "guts" (innovation) and "trust" (compliance). We maintain these two dimensions and delineate a typology that captures the variability around them. Our framework underscores the distinct routes teams traverse between their drive to innovate and the need to comply, urging organizational leaders to understand and address these nuances during transformative periods.

Our primary contribution is to the literature on team innovation and self-managed and agile teams (Grass et al., 2020) by investigating contingencies inherent to teams that are not developed because of exogenous

forces. We argue that SMTs, although having the clear advantage of being flexible and adaptable, may not uniformly respond (well) to a mandate to innovate. We explain how competing forces push teams into one of four archetypical modes of operation, as revealed by our analysis. Our framework maps out these forces, and we elaborate on how teams dealt with internal dynamics in their quest for higher innovation, and how leaders interacted with teams, mitigating some of the challenges they faced. As such, we extend our understanding of leadership in the era of flattened organizations (M. Schneider, 2002).

Building on our findings, we offer a nuanced approach to optimal distinctiveness, which has historically been conceptualized primarily at the firm level (Zhao et al., 2017). Recognizing the increasing importance of intrafirm heterogeneity and the distributed nature of innovation in today's complex organizations, we posit that the "optimal" balance between compliance and innovation is not a one-size-fits-all notion. Rather, it exhibits variations across different teams within the same organization, influenced by their specific contexts, experiences, and interpretations. This nuanced understanding of optimal distinctiveness reflects that teams, even within a single organization, may perceive and react to the dual pressures of innovation and compliance distinctly. The diversity in their responses, their relative successes, and the diverse approaches that leaders might use to guide teams

through challenges provide us with enriched insights. Such insights contribute significantly to the existing literature on how to effectively structure, manage, and strategically navigate the innovation process (Cooper, 1998; Spanjol et al., 2011; Schultz et al., 2013; Kaufmann et al., 2021). By shifting our lens to this microlevel of teams, we can provide a more granular understanding of innovation dynamics within organizations.

5.2. Theoretical background

5.2.1. Transitioning to a self-managing paradigm

Research on SMTs has advocated flexibility and adaptability, making them an effective way of organizing. Most researchers agree that innovation and creativity are key areas that determine an organization's success or failure (Anderson et al., 2014; Bowen et al., 2010; Friedrich et al., 2010; Janssen et al., 2004). Teams often become the locus of innovation (van Knippenberg, 2017; Weiss et al., 2018) because they can generate creative ideas and put them into action (Hülshager, Anderson, en Salgado, 2009). Therefore, the transition from a traditional hierarchical structure to a decentralized mode of work characterized by SMTs has become a critical avenue for organizations seeking to boost innovation (De Dreu en West, 2001).

Unfortunately, it does not come without challenges. Initially, organizations face cultural resistance because the entrenched norms and power

dynamics within hierarchical structures often clash with the principles of self-management (Dougherty en Dunne, 2011). Effective change management strategies, including clear communication, leadership support, and employee involvement, have been identified as crucial in overcoming this hurdle (Kotter, 1995). Additionally, the shift toward SMTs can lead to role ambiguity, as employees are expected to take on broader responsibilities and make autonomous decisions (Hackman en Wageman, 2005). Therefore, skill development and training programs to equip employees with the necessary competencies for effective self-management are often deemed necessary (Edmondson, 1999). Decentralized structures can also lead to increased interdependence among teams, requiring robust mechanisms for coordination and collaboration (Denning, 2018). Software teams using agile frameworks such as Scrum or Kanban are better able to address this challenge by providing structured processes for team interactions (Schwaber en Sutherland, 2017); however, other functional teams such as innovation teams must develop alternative mechanisms for addressing this issue (Edmondson & Nembhard, 2009). Regrettably, such emerging coordination mechanisms can rely on peer pressure to govern certain behaviors, essentially stifling innovation (Khanagha et al., 2022). Finally, traditional performance metrics designed for hierarchical structures may not align with the goals of SMTs (Morgeson et al., 2013). Therefore, organizations must develop new performance evaluation methods

that emphasize team-based accomplishments and individual contributions within the context of collective goals (Deci en Ryan, 2000).

The challenges associated with innovation become even more pronounced when considering the adaptation of methodologies such as agility across various industries and diverse teams. Although SMTs are often rooted in more homogeneous settings, such as software development, their reach extends far beyond finding relevance in many sectors with teams of diverse functions and priorities (Somech, 2006). Pervasive in the literature is the acknowledgment of the unique challenges that different teams face concerning innovation, highlighting that there is not a one-size-fits-all solution (Ahmadi, Jansen, en Eggers, 2021). A team's specific function and focal area are pivotal determinants of innovation-related hurdles. For instance, R&D teams (Bond III en Houston, 2003), which are chiefly responsible for technological breakthroughs or minor updates, confront technical feasibility and resource allocation challenges. Marketing teams may grapple with gauging market receptivity to innovative concepts (Suh en Badrinarayanan, 2014). Meanwhile, operational teams could be stymied by well-established processes and aversion to change (Hull Kristensen en Lotz, 2011). As such, delving deep into the relationship between a team's role and its innovation challenges becomes essential, emphasizing the necessity for tailored strategies to encourage

innovation across diverse team environments (Grass, Backmann, en Hoegl, 2020).

5.2.2. Role of leadership in guiding the transition to self-managed teams

The transition from a hierarchical to a decentralized structure characterized by SMTs is a pivotal shift in organizational dynamics. Leadership plays a crucial role in facilitating this transition as it sets the tone, provides guidance, and fosters an environment conducive to SMT success. Leadership in the context of SMTs begins with the establishment of trust and psychological safety. When team members feel secure in their ability to voice opinions, propose ideas, and make decisions, they are more likely to embrace the autonomy that self-management entails (Edmondson, 1999). Similarly, leadership is instrumental in articulating a clear vision and purpose for SMTs as the organization adapts to a new structure (Uhl-Bien en Arena, 2018). This clarity of purpose serves as a guiding light for teams as they navigate their newfound autonomy. Furthermore, leaders play a pivotal role in promoting a culture of continuous learning and development within SMTs. They provide resources, mentorship, and opportunities for skill enhancement, enabling team members to adapt to their evolving roles and responsibilities (Edmondson et al., 2001). This investment in team members' growth fosters a sense of ownership and commitment to the self-management model. Additionally, leadership is responsible for identifying and removing barriers that impede SMT progress.

Leaders serve as advocates, ensuring that teams have the necessary resources, information, and support systems in place (Rigby, Sutherland, en Takeuchi, 2016). By addressing impediments, leaders empower SMTs to operate efficiently and effectively. Ultimately, leaders must navigate the delicate balance between granting autonomy and maintaining accountability. Leaders establish clear expectations and key performance indicators while allowing teams the freedom to innovate and make decisions. This equilibrium ensures that SMTs operate within the framework of organizational objectives.

5.3. Research method

Hollands Kroon undertook a large-scale internal reorganization around agile principles across units and functions to boost their innovation capacity. Although there is a growing number of organizations that embrace agile methods outside the software development context, very few have undertaken innovative change on such a scale as our research subject. We reasoned that this extreme case (Eisenhardt, 1989; Pettigrew, 1990) would help to elaborate a grounded theory (Glaser en Strauss, 1967) and add to our understanding of the underlying phenomenon. Because of preexisting professional relations, we received unusually strong access to data (Eisenhardt en Graebner, 2007). This allowed us to build an information-rich case, but in a realistic manner (Miles en Huberman, 1994).

Our empirical data were collected through intensive, longitudinal field-based research. We performed an iterative process of simultaneous data collection, data analysis, theory building, and ongoing decisions about which data should be collected next (Suddaby, 2006). Initially, our research focused on understanding how such levels of innovation occurred within a public sector organization. As our research proceeded, we started to understand how the SMTs had played a crucial role in these changes and identified major differences between the teams. For this reason, we decided to drill down to understand the different dynamics at play within the SMTs and focused on the innovative nature (or absence) per team to understand why some teams became innovators, while others did not.

5.3.1. Case description

Hollands Kroon is a Dutch municipality that serves approximately 50,000 inhabitants. As is typical, many municipal products, tasks, and processes are determined by national legislation, and formal oversight is managed by multiple agencies and institutions. Additionally, expectations are shaped by highly influential field associations, and normative rules are deeply rooted as Dutch civil servants take an oath by which they promise to act, among other things, cautiously and be reliable and incorruptible, making risky innovations unnatural. However, in this complex context, Hollands Kroon was able to

execute substantial innovations, which were initiated with a new strategic plan called “The Point 2018” at the end of 2013.

The plan was presented as a [movie](#) that included, among other things, a 4-year transition from a departmental structure to SMTs and the development of the “smartest” civil service in the Netherlands. In 2014, the first eight SMTs were onboard, followed by another 10 in 2015. In 2016, the rest of the organization transitioned from departments to SMTs, a year ahead of schedule. During the same period, Hollands Kroon could initiate major innovations. Among other things, Holland Kroon was the first to introduce home delivery of all its civil services, such as passports, driver’s licenses, and birth certificates, and abandoned the traditional city hall and its physical counters. It also innovated the way it organized social services and the maintenance of its public domain, and it was the first known municipality to fully transition to the cloud. Innovations at Hollands Kroon were broadly recognized. Over 300 organizations visited Hollands Kroon to learn about the organization in these years, and in 2016 Hollands Kroon was a World Smart City finalist at the Smart City Expo. At the beginning of 2017, the most influential Dutch field publication for the government conducted a six-part series about the transformation.

5.3.2. Data collection

Our inductive, theory-building approach was ongoing, moving back and forth between our data collection and the emerging theoretical understanding of leadership actions and team dynamics (Miles & Huberman, 1994). We conducted two rounds of data collection using a combination of interviews and archival data. The data sources were used to build an understanding of how members of teams perceived their transition and how teams evolved over time.

Interviews	Number	
Team members	52	Appendix A
Organizational plans and reports	Number	Exemplary units
Strategic and execution plans	16	Balance 2018; evaluation of Balance 2018
Financial reports	18	Annual reports; program budgets
Employee and customer research	18	Employee satisfaction report
HR reports	4	Reports about in and outflow of employees
Political reports	20	Council reports
Visual data	Number	Exemplary units
YouTube videos	69	The Point 2018
Flyers and brochures	12	Infographic of strategic vision
Corporate presentations	2	“How does Hollands Kroon work”
Media	Number	Exemplary units
Book “Pole position”	1	Book written by the first board
National	5	Articles in the national paper
Local	21	Articles in the local paper
Professional	20	Articles in the field publications

Table 10 Overview of data sources

The first round of data collection was conducted at the end of 2019 and the beginning of 2020. Semistructured interviews were conducted to learn how employees viewed and responded to changes happening at Hollands Kroon. This group was homogeneously sampled (Saunders, Lewis, en Thornhill, 2003) and comprised employees who had been around since the early years.

Furthermore, we requested informants from different teams to observe if the teams had reacted differently. During these interviews, we learned how teams had reacted in various ways; some seized on the possibilities of self-management to initiate innovation, whereas others struggled or at least did not embrace innovation. This led us to initiate a second round of purposeful sampling interviews (Bernard en Bernard, 2013) at the beginning of 2021. We selected direct team members of the informants from the previous round to cross-check the observations and interpretations within the teams. In two instances, a direct team member was unavailable. In total, we conducted 52 interviews (Appendix A).

5.3.3. Data analysis

We relied on a broad range of data sources and multiple iterations between our data and the emerging interpretive framework (Miles & Huberman, 1994). The analysis proceeded in stages. We first constructed a timeline and developed a comprehensive understanding of the overall case by reading and coding the initial interviews and archival materials. This stage is equivalent to “open coding” as performed in grounded theory (Strauss en Corbin, 1990). At this time, we have also begun identifying quotes from our informant. As our coding progressed, our labels became more refined (Miles en Huberman, 1994) and focused on the concept of SMTs, and how teams prioritize the struggles they face, and how leaders become involved. The most representative quotes were

captured in a separate quotation database (Appendix B). We refined theoretical arguments by going back and forth between first- and second-order codes and aggregate theoretical dimensions (Gioia et al., 2013). We brainstormed alternative conceptual frameworks until we agreed, which comprised four aggregated dimensions (Langley et al., 2013).

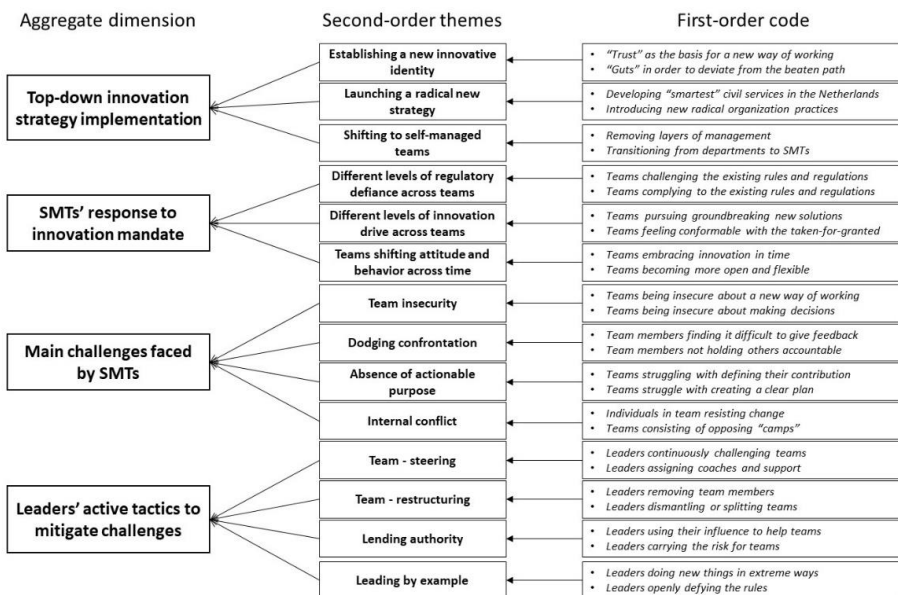


Figure 5 Data structure

5.4. Findings

The board wanted the SMTs to truly embrace innovation. They wanted to empower teams closely connected to their constituents to search for new ways to create value and try new things unhindered by bureaucracy. Among other things, they promoted a new set of core values distilled in the notions of “guts”

and “trust,” urging employees to think outside the box and be risk takers and to challenge the status quo while having the organization’s full support. In other words, they were encouraged to embark on radical change and would be supported even if that meant defying existing rules and regulations. Still, our analysis revealed that, initially, the teams at Hollands Kroon did not prioritize innovation over operations or regulatory compliance despite the clear mandate to do so. This is something that was achieved over time for some teams, whereas several teams continued not to strive to be innovative.

Below, we introduce our framework that portrays four archetypes of teams that emerged after the transition to SMTs. We borrow from the taxonomy of alignments used in popular adventure role-playing game (RPG) systems¹ and adapt it to the two key dimensions of an organization’s strategy. Alignments are generally moral and personal attitudes that define RPG characters' personalities and identities. Thus, characters can be a combination of good, neutral, or evil in terms of altruism, respect for life, and a concern for the dignity of sentient beings and lawful, neutral, or chaotic, representing the extent to which they respect authority and honor tradition or, instead, trust their conscience, resent being told what to do, and favor new ideas over tradition. We adapt the first dimension to represent the extent to which teams adopted

¹ Cook, M., Tweet, J., & Skip, W. (2003). *Players handbook, Core Rulebook I v.3.5*. Renton: Wizards of the Coast, inc.

the mandate for radical change and out-of-the-box thinking. Teams in this study demonstrated either a good or neutral disposition against innovation. No evil disposition (e.g., actively sabotaging innovation) was observed. Similarly, we adapt the second dimension to the extent to which teams follow the mandate to challenge existing rules and regulations in their quest for innovation. We observed chaotic teams, which were convinced the rules needed to be changed, and lawful teams, which fully defended existing rules and regulations. Thus, in our case, we ended up with four team archetypes (instead of the possible nine combinations), which apply to our case. We present them in a 2×2 typology. On the X-axis, innovativeness is measured on a neutral–good scale. This represents the guts narrative as put forward by the top management, i.e., the demand to be entrepreneurial and come up with original ideas. On the Y-axis, we measure the demand for reconsidering rules and regulations and challenging the status quo with the support of the top management. This represents the trust narrative and is measured in a lawful–chaotic scale.

As such, we derive four “classes” or archetypes of teams: (a) The Crusaders (lawful good) are lawful but willing to innovate and initially avoid challenging the rules even at the expense of daring exploration and innovation. (b) The Magistrates (lawful neutral) are lawful and simultaneously find it difficult to justify the need for radical innovation. These teams show limited intention to break the rules. They mainly advocate the continuation of the old

ways of work by prioritizing day-to-day operations. (c) The Revolutionists (chaotic good) fully accept the new vision and are willing to not only push the boundaries of what is acceptable but also pursue radical innovation. (d) The Bohemians (chaotic neutral), although not concerned with regulatory compliance and open to the idea of challenging the rules, face difficulties in how to approach groundbreaking innovation, for example, because of diverging internal viewpoints.

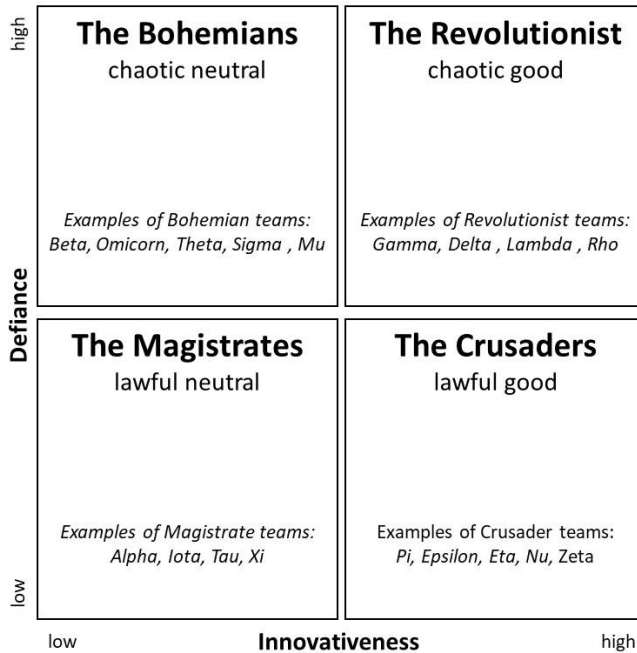


Figure 6 2x2 typology of the SMT's response

5.4.1. The Crusaders

These teams managed to become innovative even though they operated in functions that are inherently highly regulated (e.g., accounting and legal). They push for changes while playing by the book. They managed to achieve this by building confidence over time and pursuing small wins.

For example, several teams performing purchasing or financial tasks consider the regulative norms and rules as their guiding principles. They acknowledge that these principles might conflict with what Hollands Kroon is trying to achieve, but still, but they still find them core to their success. In the Netherlands, most civil servants swear an oath by which they promise to act, among other things, cautiously and be reliable and incorruptible. Although this oath was abandoned at Hollands Kroon for a long time, many civil servants feel that above all other things, they are responsible for cautiously obeying the rules even if the Hollands Kroon philosophy calls for “people over systems.” One of the team members (ID nr 18) of team Epsilon, responsible for purchasing, tells us:

When I talk about our own team, we always strive to be innovative. And then you also need to get creative with it. We have a legal framework, and of course, we simply have to comply with that. But then you start looking at how we can use the maximum space within that framework.

Learning to use this freedom is not always easy. SMTs are accountable for their own decisions, which is the opposite of what most civil servants at Hollands Kroon were used to. The civil servants only knew the supervisors to

be making the decisions. The members joining the SMTs indicated that moving from a plan to actual execution was scary. Questions such as “Is this the right thing to do?” or “Can we deliver this?” created uncertainty, and teams found it difficult to commit, not having a manager to fall back on. As our research shows, many new SMTs started with a lack of confidence. Team Gamma describes how they overcome their initial feelings of insecurity.

Teams that became successful tell us how confidence in themselves grew over time, as they had some success or did not experience major setbacks. This sense of confidence made it easier for these teams to act on innovative ideas. As an informant (ID nr 38) of team Pi puts it:

We wanted to do this differently, but you do wonder “Are we doing the right thing”. I think that at some point, you have to make a decision, or else you’ll keep going back and forth and especially early on we lacked confidence to do so and still needed [general director, ID nr 3] and [director, ID nr 5] to make the decisions for us.

As our research shows, many SMTs started from a state of “insecurity” because of their new responsibilities and the absence of management. Among some teams, their confidence developed over time and was supported by successes. In other cases, it was squashed by a perceived lack of success. Our findings showed a messy journey, but as an informants (ID nr 17) of team Epsilon describes:

If you look back, you can see that we really evolved. First, we really struggled to make decisions, but people grow, and we became better able to make independent choices. The confidence in ourselves grew and we learned to trust that this would turn out in a positive way. Now we have more faith in ourselves, in our own abilities and that things will not go wrong. We had to learn to just make those choices and just to act

as we always had acted, only without those managers. But of course, that didn't happen overnight. That went in small steps.

As our research shows, teams might have innovative ideas, but the willingness to execute requires confidence from teams, which, especially early in the new organizational form, can be lacking because of newness and inexperience. However, as teams evolve, they can be innovative, like team Eta that moved Hollands Kroon into the cloud. A team member (ID nr 19) describes:

We found it [the cloud transition] difficult because we always try to do everything as well as possible and so many things were unsure. But I think the process of moving to the cloud and going to Azure [Cloud from Microsoft] has had a significant impact. So I am very proud of that project.

Although team Eta did not feel comfortable defying rules, they were able to use the leeway available to innovate in a major way.

5.4.2. The Revolutionists

These teams managed to become innovative using gray areas, bending rules, and challenging the status quo. Not all attempts of this kind were successful, but many times the results were spectacular. These teams believed that the current bureaucratic systems were not creating good public value and that innovations were needed to change the institutions. These teams focused their attention on finding new ways of doing things or offering new services. As a member (ID nr 15) of the internal consultancy agency within Hollands Kroon says:

We are not a team of people, who are stuck in one place. We have people who look around and who want to know what is going on in the world and how we can use this at Hollands Kroon. I really think we are a great reflection of what Hollands Kroon is trying to be. It might be stupid to say this about ourselves, but I think we integrate all Hollands Kroon core values [including Guts and Trust] within our team in a really good way.

Several teams acknowledge that they are innovative or at least have the guts to try new things. Many of these teams were also involved in some of the important innovations of Hollands Kroon, such as the development of different home delivery services, an Uber-like maintenance app for citizens, and innovative collaboration with the private sector to improve care for vulnerable people. A capacity that these successful teams developed was to turn internal confrontations into a vehicle for the successful execution of innovation. A member (ID nr 28) of one of the innovative teams describes the dynamics in her team as follows:

We keep challenging each other. If we're discussing things within the team and someone says "No, this isn't possible", the next question is often "But why not?" and if somebody says "Because it is against the rules" it is likely that somebody will say "but you can also interpret that in another way. So perhaps it is possible?" So, that is now part of our DNA. We also search for new colleagues who dare to push boundaries and who do not strictly follow the rules.

In addition, other teams that contributed to the innovations at Hollands Kroon acknowledge that their members are used to giving each other feedback, and as one informant says, "we have the characters in our team that are able to accept feedback from others" (ID nr 14). A director (ID nr 5) highlights the importance of internal confrontation within Hollands Kroon to be innovative:

We constantly need the confrontation in the organization with people who think differently, because we are not interested in how we used to do things. We want to know how to improve a service. How can we make the experience feel different for residents, companies, and institutions? I think these kinds of confrontations happen at Hollands Kroon and if we would stop doing this the [institutional] system would take over again.

In contrast, less successful teams shy away from internal confrontation, and the board is aware of this. To mitigate this, they tried to stimulate their colleagues to give more and better feedback to each other by introducing a course “giving feedback for teams” at the Hollands Kroon Academy and launching a mobile app for giving feedback. However, teams report that they continue to dodge internal confrontation. For example, they say that “we find it hard to address disappointing results” (ID nr 21), “difficult disagreements can linger for a long time” (ID nr 39), and “giving feedback is really painful for us” (ID nr 32). Our observations show that the more innovative teams saw internal confrontations as something logical, whereas the less innovative teams described it as a painful process, which they often ignored. Many teams admit that in the context of self-management, this task is especially difficult. Giving feedback was often still seen as a management task that made team members feel uncomfortable.

5.4.3. The Bohemians

Despite their relative limited dependence on preexisting regulatory pressures, these teams did not embrace the new vision of the organization and instead

focused on their original job demands. An informant from team Omicron (ID nr 36) reports:

Especially in the beginning, you had to focus mainly on innovating things. That was the impression I had. And yes, that meant being less involved in the substance of our real work, even though we already had our hands full with that. I mean, that's what it's about, isn't it? It's about the substantive work. I understand trying to stimulate change, but how?

Other teams share similar stories and explain how, for example, they do not have the time for innovation because of demands related to their “core business” (ID nr 29), again reflecting that innovation is for them secondary compared with their day-to-day tasks.

Many of these teams, while not deeply connected to existing regulations and not against the innovation strategy, failed to discover an actional purpose. The tasks of teams at Hollands Kroon vary widely. Some teams have administrative tasks, whereas others take care of parks, some assess plans for new buildings, and others decide the amount of taxes citizens have to pay. How innovation can create new public value is very different for each team. One of the most important challenges for many teams was finding a shared sense of purpose for their unique contribution related to their mandate. One informant (ID nr 21) describes her team Theta regarding another team as follows:

I do think that other teams like [O & O] are more of a driver for change, and we tend to later align with them, like in the development of chatbots, for example. That could have come from our team, but we are more focused on the day-to-day operations than

on true innovation. And I think we prioritize safety more, ensuring that we really know what we can further develop, and because of that we find it difficult to decide on a course.

Hollands Kroon designed a team onboarding process to help teams define their own purpose. This sensemaking process took a minimum of 3 months, but in practice, it took many teams years (if ever) to find a shared purpose. In other words, many teams found it quite difficult to answer the question “What is our contribution?” as one informant (ID nr 41) put it. For example, one team (Nu) was assigned to ensure that the organization would be more data driven. For years, they tried to figure out what this meant and how to translate it into a concrete contribution that they could execute. After years, they decided that their primary focus was “connecting data sources and creating organizational dashboards to help the other teams get more and better insights into their goals.” A member (ID nr 11) of team Beta describes a comparable and unresolved struggle:

Our [self-managed] team concept only works if you have teams with a concrete purpose. Teams need to know what it is their team stands for. What makes them important for the organization. They need to find a broader perspective. Then it works. We're not quite there yet. I think that a lot of teams don't look beyond their team and understand their own contribution, even after all these years.

This “chicken or egg” dilemma of on the one hand needing a concrete purpose to be able to innovate and on the other hand the inability to self-decide on what the purpose should be kept many teams struggling for a long time.

5.4.4. The Magistrates

These teams were not inclined to challenge the status quo and lacked the motivation to do so. In other words, they demonstrated the highest resistance to accepting the new mandate. In many cases, the teams did not incorporate the values that the top management tried to communicate but felt more comfortable with the traditional institutional values. One informant (ID nr 43) described this as follows:

I feel we are reliable. We do what we promise, maybe not in the innovative way the board would like and not fast enough. But reliability is not always fast and innovative, but reliability is also important. We are a team you can rely on. I actually think that's a good feature, but many here [Hollands Kroon] do not agree.

These teams ascribed value to religiously following existing regulations and norms and tended to be most skeptical of innovations, challenging the legitimacy of alterations to the system. This did not need to be “hard-coded” regulations but could also reflect more normative expectations. Team Xi is an example of such a team. The team is tasked with maintaining public areas within the municipality, for example, roads, bridges, sewers, and green areas. The team sees its purpose as ensuring that the area is beautiful and in good shape. One of the team members (ID nr 33) quotes:

Above all other things, we try to keep the environment neat, safe, and clean. We are here for the municipality. We are civil servants. Our team is mainly busy with that, and I think you can see this if you look outside. My success is that it is beautiful

outside. That has been what I have been working on for the last 27 years in municipalities.

This team also acknowledges that “innovation is not really their thing,” and although they recognize that it is expected within Hollands Kroon to do “crazy” things, they are focused on their “real job” (ID nr 34). For other teams, it is really about the “hard” rules, like Team Alpha, the team that audits team budgets and expenditures. One member (ID nr 9) reflects on how they originally perceived one of the core values of “guts” as follows:

We [team Alpha] have little guts, or actually we don't have guts. And why is that? If you have a controlling task, like we have, then you have to be the example. We are very focused on complying with rules, while guts implies “you have wiggle room, you can bend the rules a little if handy”. In our work, you can't do this. You simply have to apply the rules. You have to be clear about what is and isn't allowed. So, we can't have guts.

Some teams that we classified as Magistrates had the full support of the team for their stance. In other cases, teams mention the existence of “multiple camps” (ID nr 37). In some cases, teams reported having just one or two members who opposed (ID nr 21) the change and could block all progress. When transitioning from one organizational structure to another, as was the case with Hollands Kroon, it's natural to encounter both proponents and opponents of the change. In Hollands Kroon, these two groups met in SMTs without direct supervision. Our case study demonstrates how these teams grapple with internal conflicts, leading to inertia, which often takes a considerable amount of time to resolve, primarily because there is no management in place to make the final decision.

5.5. Role of leadership

Our informants frequently describe the self-managed model as the source of the innovations at Hollands Kroon. One of the early directors (ID nr 4) tells us:

If you look at the real innovative power of Hollands Kroon, you see it is in the teams. Early on we [the board] did some crazy things and I think that inspired people. But the real innovation came from the teams, take for example a look at the public domain team when they launched their app, or when the civil services team truly embraced home delivery. There were many more innovations from the teams. Our task was mostly to help the adoption of these innovations and propagate them.

However, many informants reported that most SMTs faced struggles that blocked their development toward becoming innovative teams. As one of our informants (ID nr 1) told us:

In the beginning, the innovation did not come from the teams. It was the board and a small group of individuals that drove innovation, but in time innovation really became a team effort.

This enactment of the mandate to innovate by teams did not happen by itself, and even at the time of our data collection, our informants told us that 20%–30% of teams continue to struggle. However, many teams describe a process where they “learned” to shift priorities over time, focusing more on innovation and being less worried about the potential backlash of defying rules.

In contrast to what one would expect from an organization shifting to a form based on self-management, Hollands Kroon’s leadership remained very actively involved with the teams, and there was frequent and structured coordination between the teams and the board to discuss the team’s progress. By doing so, the board could effectively exert its influence and guide each

team. When necessary, it would steer them toward a particular archetype, considering the team's state and maturity. The board recognized that not all teams could or should be Revolutionists and that many teams required time to embrace innovation and learn to challenge long-standing norms. Our data analysis revealed four leadership tactics used to help teams become innovative: team steering, team restructuring, lending authority, and leading by example.

5.5.1. Team steering

The leaders at Hollands Kroon invested much of their time, especially in the early years (2014–2017), in helping teams make sense of the situation and guide them in the right direction. Our research shows that many teams struggled to find an actionable purpose for their teams that aligned with Hollands Kroon ambitions. From the beginning, the board put much effort into directing teams in the right direction. Before a team was lifted out of the departmental structure and became self-managed, they had to create and defend their business plan. This process took a minimum of 3 months and consisted of monthly meetings with at least two members of the board. In these meetings, the teams presented their progress, and the board guided them and helped them understand the strategic objectives of Hollands Kroon and how a team could contribute. If the teams did not produce a clear plan on how they would contribute to the objectives of Hollands Kroon after 3 months, they had to continue working on the plan until the plan was “Hollands Kroon Okay”

according to the board. Only then did they become self-managed, which was celebrated in a formal ceremony. A member (ID nr 38) of a team that struggled initially and was actively steered by the board to become “Crusaders,” describes the process as follows:

We had to make a plan, that was a disaster. We had to go back to the board three times with our plan. At first, that didn't make sense to us. When we looked at the plans of the other teams and looked at our plan, we felt it wasn't so bad. But the board kept pushing us and kept rejecting our plan. We really got desperate, but eventually, we got it right.

After a team had become self-managed, it was assigned one board member, who coached them and helped them focus on their commitments described in the plan. This was not always an easy trajectory. An illustrative example is the development process team Gamma went through. Initially, this team could best be described as “Magistrates” but ended up being a driving force behind several of the most innovative and rule-bending changes at Hollands Kroon, the home delivery of civil services. Many informants described how this team was very problematic early on. Even the team members themselves describe the original team as being very “old-fashioned” (ID nr 12) and describe how their focus changed over time. As one team member (ID nr 13) puts it:

Nowadays we really challenge why we do things in a certain. We used to do things because we thought it was the law. Yet we changed the way we look at things. We ask ourselves “But what's the added value of doing it this way?” The whole mindset just changed. And then you start looking for different ways. And of course, that is sometimes difficult. But it's also very nice to be a little flexible. Now everyone is much more solution-oriented, much more flexible. We used to look through a tunnel, and

that told us how it should be done. We are much more open now and look at how things can be done differently, newer, better.

Over time, the board successfully encouraged this team to explore innovative approaches to delivering civil services, even pushing legal boundaries by challenging and finding ways around national legislation, as seen in the case of home delivery of birth certificates. In the government, a birth certificate, being a crucial legal document, typically cannot be transported without restriction by a civil servant. However, in 2016, the team made a significant decision: they considered an uncertified birth certificate not an official deed. From that point forward, they prepared the document at their office and then traveled to the parents' location, where they, together with the parents, verified and certified the deed in the comfort of their home. By stating that the document could only be considered a deed after the certification had taken place, they created leeway for themselves to bring the document to the parents. Even years later, during our data collection, there were still debates about the legitimacy of this practice, but it represented a creative solution to create space for a new innovative service. Examples like this, along with other innovations from this team, played a vital role in Hollands Kroon's ability to close its town hall and physical counters.

The board directed this team and many others actively toward the organizational objectives. They actively conversed with them to challenge

them on their purpose and stimulate innovation. As a director (ID nr 4) tells us:

These were not always easy conversations. Often, there were conversations about “why should we always try to do things differently?” They felt things were going well, so why change? So those were pretty tough conversations. But we did set things in motion and because of these conversations, we achieved a lot. Over and over again we had these conversations on why and how they could do things differently. Not because it had to be different, but because it allowed us to provide better services to our local organizations and residents.

Furthermore, the board established specialized teams to assist in the shaping and implementation of team plans. The “Consult” team guided teams on how to make their plans and align them with organizational objectives. The “Projects” team aided in the management of projects related to that plan, and the “Flex team” was ready to help when specific skills were lacking to perform the plan effectively.

As depicted, the board played a highly involved role in assembling cohesive SMTs and guiding them toward a shared purpose. They attempted to ensure that these teams remained focused and were helped in navigating challenges during the execution of their plans. Many early SMTs encountered difficulties in aligning the organization’s overarching goals with their team contributions. These teams often grappled with conflicting judgments and a lack of strategic perspective, which impeded their progress. By imposing a layer of oversight and active steering, leaders were able to sway Magistrates

and direct Bohemians and push them towards the Crusader or even Revolutionist quadrant.

5.5.2. Team restructuring

Especially in the period after 2016, the board started to intervene more directly. Several teams that had been in existence for a longer period but had not been delivering on their mandate were restructured according to the expectations of the board. This was not something that was conducted immediately; if teams were not onboard with the new ambitions and did not feel the radical change was needed but instead embraced current ways, they frequently first assigned an internal or external coach to assist the teams to see if they could be guided toward a more proinnovation and less regulatory driven mindset. A team member of team Theta tells us how her team was not even able to come up with a business plan, a mandatory step within Hollands Kroon to become self-managed, until a coach was assigned to them. She (ID nr 22) describes:

For our team, it really took a while before we were a team. We were given an external coach to help us, but in the end that didn't quite work out. Then an internal colleague was assigned to help us. He did help us become more of a team and only when this happened, we were able to productively work on our plan. But it really took us a while to become a team. And now that we are, we also have a solid plan, that we believe in. Now we have a team, and we are proud of the things we have accomplished, but it was not easy.

But if that did not work, teams were restructured. Restructuring could mean several things at Hollands Kroon. In some cases, people were removed. Our informants described several instances where the board “helped exit”

members from a team or even the organization. This happened when there was a consensus that one or more people in a team were holding the team back. An illustrative example is team Pi. A team member (ID nr 37), describes her team as follows:

“We certainly don't want to sit back and wait; we want to know what's available on the market and what the possibilities are, for example now with the deployment of e-services. We are again one of the first ones to try it out. And yes, it might take a bit more time because we're among the pioneers and can't learn from others, but it works out, and the whole team feels proud. That's quite nice, isn't it?” and it does yield benefits.”

This team can now be considered a Crusader, but this was not always the case, as our informant tells us. The team used to be split into a “half that wanted to move forward, and the others who were fine the way things were.”

Eventually, the board intervened another team member (ID nr 38) told us:

At some point people who were let go. Well, that's quite a big thing, of course, but at a certain point, the conflict became so intense that [general director, ID nr 3] and [director, ID nr 5] really drew conclusions from the way certain individuals were impacting the team to such an extent that there was simply no more flexibility left.

In other cases, the board thought that the dynamics of a team were not working, but still had confidence in the members of the team. In these instances, they chose to split a team to facilitate team collaboration. In other situations, a team would be dismantled, which could mean that the tasks of a team and the people would be distributed over other teams or parts of the tasks would be placed in a new team consisting of (partly) new members. As one of our informants (ID nr 2) says:

Teams have also been killed quite often. A lot of teams were created and subsequently destroyed again and then new teams arose again. These were decisions from the board. These were teams that didn't perform, or the dynamics in the team were not working, or they weren't improving their processes, then the board could take pretty drastic measures.

These top-down restructuring decisions were made when the board concluded that their “team steering” initiatives had not yielded the desired outcomes, primarily focusing on teams situated in the Magistrate quadrant. In most instances, these interventions were responsive to specific team contexts. However, in both 2017 and 2018, the board also adopted a more comprehensive restructuring approach, conducting analyses across all teams to assess their performance. This evaluation led to decisions to cancel three teams and to split two other teams into four in one single move in 2018.

The aforementioned findings illustrate how leaders can resort to more direct top-down measures when SMTs continue to struggle to align with their vision despite numerous unsuccessful attempts to steer these teams. Actions such as member removal or the splitting and dismantling of teams were used to pave the way for a fresh start, particularly with SMTs identified as Magistrates, with the hope that a Bohemian or Crusader team would surface.

5.5.3. Lending authority

Innovation often requires collaboration or permission from external actors, especially in highly institutionalized environments. To innovate, teams at Hollands Kroon needed to interact and make deals with other actors. Within

the governmental field, managers are frequently seen as the more legitimate representative of the organization compared with team members. Within Hollands Kroon, team members were mandated to negotiate with external partners on behalf of the organization, but often they did not have the connections or the status to force new innovative alliances by themselves. Therefore, the board often took an active role in connecting teams to relevant stakeholders and “lending” them their influence or power, thus granting them the legitimacy to initiate or force new collaborations to further their innovation initiatives. As the first general director (ID nr 3) of Hollands Kroon stated:

We [the board] had to put a lot of effort into our potential partners. Our way of working was a topic of discussion in almost every collaboration, every time. In all instances our organization was represented on another level than the people on the other side. Potential partners often sent their managers, we came with a civil servant or an expert in their field and the other side often found this troublesome. We often had to step in, without taking over.

One of his successors confirms the need for boards to become involved such relational activities. The third general director still sees his value mostly in the fact that he has the network and influence to get things done. He (ID nr 8) describes it as follows:

Governmental organizations work in a certain way. You have to understand for example, how decisions get made. We just can't do everything, because we happen to like it. It just doesn't work that way. I understand that well and can be the bridge between our civil servants and other political organizations. For example, many things are organized regionally or nationally. I make time to be part of these systems. That is also why I joined the board of [association of comparable municipalities] as well.

In many collaborations with external parties, the board played a role in formalizing deals. For example, in the case of the home delivery of services, the board negotiated deals with ministries and authorities for pilot projects, and even the mayor was involved in lobbying. Additionally, in the case of the cloud transition—Hollands Kroon being the first municipality in the world to fully move to the cloud—it was the team who ran the innovation, but the board negotiated the deal and conditions, in this case with Microsoft. In this specific instance, the board also lent its authority in another way. The transition was conducted despite major concerns at the time regarding the legality of public organizations moving applications to the cloud, particularly one hosted by an American company and therefore possibly subject to the Patriot Act. The team (Eta) responsible for this move felt they did not have the authority to make a decision this big. The team member (ID nr 20) involved told us:

We did see the move to the cloud as our best option, but it could also involve breaking laws and regulations. We are not the ones responsible for that; it's for others in the organization to decide on that. Our task is to look at the ICT of the municipality of Hollands Kroon and to contribute to establishing a new and better infrastructure. Because that's what it's all about for us. The board indicated that they would take responsibility for the decision to move to the cloud, which gave us the leeway to proceed.

As discussed in the previous theme, success is important to build team confidence; however, in practice, teams frequently require external parties to help make innovation happen, while they had limited power, influence or legitimacy to drive such collaborations. To help SMTs, especially in cases of Revolutionists, the top management can help by extending their authority to

the teams and granting them the necessary legitimacy to conduct negotiations with third parties necessary for their innovation projects to progress.

5.5.4. Leading by example

To effectively showcase the commitment of the organization to the new strategy, the board led the way by being the Revolutionists themselves, with a clear focus on radical change and disregard for the rules. A member (ID nr 9) from team Alpha describes them as follows:

This was a pioneering team. They were very focused on change and innovation, doing something that had never been done before, and people like that are less focused on regulations and governance. They were primarily focused on conditioning and aligning people with the new core values. We had to have the guts, show passion, trust each other, and so on. We tried to go against this and bring the importance of control to the attention of them, but like I said, pioneers don't really embrace this.

The board initiated some radical ventures. They implemented a traineeship to attract fresh young minds to help them achieve their ambitions, but they did this by incorporating elements of a talent show process known as “the Voice” for recruitment purposes. The show is known for its format, in which contestants are initially judged solely on their vocal abilities. The judges turn their backs to the contestants during the blind auditions, so they can only hear the contestants' voices. If a judge is impressed, they can press a button to turn their chair around and indicate their interest. Hollands Kroon copied this format for selecting their trainees, with the board in the chairs. Despite facing skepticism from employees who found the idea of selecting candidates based on 2-min pitches to be ridiculous and believing that “the board had gone mad”

(ID nr 26), the organization proceeded with this innovative approach. They effectively drew in 200 candidates and garnered substantial media attention. The “talent show” event was widely regarded as a massive success, highlighting how innovative approaches could lead to substantial achievements. Even at the time of our data collection, the event remained deeply etched in the memories of many employees. One of the red chairs used during the talent show was displayed in the municipality office’s lobby for several years, serving as a testament to what is achievable when one demonstrates guts. The board also demonstrated willingness to openly challenge established rules and norms. For instance, they made the bold decision to eliminate expenditure approvals, a traditional practice seen as overly bureaucratic and in contradiction to the idea of trusting civil servants. However, eliminating expenditure approvals constituted a violation of financial standards. The accountant even threatened to withhold approval of their annual report if Hollands Kroon persisted with this approach. In response, the board instituted an annual “signing event” in the aula, open for all to witness, during which they “blindly” signed off on all bills from the previous year without conducting any checks. In this way, the accountant could not object, but it also served as a public demonstration of their defiance against the established rules.

Both these examples might be considered over the top, but as one of the early directors (ID nr 5) highlights, particularly in the initial phase, they deliberately pursued extreme actions to demonstrate and substantiate Hollands Kroon's new and daring core values:

Some of the things we did were truly over the top, but they were conscious decisions to show to people that we were serious, that we wanted Hollands Kroon to be different and that this was also possible. So, we did a lot of things more extreme, than we would have done normally.

It is difficult for SMTs at the beginning of the transition to understand the magnitude of strategic and cultural change the organization demands to achieve their goals. It is also necessary that this shift in mindset occurs as quickly as possible. Given that any radical change is typically met with skepticism and resistance by many employees, it is up to the leadership to lead by example. In our case, through some “shock and awe” tactics, they were able to infuse teams with confidence and provide undeniable evidence that the organization was fully committed to the new vision and that they would have the support to pursue extremely radical innovation, even if this meant defying rules and regulations.

5.6. A model of innovation processes within agile teams and leadership

roles

The teams at Hollands Kroon were given a clear mandate to innovate. The board set out to establish a new organizational identity, which was very different from any municipality in the Netherlands. The municipality was

given a new name, a new visual identity, and a new set of core values. Civil servants in the Netherlands swear an oath by which they promise to be among other things cautious and reliable. The municipality abandoned this oath and selected core values contradicting the oath, such as “guts” and “trust”. Civil servants were to be trusted to try new things without bureaucracy. In addition, a new ambitious strategy was launched calling for the innovation of services and processes and the transition to a new organizational form focused on empowering civil servants and reducing bureaucratic practices.

Our research shows that transitioning toward SMTs and giving employees a clear mandate to innovate does not automatically imply innovative outcomes. In the case of Hollands Kroon, we saw only a limited number of SMTs having an innovation mindset and willing to define regulations from the start, and only over time were more teams able and willing to embrace their mandate, if ever. It is clear that on a microlevel, SMTs represent a significant paradigm shift. Team innovation (Khanagha et al., 2022) is rooted in a team’s ability to generate creative ideas and put them into action (Hülshager, Anderson, en Salgado, 2009), but especially in the case of radical innovation, it might also require bending or breaking rules (Garud et al. 2020). Both the process of actively embracing innovation and challenging existing rules bring about tensions within SMTs that linger longer and are more intense compared to managed teams. Our findings underscore the distinct

routes that teams traverse between their drive to innovate and the need to comply, depending on their specific contexts, experiences, and interpretations. For example, a lack of team confidence, actional purpose, internal conflicts, and constructive feedback reduces the team's ability to successfully execute innovations, especially in the case of self-management. As an implication, we propose that SMTs, in comparison with managed teams, might complicate innovation instead of stimulating it if not properly supported.

We posit that the “optimal” balance between compliance and innovation is not a one-size-fits-all notion. Rather, it exhibits variations across different teams within the same organization. We underscore how leaders have an important impact on how SMTs navigate innovation and compliance and how they view their point of “optimal distinctiveness.” Leaders with the capacity to steer team members toward a common and actionable purpose can help to form a more cohesive team. Moreover, by leading through example, leaders can embody the essence of what they aspire SMTs to be. Our research highlights that leaders, particularly those adopting a revolutionary mindset, can provide irrefutable evidence that their ambitions are real and can alleviate SMTs' hesitance to innovate, stemming from a lack of trust in rule-breaking consequences. In addition, SMTs' ability to innovate can also be hindered by the confirmative practices of other stakeholders. Leaders can support opportunities that teams may struggle to access by leveraging their power,

influence, or legitimacy to drive innovation forward and sway the confirmative behavior of third parties, who do not view SMT members as serious representatives of the organization. Leaders can also bolster teams by carrying the risks and accountability associated with rule-breaking endeavors that can be daunting for teams to bear alone. In this manner, leaders can temporarily “lend” their authority to teams, making innovation and regulation defiance less intimidating. Finally, when teams prove unwilling or incapable of transitioning toward a distinctive stance from a position of conformity, leaders can decide to restructure teams. This may involve reassigning team members or even dismantling and reconstituting teams to facilitate a fresh start. Unlike the more rigid bureaucratic structures, leaders can choose to adapt their “portfolio of teams” frequently to revitalize innovation. Organizational leaders need to understand the SMT tensions between their drive to innovate and the need to comply during transformative periods. Therefore, we offer a process model for leaders to influence individual SMTs and align them to the organizational strategy.

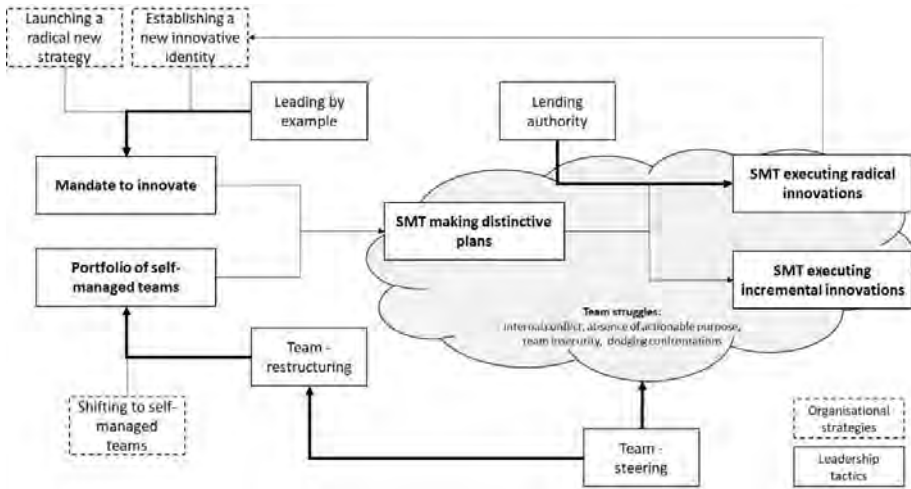


Figure 7 Process model for leading the innovativeness of SMTs

Our model underscores the mechanisms through which leaders use organizational strategies and leadership tactics to drive innovations and mitigate internal struggles of SMTs to help shape teams with a distinctive contribution and possibly willingness to deviate from the rules.

In conclusion, while teams strive to become self-managed, leaders wield profound influence over their ability to innovate. Our research indicates that SMTs tasked with an innovation mandate do not uniformly or spontaneously fulfill this mandate. The inclination of SMTs to innovate and their readiness to challenge established norms differ among teams and can be further complicated by various team-specific challenges that hinder both the drive for innovation and the willingness to break rules. Our process model shows how leaders can help pave the way for SMTs to embrace their mandate.

However, it also illustrates that at a microlevel, teams will undergo unique evolutionary paths and vary in their perception of their “optimal distinctiveness.” These differences manifest in how they value the innovativeness of their contributions and how they decide whether to conform or challenge existing rules.

5.7. Discussions

Driven by the ongoing organizational trend toward SMTs as a means to embrace agility and innovation, our research sought to untangle the complexities of this transition. The extant literature underscores agile’s triumphs within software teams due to established practices and an inherent alignment with agile principles (Weiss et al., 2018). However, extending agile principles to more heterogeneous teams engenders a myriad of challenges. The key is understanding how diverse team tendencies influence agility and innovation and how leadership can aptly steer this transition. Our investigation into Hollands Kroon's unique trajectory provided an unrivaled canvas for these explorations.

The flexibility and adaptability of SMTs make them appear an effective way of organizing innovation in a time that demands new creative solutions. The literature tells us that SMTs can indeed be a valuable tool to stimulate innovation (De Dreu en West, 2001), but it also shows us that SMTs do not guarantee high levels of innovativeness (Langfred, 2004; Langfred, 2007). Our

research unpacks the process through which SMTs become innovative teams, adding new microlevel insights into the question of why SMTs do or do not become innovative. Through an in-depth analysis of Hollands Kroon's unprecedented shift from a traditional bureaucracy to the world's first self-managed municipality, we unraveled the multifaceted dynamics at play. We discerned a tension between teams' desire to innovate and the necessity to comply with existing norms—a tension that varied considerably across teams. Using the optimal distinctiveness theory (Brewer, 1991), we mapped these tensions onto a typology framed by “guts” (innovation) and “trust” (compliance). Our findings revealed four archetypical modes of operation, demonstrating how teams navigated their unique balance between innovation and compliance. Our study further elucidated the pivotal role of leadership in navigating these complexities, reinforcing the importance of strategic direction in such transformative endeavors.

We propose that SMTs, while having the clear advantage of being flexible and adaptable, may not automatically respond (well) to a mandate to innovate. In this study, we extend the literature on the downsides of self-management by showing how internal conflict (Langfred, 2007) and lack of internal confrontations (Langfred, 2004) can limit the effectiveness of SMTs but also add new struggles that hinder team innovation such as team insecurity, albeit creating more clarity about innovativeness. While our research reveals

varying levels of adaptability and innovativeness among teams, along with instances of both functional and dysfunctional behavior, it also underscores that organizations structured around SMTs possess the capacity to concurrently manage a wide spectrum of innovations. This constitutes a significant contribution, showcasing how an organization comprising SMTs adeptly handles diverse types of innovations simultaneously.

One of our contributions is to the literature that delves into innovation and SMTs. Previous studies have predominantly investigated team dynamics or leadership behavior in relation to innovation at the organizational level (Grass et al., 2020). Our research extends this by highlighting the inherent contingencies within teams and the critical role of leadership in steering these teams through their innovation journey. We argue that SMTs, while having the clear advantage of being flexible and adaptable, may not uniformly respond (well) to a mandate to innovate. Through the optimal distinctiveness theory (Brewer, 1991), we offer a nuanced typology that elucidates the balance between innovation and compliance. This not only amplifies our understanding of team dynamics but also emphasizes the indispensability of leadership in harmonizing innovation drives with compliance requirements. Our framework underscores the distinct routes teams traverse between their drive to innovate and the need to comply and extend their understanding of leadership in the era of flattened organizations (Schneider, 2002), urging organizational leaders to

understand and address these nuances during their transformation toward SMTs.

Another contribution is to the literature emphasizing optimal distinctiveness at the firm level. Traditionally, optimal distinctiveness has been anchored at a macro, firm-level perspective (Zhao et al., 2017). We posit that the “optimal” balance between compliance and innovation is not a one-size-fits-all notion. Rather, it exhibits variations across different teams within the same organization, influenced by their specific contexts, experiences, and interpretations. We pioneered a shift, reframing this concept to the microlevel and focusing on individual teams. Recognizing the growing relevance of intrafirm heterogeneity and distributed innovation, our research underscores the variances in how teams within the same organization perceive and address the dual pressures of innovation and compliance. This granular approach enriches our understanding of innovation dynamics, highlighting the intricate subtleties of team-level innovation within broader organizational frameworks. In doing so, we augment the existing discourse, indicating that the quest for balance between differentiation and conformity is a nuanced journey, intricately tailored to each team’s unique context and challenges.

5.8. Limitations

Every research endeavor, while paving the way for new insights, also encounters certain constraints, and our study is no exception. A primary

limitation stems from the qualitative nature of our research. Although this methodology allowed us to deeply explore and understand the nuances and intricacies of the Hollands Kroon transformation, it is largely exploratory. Thus, although our study offers a solid foundation, there exists an expansive opportunity for quantitative research to build upon our findings. Quantitative studies, equipped to develop and test hypotheses, could rigorously examine the relationships and dynamics we have unveiled, providing statistical validation and potentially refining the typologies and frameworks we have proposed.

Additionally, our research was situated within the context of the public sector, specifically the transformation of a municipality. This particular setting was, in many ways, appropriate, given the depth and breadth of the transformation and the various teams and units. It provided a comprehensive canvas for investigating our research questions. However, even with its appropriateness, one cannot overlook the value of replication in varied contexts. For instance, understanding how our findings play out in the technology or traditional manufacturing sectors could offer additional layers of insight. The diverse dynamics inherent in these sectors might resonate with, amplify, or slightly modify our findings. Therefore, while we believe our chosen context was fitting and robust, it would be advantageous for future research to explore the applicability of our findings in these diverse sectors. Moreover, while we have extensively explored the role of leadership in the

context of Hollands Kroon's transformation, leadership styles, cultures, and practices can vary immensely across organizations and regions. Our observations about leadership might be deeply influenced by the specific cultural and organizational milieu of the Dutch municipality, potentially limiting the direct applicability of our insights in different cultural or organizational contexts.

5.9. Conclusion

In this study, we delved into the complex landscape of agile transitions in organizations beyond the realm of software development, using the transformation of Hollands Kroon as our investigative lens. At its core, our research sought to understand the intricacies of how diverse teams navigate the balance between compliance and innovation within agile structures. We found that the “optimal” blend between these competing pressures is not universally defined but is nuanced, varying based on the unique attributes and challenges each team encounters. Through our typology, which captures the dimensions of “guts” (innovation) and “trust” (compliance), we illuminated the distinct pathways teams traverse in their quest for innovation among regulatory adherence. Coupled with insights into the pivotal role of leadership, our findings provide a comprehensive understanding of the dynamics at play during transformative periods. This research not only enriches the discourse

on agile transitions and innovation but also paves the way for further explorations into the ever-evolving dynamics of modern organizations.

Appendix A: Overview of interview data

ID nr	Sex	Role informant	History*	Round 1	Round 2
1	M	Manager (2012–2013), board (2017–2019)	Joined 2011	X	
2	M	Manager (2012–2013)	Joined 2012	X	
3	M	Board, general director (2012–2016)	Joined 2011	X	
4	M	Board (2012–2017), general director (2016–2017)	Joined 2011	X	
5	F	Board (2012–2017)	Joined 2011	X	
6	F	Board (2012–2017)	Joined 2011	X	
7	M	Board (2016–)	Joined 2015	X	
8	N	Board, general director (2017–)	Joined 2017	X	
9	M	Team Alpha	Anna Paulowna	X	
10	M	Manager (2012–2014), Team Beta	Wieringen	X	
11	M	Team Beta	Niedorp		X
12	F	Team Gamma	Wieringen	X	
13	F	Team Gamma	Niedorp		X
14	F	Team Delta	Wieringen	X	
15	M	Team Delta	Wieringenmeer		X
16	F	Team Epsilon	Anna Paulowna	X	
17	F	Team Epsilon	Joined 2012		X
18	M	Team Zeta	Joined 2013	X	
19	M	Team Eta	Wieringenmeer	X	
20	M	Team Eta	Wieringenmeer		X
21	F	Team Theta	Wieringenmeer	X	
22	F	Team Theta	Joined 2012		X
23	F	Team Iota	Wieringenmeer		X
24	F	Team Iota	Anna Paulowna	X	
25	M	Team Kappa	Anna Paulowna	X	
26	F	Team Kappa	Niedorp		X
27	M	Team Lambda	Wieringenmeer	X	
28	F	Team Lambda	Joined 2015		X
29	F	Team Mu	Anna Paulowna	X	
30	M	Team Mu	Anna Paulowna		X
31	M	Manager (2012–2013), Team Nu	Joined 2013	X	
32	M	Team Nu	Anna Paulowna		X
33	M	Team Xi	Wieringenmeer	X	
34	M	Team Xi	Anna Paulowna		X
35	M	Team Omicron	Niedorp	X	
36	F	Team Omicron	Anna Paulowna		X
37	F	Team Pi	Wieringen	X	
38	F	Team Pi	Niedorp		X
39	M	Team Rho	Wieringenmeer	X	
40	M	Team Rho	Niedorp		X
41	M	Team Sigma, Team Upsilon	Wieringen	X	X
42	M	Team Sigma	Wieringenmeer		X
43	F	Team Tau	Niedorp	X	
44	M	Team Tau	Wieringenmeer		X
45	F	Team Upsilon	Niedorp	X	

Appendix B: Representative quotes first-order quotes

<p>Establishing a new innovative identity (second-order code)</p>	<p>“Trust” as the basis for a new way of working</p> <p><i>We have always emphasized that trust is the foundation of everything for us. Everything we canceled [approval of expenses, time writing, holidays] was based on the idea that we would rely on trust. It was a very deliberate strategy to remove rules, to get rid of them. The APV [local legislation] is one such example where we had removed many rules. So, we strongly adhere to the philosophy, that you have to give trust before people start acting on trust. And yes, cancelling rules, didn't mean much in itself. But all those little things were constantly there as evidence of the fact that we trusted people. At the end it often comes down to the a lot of little things. (ID nr 5)</i></p>
<p><i>I can still remember that [general manager, ID nr 3] said, “The government has focused for years on the 10 percent of the civil servants who were cutting corners. We focus on the 90 percent who don't do that.” So, we got a lot of freedom, and there were indeed people who said, “Can that really work? Can you really get that much freedom? Is it going to be okay?” But in the end, if you abuse that trust, you will eventually be exposed. So, you just have to trust that everyone has the same approach as you do. (ID nr 37)</i></p>	<p>“Guts” in order to deviate from the beaten path</p> <p><i>Our core values are of great importance in the execution of our strategy regard. They guide us in how we want to do this, with passion, because we want to make a difference, through courage, because you dare to step off the beaten path and deviate, through trust as the foundation for collaboration. Through human-to-human contacts, and through respect because being different is okay. (De Stip 2018)</i></p>
<p><i>I am happy with this organization. It may sound strange, but it has brought me a lot. Of course, things don't always go well, that goes without saying. But I am very positive about the way of working, it is an organization with a lot of guys. We show courage. In my opinion, it is an organization that is ahead of the rest in the Netherlands. I am proud of this employer. (ID nr 40)</i></p>	<p>Launching a radical new strategy</p> <p>Developing “smartest” civil services in the Netherlands</p> <p><i>In 2018, we aim to be the Smartest Municipality that has a clear added value for society. To achieve this, several things are necessary: a common goal to which employees want to contribute. We believe it can be done smarter, with proactive employees who collaborate, set priorities, coordinate, and negotiate among themselves, and who want to contribute to building the Hollands Kroon of the future. (De Stip 2018)</i></p>

	<p>Hollands Kroon sees citizens as customers and wants to approach them as such. For example, the passport is simply delivered to your home, the birth registration can be done digitally. This means that the physical counters will close in two years. The management wants to approach customers in a radically different way. The attitude towards constituents needs to change, much more customer-oriented. "We think it terms of what is possible instead of what is not possible. We want the best possible service for our residents and businesses" says [general manager, ID nr 4]. Most employees agree with the municipality's new working method. And perhaps more importantly, so do the residents. Research by Hollands Kroon itself shows that they rate citizen services on average with an 8.7. (Binnenlands Bestuur)</p>
	<p>Introducing new radical organization practices</p>
	<p>The merger on January 1 was a real big bang. Offices were gone, your own workplace was gone, there was a new work environment. We no longer were required to fill out timesheets. We didn't have to get approval for expenditures. Everything was completely different. Vacation days were gone, more of these kinds of things. Most controls were abandoned. And these were quite concrete step to show that we were really going to do things differently. [...] You saw that the new ways had to be discovered. People sometimes didn't want to let go of things. That was quite difficult. But I do things these first steps really worked. By doing everything into one heap, you can really start creating something new. (ID nr 41)</p>
	<p>We arrived and it wasn't like we told we're going to do it differently. No, from the first moment we're doing it differently, because there was no longer a time clock and you no longer have to fill in leave. And all kinds of administrative things were of course perfectly removed. Yes, I liked that. Why do I have to fill in a list with which hours I have worked? I just want to do my job well and want to be rewarded accordingly. That new culture suited me very well, but I am also not blind to the fact that there were people and who rather wanted to wait quietly by the punch clock till the time was up, so they could check out. (ID nr 17)</p>
	<p>Shifting to self-managed teams</p>
	<p>Removing layers of management</p>
	<p>Hollands Kroon strives for as little hierarchy in the organization as possible. Under the three-person board of directors, in theory, every employee is equal. For example, the position of manager no longer exists and almost all employees work in one of the thirty-two 'self-managed teams'. No layers, no bureaucracy, that's the idea [...] Far-reaching flexibility is required from the staff, such as being available in the evenings and at weekends. The employees get a lot of freedom in return. "Even if you go on holiday for 17 weeks a year, we don't care," said former director (ID nr 5) in 2015 in the Volkskrant [Dutch newspaper]. "As long as your work doesn't suffer". (Binnenlands Bestuur)</p>
	<p>The tremendous freedom here, an immense amount of trust. They delegate responsibilities very low in the hierarchy, without management layers. And that's something that really appealed to me enormously. The way of working is very different, especially</p>

	<p>compared to other municipalities. The freedom. The genuine personal responsibility, which fosters self-sufficiency. That is truly what characterizes this organization. I also genuinely believe that we collaborate more efficiently, and it's a pleasant way of organizing. (ID nr 18)</p>
	<p>Transitioning from departments to SMTs</p> <p>In 2018, our organization will consist of a large number of independent teams. These are organized per process and provide products and services. With independent teams, we need less management. In 2018 there will therefore only be one management layer, the board of directors. In concrete terms, independent teams make concrete agreements on their results with the management and team members make concrete agreements on their results with each other. Employees organize the work themselves without direct control from above. Independent teams take on new colleagues themselves and have their own budgets. In addition, each independent team investigates how they can work smarter. (De Stip 2018)</p> <p>The period 2014 – 2016 was our real transition. We examined the entire organization, bringing processes together differently and transforming towards teams responsible for these processes. So when you talk about the transformation to self-management, you also need to talk about a tilting of process, because that's how teams were set up. For the organization, the transformation is still mainly the route to self-management. But underlying it is about making processes more effectively and efficiently and being able to better meet your customer demand. (ID nr 1)</p>
	<p>Different levels of regulatory defiance across teams</p> <p>Teams challenging the existing rules and regulations</p> <p>You need to have people who understand how the rules work. If you do stuff irresponsible, you will achieve nothing, because you are dealing with legislation. You need to understand how far you can stretch those. We are keen on that. We know the bandwidth within which we can play. Are we staying within the rules? are we going too far or are we walking on the edge? And if you know this, you can also explain the situation to parties. I think we often don't prefer to be on the safe side. And of course at Hollands Kroon you are allowed to take the risk. We won't throw the rules in the trashcan. But in our field there is a huge grey area. And that means that other municipalities tend to explain the rules a little more strictly than we do. (ID nr 27)</p> <p>We keep challenging each other. If we're discussing things within the team and someone says "No, this isn't possible", the next question is often "But why not?" and if somebody says "Because it is against the rules" it is likely that somebody will say "but you can also interpret that in another way. So perhaps it is possible?" So, that is now part of our DNA. We also search for new colleagues who dare to push boundaries and who do not strictly follow the rules. (ID nr 28)</p> <p>Teams complying to the existing rules and regulations</p>

	<p>We [team Alpha] have little guts, or actually we don't have guts. And why is that? If you have a controlling task, like we have, then you have to be the example. We are very focused on complying with rules, while guts implies "you have wiggle room, you can bend the rules a little if handy". In our work, you can't do this. You simply have to apply the rules. You have to be clear about what is and isn't allowed. So, we can't have guts. (ID nr 9)</p>
	<p>In the first years of Hollands Kroon, we were really pushed by the board to be as creative as possible with those rules. But we do have legal regulations. So, when for example granting a permit, we cannot promise, say or do crazy things. (ID nr 43)</p>
	<p>Different levels of innovation drive across teams</p>
	<p>Teams pursuing groundbreaking new solutions</p>
	<p>Teams like [Kappa], [Nu], [Mu], [Gamma] or [Delta], just to name a few. Those are all teams that embrace the freedom to explore. The ask themselves What are some new, valuable products for a municipal organization? And what actually contributes to the satisfaction of residents or businesses? And they feel the freedom to research, innovate, and come up with creative solutions themselves. (ID nr 7)</p>
	<p>We are not a team of people, who are stuck in one place. We have people who look around and who want to know what is going on in the world and how we can use this at Hollands Kroon. I really think we are a great reflection of what Hollands Kroon is trying to be. It might be stupid to say this about ourselves, but I think we integrate all Hollands Kroon core values [including Guts and Trust] within our team in a really good way. (ID nr 15)</p>
	<p>Teams feeling conformable with the taken-for-granted</p>
	<p>I feel we are reliable. We do what we promise, maybe not in the innovative way the board would like and not fast enough. But reliability is not always fast and innovative, but reliability is also important. We are a team you can rely on. I actually think that's a good feature, but many here [Hollands Kroon] do not agree. (ID nr 43)</p>
	<p>We don't always participate in all those crazy Hollands Kroon things. We're more about the real work. People here really want to be different, but we're more about just doing our job. All those peripheral things, those quirks, that's not what we're all about. (ID nr 34)</p>
	<p>Teams shifting attitude and behavior across time</p>
	<p>Teams embracing innovation in time</p>
	<p>In the first phase of our organization, the innovation came from a small group of people, the real believers, but there was still also a lot of resistance in the organization. After two or three years, most people were used to the fact that they were allowed to come up with ideas themselves and started to try new things carefully. We saw beautiful initiatives appear. A great example was the FIXI app. This happened due to the fact that a climate had been created that allowed people to think differently. [...] Teams started experimenting with other forms of service. And that was possible because internally people were increasingly used to doing things differently, thinking differently. They knew it was allowed to come up with new ideas and then do something with them. So we began experimenting with</p>

	<p><i>our services. We launched pop-up counters, simple tables with an old cloth for example at a retirement home and we asked residents "where would you like to be served at the townhall counter or in the pop-up tent?" to let people see and feel it and discover what would a resident choose. (ID nr 1)</i></p> <p><i>I really feel that we were encouraged by the board and the organization to take on initiatives. The message was clear, and we started working on it. That wasn't easy, but we started thinking about how we could make our processes smarter, and we took that seriously. In time we did find ways to become innovative, to work faster, work smarter. For us, it's just natural now. Well, maybe it's also part of our enthusiasm. We like it that we can do it ourself, that we can search for a way to make work faster, better, more efficient. (ID nr 27)</i></p>
	<p>Teams becoming more open and flexible</p> <p>Nowadays we really challenge why we do things in a certain. We used to do things because we thought it was the law. Yet we changed the way we look at things. We ask ourselves "But what's the added value of doing it this way?" The whole mindset just changed. And then you start looking for different ways. And of course, that is sometimes difficult. But it's also very nice to be a little flexible. Now everyone is much more solution-oriented, much more flexible. We used to look through a tunnel, and that told us how it should be done. We are much more open now and look at how things can be done differently, newer, better. (ID nr 13)</p> <p>We have truly learned to look at things in a different way. This applies to all our colleagues in [team Lambda] field of Regional Planning. Whereas a person in Wieringenmeer [one of the original municipalities] could often be quite rigid in the past, saying, "No, these are the rules. This is how we do it." In the time of Hollands Kroon, you can see this same person had become much more flexible and approaching such a problem in a different way. I found that very remarkable to see. You think it's the same person, same job, but then a completely different approach to such a problem. And that's also what is required within Hollands Kroon, to provide more tailor-made solutions and greater flexibility, looking at what the resident wants, and you can see that it's possible. And that people can make that transformation. (ID nr 28)</p>
	<p>Team insecurity</p> <p>Teams being insecure about a new way if working</p> <p><i>If was difficult to et go of the old way of working. We had been used to a different way, and that gave us confidence, that gave us a kind of self-assurance, but suddenly that was gone. It took us some time to regain our confidence. (ID nr 12)</i></p> <p><i>Early on we were a bit fearful. We could not imagine that we could really be self-managed. We first had to start believing in the whole idea and that we could do it. At some point you see that things are going in the right direction. That things don't fall apart. To our own surprise we started to understand that we could do this. Two, three years ago I didn't think it was possible at all and that was the case among all my colleagues. Until we did some changes that worked out, we lacked confidence, but then we slowly started believing more in our self. (ID nr 13)</i></p>

	<p>Teams being insecure about making decisions</p> <p><i>If you look back, you can see that we really evolved. First, we really struggled to make decisions, but people grow, and we became better able to make independent choices. The confidence in ourselves grew and we learned to trust that this would turn out in a positive way. Now we have more faith in ourselves, in our own abilities and that things will not go wrong. We had to learn to just make those choices and just to act as we always had acted, only without those managers. But of course, that didn't happen overnight. That went in small steps. (ID nr 17)</i></p> <p><i>I intensely guided team [Rho] for 2 years towards making their own choices and taking responsibility. There have been moments when employees came to me and said, "I've had sleepless nights; I just can't handle this. It's causing me pain in my stomach." Well, it was beautiful that people openly expressed that because then we would just take it easy for a few weeks. But step by step we had successes. You could also see a sense of pride in the team growing. We're three steps ahead of the rest," and that really boosted their self-confidence to think and act by themselves. (ID nr 42)</i></p>
	<p>Dodging confrontation</p> <p>Team members finding it difficult to give feedback</p> <p><i>I think that giving feedback is not one of our strong points. If we did that better, things could be resolved much earlier, but difficult issues tend to linger for a long time, and that's another area where improvement is needed, I believe. (ID nr 39)</i></p> <p><i>Everyone within the team is different. And you have to deal with that, and occasionally, that requires giving feedback. We have learned over the past few years to do this, because in the past a team member really misbehaved. But that's also a bit our fault because we didn't provide feedback, and it got out of hand as we didn't act or we acted too late. (ID nr 35)</i></p> <p>Team members not holding others accountable</p> <p><i>I think that if you have a lot of problems in the team, as we had for a while in Time [Theta], it's helpful to have some sort of manager. Not that they dictate things, but when everything is going well, you can manage it together. However, I believe the most challenging aspect of self-management is that you have to solve problems together and sometimes address difficult issues with each other. It's often easier to cover for each other and avoid confronting each other. (ID nr 21)</i></p> <p><i>Well, I think it's mainly related to our personalities. Our shortcoming is that we know we can sometimes be too kind to each other, and shy away from confrontations. I don't think that fit with the way [general director ID nr 3] and [director ID nr 5] in particular, managed the whole thing. (ID nr 45)</i></p>
	<p>Absence of actionable purpose</p> <p>Teams struggling with defining their contribution</p>

	<p><i>Our [self-managed] team concept only works if you have teams with a concrete purpose. Teams need to know what it is their team stands for. What makes them important for the organization. They need to find a broader perspective. Then it works. We're not quite there yet. I think that a lot of teams don't look beyond their team and understand their own contribution, even after all these years. (ID nr 11)</i></p>
	<p><i>We especially struggled the question of "when are we doing it right?" "what is our contribution?" And if you don't find a clear answer to that it becomes difficult in a self-managed context. You also saw that with other teams, that there is still a lack of concreteness, that stops teams from making a next step. Yes, in the first two and a half to three years, we really got stuck into the forming and norming stage. Only after that did the performing come, after three years. (ID nr 41)</i></p>
	<p>Teams struggle with creating a clear plan</p>
	<p><i>We had to make a plan, that was a disaster. We had to go back to the board three times with our plan. At first, that didn't make sense to us. When we looked at the plans of the other teams and looked at our plan, we felt it wasn't so bad. But the board kept pushing us and kept rejecting our plan. We really got desperate, but eventually, we got it right. (ID nr 38)</i></p>
	<p><i>I do think that other teams like [O & O] are more of a driver for change, and we tend to later align with them, like in the development of chatbots, for example. That could have come from our team, but we are more focused on the day-to-day operations than on true innovation. And I think we prioritize safety more, ensuring that we really know what we can further develop, and because of that we find it difficult to decide on a course. (ID nr 21)</i></p>
	<p>Internal conflict</p>
	<p>Individuals in team resisting change</p>
	<p><i>We had one person who really didn't like all those changes from day one. She felt it wasn't good, it wouldn't get better, and it would never become good. She absolutely couldn't agree with it and finally she decided to go on early retirement. She was really frustrated with Hollands Kroon. And somebody with this kind of attitude leaves a mark on the whole team, but the moment she closed the door behind her, we all felt "this is good for the team". From then on, we could finally really make some progress. (ID nr 12)</i></p>
	<p><i>I have witnessed team clashes, because people were standing up for the fact that some colleagues were not performing, and they were just done with it. Ultimately, they asked me to help with that, but sometimes these were long carried frustrations for the whole team. I have carried out interventions in certain places. Those people are no longer there, or they are in different positions. (ID nr 7)</i></p>
	<p>Teams consisting of opposing "camps"</p>
	<p><i>You could see that worlds started to clash, because one group wanted change, as they saw that change was possible within the organization and new opportunities were arising. On the other hand, there were others who were more traditional; they wanted a</i></p>

	<p>stable environment. These two worlds inevitably clashed, especially when they were part of the same team and had to deliver the same product. So, yes, you could occasionally witness some heated discussions within the different teams. (ID nr 15)</p> <p>We had a nice team, but it kind of fell apart. There were a few who really didn't want to move. So, in the end, the board intervened because we couldn't find a way forward together. That was very unfortunate, one half wanted to move forward, and the other half clung tightly to how things were. Yes, there was quite a clash. But it was actually handled very well by the management. We had good conversations with them, and in the end, two people left the organization, which wasn't our intention, and the rest was divided into two teams. (ID nr 37)</p>
	<p>Team – steering</p> <p>Leaders continuously challenging teams</p> <p>I can still remember that in the first year with [team Gamma] in Hollands Kroon, I had a lot of issues. They considered all the changes we wanted in terms of service delivery, shifting towards a more customer-centric approach, as complete nonsense. They simply had a law to execute and did it the way the law prescribed, and they were very resistant. When I suggested going a bit to the left, they would just go to the right, and my initial management response would have been to push back quite hard. However, at that time, I deliberately invested a lot of time and energy into talking to those people and giving them the opportunity to explain what they meant. This way, I gained a lot more understanding for why I was doing things, and I also personally came into a different light. I gave them the time, not to go from 0 to 100 right away, but first from 0 to 50, and allowed them time to come up with their own plan. (ID nr 1)</p> <p>These were not always easy conversations. Often, there were conversations about “why should we always try to do things differently?” They felt things were going well, so why change? So those were pretty tough conversations. But we did set things in motion and because of these conversations, we achieved a lot. Over and over again we had these conversations on why and how they could do things differently. Not because it had to be different, but because it allowed us to provide better services to our local organizations and residents. (ID nr 4)</p> <p>Leaders assigning coaches and support</p> <p>For our team it really took a while before we were a team. We were given a coach to help us, but in the end that didn't quite work out. Then an internal colleague was assigned to help us. He did help us become more of a team and only when this happened, we were able to productively work on our plan. But it really took us a while to become a team. And now that we are, we also have a solid plan, that we believe in. Now we have a team, and we are proud of the things we have accomplished, but it was not easy. (ID nr 22)</p> <p>The board initiated a “helpline” system. Eleven people from various high performing teams, were asked to become a “helpline”. It's a kind of side job. Subsequently, we had a conversation with them and explained what a helpline does. They received a full day of</p>

	<i>training. We identified how the could help teams to find direction and what kind of questions they could expect from teams. They are now the first point of contact for teams when they are working on achieving their results, to assist them. (ID nr 26)</i>
Team – restructuring	
Leaders removing team members	
	<i>At some point people who were let go. Well, that's quite a big thing, of course, but at a certain point, the conflict became so intense that [general director, ID nr 3] and [director, ID nr 5] really drew conclusions from the way certain individuals were impacting the team to such an extent that there was simply no more flexibility left. (ID nr 38)</i>
	<i>You would expect that self-managed teams would decide for themselves who fits the team, but it frequently happened that the board would step in and decide to put someone on non-active. If the situation was really getting out of hand, they would just intervene and make the decision. (ID nr 2)</i>
Leaders dismantling or splitting teams	
	<i>I recall the [dismantled] team. They did indeed have trouble thinking outside the box. A mentor was actually assigned to help them, but it didn't work out very well in getting at least some of them on board. And yes, that team was then disbanded. So, there was a radical intervention. Because the intention of the board was indeed to issue permits more quickly, for example, flash permits, and they were stuck in the guidelines and rules. (ID nr 30)</i>
	<i>Teams have also been killed quite often. A lot of teams were created and subsequently destroyed again and then new teams arose again. These were decisions from the board. These were teams that didn't perform, or the dynamics in the team were not working, or they weren't improving their processes, then the board could take pretty drastic measures. (ID nr 2)</i>
Lending authority	
Leaders using their influence to help teams	
	<i>We [the board] had to put a lot of effort into our potential partners. Our way of working was a topic of discussion in almost every collaboration, every time. In all instances our organization was represented on another level than the people on the other side. Potential partners often sent their managers, we came with a civil servant or an expert in their field and the other side often found this troublesome. We often had to step in, without taking over. (ID nr 3)</i>
	<i>Also, our mayor advocated for us within the ministries. Because, of course, he sometimes discuss certain matters in The Hague and he knows people and has more influence. And, because nobody was doing the things we wanted to do, we needed their support, because within existing rules was difficult. His influence helped. To make home delivery possible the mayor actually waived some of his formal authority and transferred it to the RDW for a certain period. (ID nr 38)</i>
	Leaders carrying the risk for teams

	<p>We did see the move to the cloud as our best option, but it could also involve breaking laws and regulations. We are not the ones responsible for that; it's for others in the organization to decide on that. Our task is to look at the ICT of the municipality of Hollands Kroon and to contribute to establishing a new and better infrastructure. Because that's what it's all about for us. The board indicated that they would take responsibility for the decision to move to the cloud, which gave us the leeway to proceed. (ID nr 20)</p> <p>Team [Tau] was really in a state of confusion. On one hand, there was a board talking about guts, and on the other hand, there was a thick legal code with various quality criteria, in other words, very detailed legislation. And we said: "forget about the handbook for now, we'll take care of that with [the alderman]. That is our problem. You can focus on what you consider important and whether you think it's appropriate." (ID nr 4)</p>
	<p>Leading by example</p> <p>Leaders doing new things in extreme ways</p> <p>Some of the things we did were truly over the top, but they were conscious decisions to show to people that we were serious, that we wanted Hollands Kroon to be different and that this was also possible. So, we did a lot of things more extreme, than we would have done normally. (ID nr 5)</p> <p>A recurring topic was what type of culture are we going to shaping? Are we going to be like Anna Paulowna [on of the original municipalities] yes or the no? And the answer was very clearly NO, we are not going to maintain any culture of one of the four old municipalities. We are going to be something completely differently. And I think the message was "everything you've thought in the past, forget it. Because it's just not going to be like that anymore". And because the board was also so extreme, it was clear that we were doing things differently. We were not a variant of one of those old 4 municipalities. And in this case, they really pulled the band aid off in one go, but I think it did help to do it so radically, and often over the top and crazy. But this way did encourage people to do things in a completely different way. And yes, it took some getting used to for some. I understand that too. (ID nr 42)</p>
	<p>Leaders openly defying the rules</p> <p>This was a pioneering team. They were very focused on change and innovation, doing something that had never been done before, and people like that are less focused on regulations and governance. They were primarily focused on conditioning and aligning people with the new core values. We had to have the guts, show passion, trust each other, and so on. We tried to go against this and bring the importance of control to the attention of them, but like I said, pioneers don't really embrace this. (ID nr 9)</p> <p>In most cases where we really attacked conventional thinking, but we did enter into a conversation with the actors. If we were confronting the Archiving Act, then we would also have a discussion with the Archives Inspectorate. In relations to the accountants, we would explain why we would not comply. I spent a lot of time and energy explaining why we did the things we did. And we did meet with resistance. And people weren't wildly enthusiastic. But in my experience eventually most would start a dialogue with us. (ID nr 3)</p>

CHAPTER 6

**GREAT GRAY OPPORTUNITIES:
HOW TO USE THE LEGITIMACY–
ILLEGITIMACY CONTINUUM TO
INNOVATE IN THE PUBLIC
SECTOR**

6. GREAT GRAY OPPORTUNITIES: HOW TO USE THE LEGITIMACY–ILLEGITIMACY CONTINUUM TO INNOVATE IN THE PUBLIC SECTOR

ABSTRACT

This article uses a case study based on 5 years of ongoing research at a Dutch municipality and demonstrates how to create and use the “gray zone of legitimacy” as a fertile ground for innovation, a requirement for meeting grand societal challenges. This case underscores the value of public administrators recognizing this gray zone as a potential source of innovative solutions. It also highlights how policymakers can create avenues to support such endeavors. This article offers both a framework to start and shows how administrative leaders and policymakers can contribute to institutional changes, paving the way for other public organizations to innovate.

EVIDENCE OF PRACTICE

- *The public sector requires new strategies to reconcile the need for innovation while pursuing legitimacy. We suggest creating and using the gray zones through (1) distancing from rules, (2) circumventing rules, and (3) mystifying rules.*
- *Administrative leaders have the choice to proactively create a more innovation-friendly environment. Hence, moving from a state of illegitimacy into the gray zone, where innovation can be introduced, or to*

initiate innovations while in a state of illegitimacy, using them as a foundation for constructive negotiations, and later transitioning them into the gray area.

- *Policymakers can provide administrative leaders with more opportunities to operate within the gray zone. They can do this by offering “sandboxes” designed for authorized exceptions meant for experimentation and customization. These sandboxes offer secure regimes under which otherwise illegitimate actions can be pursued to help innovators act on “great gray opportunities.”*

6.1. Introduction

Public organizations are increasingly recognizing the importance of innovation when addressing grand societal challenges, ranging from environmental crises to socioeconomic disparities. While innovation is expected, compliance, laws, and regulations are prudently safeguarded. Likewise, societal values and expectations might confine the boundaries of change. Government actors must effectively navigate the complex and dynamic environment that emerges from the interaction of political and administrative pressures. At the heart of this challenge lies the concept of legitimacy, in which different audiences assess the acceptability, desirability, or appropriateness of an organization. Public sector organizations need to act in a legitimate way or risk tangible (Zuckerman, 1999; Thornton, Ocasio, en Lounsbury, 2015) or symbolic

(Hampel en Tracey, 2017) penalties that may complicate innovations or even act as a game-stopper. Creatively using legitimacy may offer a way out of this. This approach starts by viewing legitimacy as a continuum, not just a simple dichotomy. This “gray zone” between the legitimate and illegitimate allows managers of public organizations to initiate and realize innovative processes and services that are unprecedented, not explicitly allowed by existing policies and procedures, and not practiced by other peer organizations.

A case study of innovations introduced by the Dutch municipality of Hollands Kroon shows that once such an approach is used, multiple new pathways for innovation become visible. Hollands Kroon used legitimation strategies to move controversial actions from illegitimacy via the gray zone to the legitimate zone. Through this case study, we explain the strategies that can help public sector innovators gain “enough” legitimacy required to move forward and potentially reach full legitimacy. The findings contain important lessons for administrative leaders. They also offer a new perspective for policymakers: they can use the gray zone as fertile ground for institutional innovation and allow for more space for experimentation and authorized exceptions. Even better, using the gray zone may contribute to much-needed institutional change (e.g., legislative change).

6.2. Theoretical background

6.2.1. Innovation in the public sector

Scholars have extensively studied innovation for almost a century. Since Schumpeter introduced the concept of “creative destruction” (1942), a wealth of literature has studied innovation’s economic and societal impacts. In the 1970s, scholars delved into innovation’s management and organizational aspects, and concepts such as “technological innovation” and “organizational innovation” gained attention as researchers examined how firms could strategically innovate to gain competitive advantages (Utterback, 1971; Baldrige & Burnham, 1975). Only decades later has the focus on innovation within the public sector emerged, garnering attention and recognition for its importance. Triggered by the “New Public Management” concept advocating business-like approaches in the public sector, scholars explored innovative applications for public service enhancement (Hood, 1991). As innovation gained traction within politics and administration, it was seen as a catalyst for public sector improvement (Walker 2006). Various innovation domains have emerged: service, administration, democracy, and policy (Meeus & Edquist, 2006; Hyndman et al., 2018; Ferry et al., 2019; Aviv et al., 2021). However, realizing benefits from public sector innovation remains uncertain (Salge & Vera, 2012), given unique challenges such as diverse public expectations and political pressures (Bekkers et al., 2011; Nutt & Backoff, 1993), regulatory

restrictions (Johns et al., 2006), risk-averse cultures (Borins, 2001), and managers exhibiting lower proinnovation attitudes (Lapunte & Suzuki, 2020). Despite its practical importance, scholarly research varies in assessing innovation's impact and success criteria (De Vries et al., 2016), underscoring the distinctive hurdles faced by public sector innovations.

6.2.2. Legitimacy in highly institutional and political environments

Legitimacy is the judgment of audiences regarding the acceptability, desirability, or appropriateness of an organization (Suchman, 1995). In particular, the public sector is expected to fully comply with institutional norms rendering legitimacy of utmost importance and contributing to the intricate nature of legitimating innovation. Unlike their private sector counterparts, public sector organizations are driven by several intangible social and political objectives rather than purely economic motives as their main source of legitimacy (Morris & Jones, 1999). This distinction is amplified by the presence of numerous stakeholders with varying degrees of power and divergent interests (Gray et al., 2015), which can give rise to a range of legitimacy challenges (Kraatz & Zajac, 1996). Moreover, the political nature of the public sector engenders struggles between proponents and opponents (Kellogg, 2011; Heinze & Weber, 2016), leading to different commitments, thereby further complicating the legitimation of unconventional change. Adding to the complexity, prevailing rules in the public sector are often upheld

by the most stringent of the three institutional pillars, the regulatory pillar (Scott, 2014). This type of organization deals with several regulatory rules (Abbott et al., 2000) that portray high levels of:

- Obligation—the actors' behavior is subject to scrutiny by external parties.
- Precision—rules unambiguously specify the required conduct.
- Delegation—third parties have the authority to apply the rules and resolve disputes.

Meyer and Rowan (1991) argue that legitimacy judgments force organizations to adopt taken-for-granted strategies, structures, and practices. The challenge to innovate in the public sector is even harder, as these organizations have to deal with the deep-structural features of the political and administrative system (Pollitt & Bouckaert, 2017). All of this is highly problematic in times demanding change, especially considering (global) challenges that call for innovation, such as demographic shifts, environmental concerns, public health emergencies, and humanitarian crises. It needs no further explanation that the stakes are high: the challenge is to create positive change, which calls for renewed strategies.

Scholars have mostly treated legitimacy as a black-or-white phenomenon: either something is legitimate or not (Deephouse et al., 2008). Conflicts between the four legitimacy types, namely, regulatory, normative,

pragmatic, and cognitive (Deepphouse et al., 2017), made this notion unsustainable. Actions may, for instance, be legitimate from the perspective of legislation, while at the same time, they can collide with deep-rooted values in society. Hence, actions can be regulatory legitimate and morally illegitimate at the same time. Currently, research has come to recognize legitimacy as a continuum (Suddaby et al., 2017) and acknowledges a gray area between illegitimacy and legitimacy (Haack et al., 2014; Bascle 2016; Castello et al., 2015). Recently accepted research (Siraz et al., 2022) has offered three novel states of legitimacy and illegitimacy: conditional legitimacy, conditional illegitimacy, and unknown legitimacy.

Conditional legitimacy refers to a situation in which evaluators provide a positive legitimacy assessment for a subject but explicitly lay down one or more conditions or limitations. As long as the subject aligns with these specified conditions, its legitimacy remains intact; otherwise, doubts about its legitimacy can arise if it might even be classified as illegitimate. On the other hand, conditional illegitimacy involves labeling something as illegitimate, yet it obtains a certain degree of acceptance due to mitigating factors (Mouw & Sobel, 2001). To acknowledge these factors as circumstances that outweigh the presumption of illegitimacy, they must possess specific validity from regulatory, pragmatic, normative, or cognitive standpoints. The concept of unknown legitimacy pertains to cases in which the legitimacy of a subject

remains uncertain. This can occur either because a definitive decision has not been reached or because of conflicting judgments among different stakeholders. In such instances, even when thorough scrutiny occurs, there can be numerous reasons why evaluators struggle to arrive at a unanimous judgment.

In recent years, the global environment has been confronted with a range of severe challenges. Consequently, governments worldwide are under increasing pressure to enhance their effectiveness and deliver improved outcomes to society, with the aim of building a more resilient future (Vivona, 2023). Against this background, research and practice indicate that governments should embark on ambitious missions to address grand challenges, spur innovation, and create public value (Demircioglu & Audretsch, 2017; Damanpour & Schneider, 2009). The ways in which these conflicting forces are managed and reconciled remain insufficiently theorized (Compagni et al., 2015). More specifically, there is a dearth of understanding regarding the legitimization of innovation in the public sector. Empirical insights on this topic are limited, and there is a strong focus on collaborative innovation (Whicher & Crick, 2019; Hartley et al., 2013) and open government (Yuan & Gasco-Hernandez, 2021; Grimmelikhuijsen & Feeney, 2017) as means to legitimize innovation in the public sector. Given this paucity of research, it is unsurprising that scholars have called for further research on organizational

and environmental contingencies that are most likely to affect the extent to which organizations and service users can harness the benefits of innovation in the public sector (Salge & Vera, 2012). Using these gray areas may be part of the solution to successfully innovate in challenging times that call for “bold” innovations.

6.3. Research context and methods

The empirical data were collected through intensive, longitudinal field-based research by the lead researcher who had secured direct access to over 50 municipalities in the Netherlands from 2010 to 2019. Through these observations, we noted that no other entity undertook major innovative initiatives in the scope and scale of the change as our focal municipality, Hollands Kroon. Operating in a highly institutional–political environment, Hollands Kroon made an ideal setting for researching the legitimation of innovation and examining the nuances of the “gray area.”

6.3.1. Case description

Hollands Kroon is a Dutch municipality that serves approximately 50,000 inhabitants. The municipality was created through the merger of four rural municipalities in January 2012. The new municipality was set up differently from what the sector was used to. As the new general director told the organization during his opening speech, “Municipalities are bureaucratic, old-

fashioned, and not in touch with the needs of their constituents. A new kind of municipality is required, and Hollands Kroon will be the example.” From the beginning, the municipality was focused on setting up an organization with less bureaucracy and management with more empowered and responsible civil servants, reducing management layers and many taken-for-granted practices, and creating the conditions for innovation. In 2014, Hollands Kroon became the first documented municipality in the world to transition to SMTs, removing all management layers, except for a board. During the same period, Hollands Kroon was able to initiate major innovations such as home delivery of all its civil services, such as passports, driver’s licenses, and birth certificates, and to abandon the traditional city hall and its physical counters, in addition to several other innovations (see the table below for an overview of innovations pursued). Although many actions taken by Hollands Kroon were considered questionable—or even illegal—they could proceed without facing penalties. On the contrary, at that time, Hollands Kroon was quite popular. In 2015 and 2016, over 300 organizations visited Hollands Kroon to learn about the organization. In 2016, Hollands Kroon was a World Smart City finalist at the Smart City Expo. In 2017, the most influential Dutch field publication for the government conducted a six-part series regarding the transformation of Hollands Kroon.

Fostering Innovation in Public Sector Organizations

Innovations	Description
Abandoning civil servants oath	In the Netherlands, civil servants swear an oath by which they promise to be, among other things, cautious and reliable. The new core values of Hollands Kroon launched in 2012 included “guts” and “trust,” which were intended to encourage civil servants to try new things and make their own decisions without asking for permission. The municipality felt that the oath contradicted the new core values and chose to abandon the oath as a way to reject existing norms and values of the Dutch municipality system until 2019, at which time a new board reembraced the code after institutional backlash.
Abandoning holidays	Hollands Kroon wanted people to focus on output (results), not input (hours), which meant that they wanted people to decide for themselves when they worked and when not. For this reason, they abandoned not only the punch clock but also the 25 annual holidays, which is a legal requirement under Dutch labor laws. This decision was met with pushback from the unions and the employee council. However, the board initiated negotiations and agreed on a transition period in which employees who did not want to be part of the new regime would be excluded for 3 years. Nowadays, employees are enthusiastic about the arrangement.
Ignoring purchasing regulations	In the transition toward the cloud in 2015 Hollands Kroon felt it was important to move fast, but in doing so, they ignored the European Purchasing regulations. Although the project was considered a success and showcased the municipality’s innovative nature, years later, during a political crisis, the board received major criticism of the process, which was also one (although not the major) reason for a board member resigning in 2019.
Alternative way of offering local care services	Hollands Kroon broke established norms by outsourcing care tasks for the unemployed, sick, and youth to a private sector organization, which was an untested model in the Netherlands and faced legal questions. The municipality disregarded the pushback and proceeded with the approach, prompting questions in the Dutch Parliament. However, the Minister concluded that it was within the local government’s purview to make the decision. The move initially sparked controversy but was praised later as an innovative public-private collaboration.
Ignoring the Gatekeeper Improvement Act	This law promotes the reintegration of employees on sick leave into the workforce. It requires both the employer and employee to take certain steps during the sick leave period to support the employee’s return to work. Failure to comply with the requirements of the “Gatekeeper Improvement Act” can result in financial penalties for the employer. Hollands Kroon made its self-managed teams responsible for taking care of their people to improve employee support and reduce administrative tasks. No institutional backlash followed as this approach proved successful and produced positive results.
Ignoring financial reporting standards	For years Hollands Kroon violated financial reporting rules because the board chose not to adhere to the financial reporting standards that mandated audits and strict controls. Hollands Kroon felt that these rules were not aligned with the personal accountability of employees. Consequentially, the accountant rebuked them for years, citing unfulfilled obligations in their annual report. However, the board did not view this as a severe punishment and annually explained to the local politicians why this was the case.

Changing law used for changing spatial destinations	Hollands Kroon found changing the land-use plan too long and complex for small pieces of land and felt that it could make it easier for their citizens. Therefore, it opted to use a different regulation. Despite not being specifically intended for this purpose, the alternative law had a less stringent procedure, which made it more efficient and cost-effective for citizens to change the purpose of their land. Although there was initial uncertainty regarding the legitimacy of using this rule, it was eventually deemed legal by the court years later. In the interim, it achieved the desired outcome of circumventing the established lengthy procedures for changing land use.
Ignoring national security guidelines	Hollands Kroon did not adhere to the national security guidelines that govern their website. It ignored several warnings from the governing authority regarding this matter. As the situation escalated, the authorities threatened to cut off their access to DigiD. Eventually, the municipality complied with the presented standards to avoid losing access to DigiD, which is a key online authentication system for Dutch citizens to access public services.
Ignoring new legislation on management and enforcement of spatial planning	Hollands ignored the new legislation that detailed how municipalities were to organize their oversight and enforcement of permits in the spatial domain. The management of Hollands Kroon argued that the regulations were too bureaucratic and did not account for the specific needs of their rural community. They sent a letter with their argumentation for not complying with the new regulations instead of signing a letter of intent, and the central government did not respond or impose punishment. As a result, Hollands Kroon organized their tasks in the way they believed best suited their context without facing any consequences.
Destroying physical archives	The Dutch Archive Act stipulates that all official documents must be physically stored under specific conditions. Being a digital frontrunner, Hollands Kroon already had a fully digitized archive and did not want to maintain a physical archive and planned to destroy it, which led to discussions with the Regional Archive's board. Eventually Hollands Kroon did not comply with most of their legal obligations and destroyed their physical archives, excluding some documents, and received their regulatory archiving declaration and €380,000 per year on storage costs.
Issuing mobile phones to every employee	As part of a new flexible office concept and a more mobile workforce, every person, independent of their role, was issued a laptop and a mobile phone in 2012. Hollands Kroon's decision to issue mobile phones to all employees was not in compliance with the tax agency's regulations. However, rather than facing penalties for breaking the rules, Hollands Kroon demonstrated the benefits of their new way of working and sparked a dialog with the tax agency that led to a compromise. This compromise allowed all employees to continue using their phones for personal and professional purposes, subject to certain restrictions.
Abandoning expenditure approvals	The board of Hollands Kroon abandoned expenditure approvals to create more empowered and responsible civil servants. This decision was a departure from traditional financial standards and was disapproved by the accountant. Moreover, no compromise was found after an intense debate. Instead, the board organized a yearly "signing event" in which board members signed all bills from the previous year without checking them. In this way, the accountant could not object because there was, in a legal sense, "managerial oversight."
Circumventing rules to allow for	To introduce home delivery of passports, the municipality collaborated with a willing ministry that relaxed some legal restrictions by labeling the initiative a pilot project. Other

home delivery of passports	regulatory restrictions related to the transport and issue of passports were circumvented by redesigning fulfillment processes and a collaboration between a legitimate courier and a civil servant as the only person allowed to hand over passports to citizens. This workaround enabled the municipality to be the first organization to deliver civil services at home.
Home delivery of birth certificates	Transporting a legally binding document, such as a birth certificate, is highly regulated, if it is not the citizen carrying the document. To legitimize that a civil servant could bring a birth certificate to the parents, Hollands Kroon argued that as long as the deed was not certified, it was not yet an official document, and the civil servant should be allowed to travel with it. The result is that the municipality has been able to offer an innovative and highly appreciated service for years, although there is still uncertainty regarding the legality of this practice.
Full transformation of the IT infrastructure to the public cloud	In 2015, Hollands Kroon was the first municipality in the world to fully transition to Microsoft's public cloud. There were major concerns about the legality of a public organization using a cloud hosted by an American company that could be subject to the Patriot Act. To address these concerns, Hollands Kroon engaged a legal firm to assess the situation and analyze Microsoft's terms and conditions. Although the resulting report was not verified by any court, it created sufficient leeway for the municipality to proceed with the transition.

Table 11 Innovations challenging existing rules and regulations

6.3.2. Data collection

This extreme case (Eisenhardt, 1989; Pettigrew, 1990) would be difficult to explain through the dichotomous view on legitimacy, but the recent illegitimacy–legitimacy continuum perspective offers new frontiers for the development of a theory (Glaser & Strauss, 1967). To gain a comprehensive perspective, we conducted three rounds of data collection, using a combination of interviews and archival data from mid-1999 to early 2021. The first round of data collection occurred in mid-2019, focusing on understanding historical events and contexts and tracing the strategies and tactics used by leaders throughout the period. Our data sources included archival data and interviews with key decision-makers. These interviews were relatively unstructured, aiming to better comprehend the events that unfolded over the years and

construct a timeline. This group was “purposively” selected (Bernard & Bernard, 2013) because of their unique knowledge of strategic actions and reasoning. In the second round of data collection at the end of 2019 and the beginning of 2020, additional archival material was collected to validate observations and interpretations. Semistructured interviews were conducted to understand how organizational members perceived and responded to innovative strategies and practices. The interviewed employees were homogeneously sampled (Saunders et al., 2003) from those who had been with the organization since its early years. Additionally, we sought informants from different teams to assess potential variations in team reactions. During these interviews, we gained deeper insights into the strong reciprocal relationship between legitimacy and innovation. After generating initial ideas about this relationship, we initiated a third round of purposefully sampled interviews (Bernard & Bernard, 2013) at the beginning of 2021. This final round collected more detailed data regarding the legitimizing tactics.

6.3.3. Data analysis

Theory-building was ongoing using an inductive approach involving iterative cycles between data collection and the emerging theoretical understanding of organizational innovations and legitimacy processes (Miles & Huberman, 1994). The analysis proceeded in stages. We first constructed a timeline of key events and developed a comprehensive understanding of the overall case by

reading and coding the initial interviews and archival materials. This stage was equivalent to “open coding” as performed in grounded theory (Strauss & Corbin, 1990) and unfolded the reciprocal relationship between innovation, legitimacy, and rule breaking. We used these topics as our framework for a new round of coding, starting all over again. At this time, we have also begun identifying quotes from our informant. As our coding progressed, we created more focused and refined codes (Miles & Huberman, 1994). In 2022 (Siraz et al.), new insights regarding the gray area were published, which inspired us to take a new look and recode all of our collected data. We refined our theoretical arguments by going back and forth between first- and second-order codes and aggregate theoretical dimensions (Gioia et al., 2013). We brainstormed alternative conceptual frameworks until we reached agreement, which consisted of three strategies (Langley et al., 2013) as summarized in our findings sections: distancing from rules, circumventing rules, and mystifying rules in addition to organizational and institutional changes.

6.4. Findings

The gray zone offers the potential to handle unconventional and innovative change. It is important to understand what and how to benefit from these new states in practice. In this section, we describe what we can learn from Hollands Kroon, who, like many other public sector organizations, must navigate legitimacy issues as innovations are likely to collide with taken-for-granted

norms and regulations. Conventional wisdom indicates that unconventional innovations require impressive acts of legitimation, making the illegitimate legitimate. This is perceived as the only option for the long-term success of innovations. However, Hollands Kroon has shown in multiple cases that it is possible to successfully play the gray zone. Our data analysis unravels three strategies: (1) distancing from rules, (2) circumventing rules, and (3) mystifying rules.

Strategy	Description	Object of (de)legitimation	Practices
Distancing from rules	Ignoring rules and regulations by arguing it does not apply to you	The organization (legitimation)	<ul style="list-style-type: none"> - Focusing on lack of value for the organization - Focusing on a mismatch with organizational context - Framing a distinctive identity
Circumventing rules	Navigating rules and regulations by offering a creative solution	The solution (legitimation)	<ul style="list-style-type: none"> - Redesigning processes - Collaboration with authorities and third parties - Staging symbolic legitimacy
Mystifying rules	Introducing uncertainty in interpreting rules and regulations	The regulation (delegitimation)	<ul style="list-style-type: none"> - Presenting a different legal perspective - Involving experts and legitimacy-conferring actors - Encouraging public debate

Table 12 Characteristics of three strategies to use the gray zone

6.4.1. Distancing from rules

Right from the start, the new organization rebelled against all things that were deemed bureaucratic. We could summarize it with the mantra “Rules don’t rule.” This means that there was a strong belief that rules should not dictate the decisions and actions of civil servants. Rather, the objectives behind these rules should be central and therefore servants should be empowered to make

decisions without unnecessary red tape as they themselves were in the best position to weigh decisions best for their citizens. This empowerment resulted in the abolishment of many actions and procedures that did not add value. During our research, we observed situations in which Hollands Kroon ignored accounting, labor, tax, archiving, and spatial domain legislation. There was a clear motive for this: they simply believed that these rules did not create public value. There was also full transparency: Hollands Kroon explained the motives to the authorities and (surprisingly) got away with it most of the time. Nonetheless, this approach calls for bravery every now and then. We describe two examples of Hollands Kroon successfully distancing itself from the rules.

Ignoring new spatial domain legislation: In 2016, the Dutch central government revised the legislation regarding the granting of permits in the spatial domain. Municipalities were required to organize the oversight and enforcement of permits in accordance with a new standardized working method set by the central government. However, Hollands Kroon felt that their community required a different approach. In a formal letter, they presented their reasoning for why the new legal requirements were unsuitable for widespread rural communities. Despite Hollands Kroon being of moderate population size, it ranked second in terms of surface area, which in their view necessitated a distinct approach to ensure efficient oversight and enforcement. They felt that municipalities themselves were best equipped to decide how

these laws should be organized in the most effective way to cope with the specific needs of the community. The board explained their position and sought the support of local political leaders. Again being very transparent, they also indicated that there could be risks of reprimands from the central government if they decided not to comply. Support for their position from local politicians added additional legitimacy to the board's attempts to distance Hollands Kroon from the rules. The central government allowed the exception, although never formally, and did not impose punishment when Hollands Kroon continued its own innovative path. The result: Hollands Kroon was able to arrange the tasks more efficiently and in the way it believed best suited its context.

Demolishing physical archives: Hollands Kroon was a pioneer in digital ways of working and was one of the few Dutch municipalities with a fully digitized archive. However, they were also faced with legal obligations stipulating that all documents be physically stored under strict conditions. Despite digitization, Hollands Kroon still had to pay for physical storage. The board of Hollands Kroon considered the yearly fee for this—amounting to €380,000—a waste of taxpayers' money and were not inclined to maintain an old-fashioned archive in addition to their modern digital system. Their plan to destroy its physical archive stirred a heated debate with the Regional Archive's board. Nonetheless, Hollands Kroon persisted in its position, explaining that it was

ahead of the curve with its digitization efforts and that it would not buy something that did not create value for its community, especially in the light that its archives were already much more accessible than elsewhere. In addition, they explained their position to their mayor, who was also a board member of the Regional Archive's board, mustering support for their argument that because they were fully digitized, their situation was not comparable with that of other municipalities in the region. All these transparent actions were in fact part of the strategy of distancing itself from the rules. In the end, Hollands Kroon agreed to bring a small portion of specific documents to the depot, where it was not charged and destroyed the rest. Despite ignoring the rules, it received its regulatory archiving declaration and was able to maintain its position without repercussions.

Although bold, defiant action allowed the municipality to make some transitions faster, this was not always successful. On numerous occasions, institutions demanded that Hollands Kroon comply with regulations and threatened severe penalties if it did not. At one point, Hollands Kroon was at risk of being cut off from the central systems required to deliver public services, which ultimately led it to comply. For Hollands Kroon, this was part of the game, as its general director at the time acknowledged. He recognized that setbacks were inevitable, in which case they sought to innovate in other areas.

At times, distancing itself from the rules had a vital side effect: it sparked broader institutional change. An example of this was when the tax agency objected to the practice of providing every employee with a mobile phone. Hollands Kroon had opted for nontraditional work arrangements from the start in 2012: rather than having a fixed office, each employee was issued a laptop and a mobile phone. This may sound obvious now, but it was novel at that time. These arrangements also conveyed the important message to employees that everyone was equally important to the organization's success, regardless of their position. However, the tax agency objected to this practice, as at the time, only certain individuals in specific roles were permitted to be issued a business phone. Hollands Kroon invited the tax agency to demonstrate how a more mobile workforce also required new tools to be productive and how traditional rules would not work out well. Hollands Kroon was fully transparent on how they were frontrunners and why they should be able to distance themselves from the rules. This led to a compromise whereby the tax agency allowed all employees to continue using their phones (and laptops) for both personal and professional purposes, subject to certain device and financial restrictions. Perhaps more important from the perspective of society as a whole: the tax agency reused this agreement as a template for "flexible ways of working" in other organizations, which was important at a time when mobile

ways of working grew in popularity. The dialog thus ended up with the tax agency adapting its rules.

6.4.2. Circumventing rules

Distancing from rules is not always an option, because oversight is sometimes conducted by powerful authorities very strictly. In several instances, Hollands Kroon could “bend the rules” to circumvent limitations that blocked innovation. We describe two examples of this.

Abandoning expenditure approvals: From the beginning, the way of working at Hollands Kroon included the removal of many taken-for-granted practices such as time registration, expenditure approval, and holidays. Civil servants did not have to justify or ask for approval from management for their financial expenditures. This unusual approach was also a signal that civil servants were trusted to spend taxpayer’s money responsibly and worked well. However, there was one problem: the accountant would not agree with this way of working, arguing that it collided with financial standards, and proved to be persistent in negotiations with the board. Ultimately, the board came up with a creative solution: they organized a yearly “signing event” where board members spend an entire evening, for everyone to see, signing all the bills of the previous year without checking any of them. By doing so, the accountant could not formally object, but the board would remain true to trusting their employees and committing to cutting red tape. Moreover, as a bonus, the taken-

for-granted practice was publicly ridiculed, signaling that it was time for (broader) change.

Home delivery of passports: At times, Hollands Kroon collaborated with institutions that were open to change but limited by legal boundaries. An example was the plan to transition all civil services to home delivery and digital services, with the goal of closing the municipality office. The first service to be delivered to citizens' homes was passports. A willing ministry agreed to collaborate by relaxing some of the legal restrictions by naming it a pilot project (distancing Hollands Kroon from the rules), providing additional leeway for experimentation. However, other regulatory restrictions presented challenges beyond the ministry's control. For instance, passports had to be transported under strict conditions, and only civil servants were allowed to hand them over to citizens. This requirement conflicted with the proposed method of working and required a creative solution. To circumvent these challenges, Hollands Kroon developed a scheme with a legitimate courier that would deliver the passport to the citizen's location, and upon arrival, this courier would signal a nearby civil servant to formalize the process. The civil servant would accept the passport from the courier and perform the formal handover to its citizen. This workaround enabled home deliveries, although with inefficiencies. Nowadays, the municipality has its own courier service

staffed with civil servants to facilitate the home delivery of passports and other services.

The introduction of home delivery was highly valued by citizens, receiving a rating of 8.7 out of 10 and inspired other institutions to follow. Initially, only one ministry expressed interest and permitted a pilot program. The success of the first pilot, achieved through a creative workaround, garnered the attention and interest of other institutions. This triggered a new pilot project with the ministry responsible for drivers' licenses based on the same home delivery concept. All civil services at Hollands Kroon are now home delivered, but this also had a broader external effect. Currently, many municipalities in the Netherlands offer some form of home delivery services, pioneered by Hollands Kroon, which illustrates how circumventing rules can spark institutional change.

6.4.3. Mystifying rules

In many instances, Hollands Kroon forced a system-wide reflection and reevaluation of policies and practices by frequently offering alternate interpretations of existing legislation. This resulted in several court cases, some of which it lost and some of which it won. Interestingly, just as in the case of distancing itself from the rules, the introduction of a divergent interpretation of a rule was often not challenged. We describe two instances of Hollands Kroon mystifying established rules.

Home delivery of birth certificates: One of the novel home delivery services was related to birth certificates. In conventional practice, typically the father of the child visits the city hall to officially register the birth of the baby. Hollands Kroon offered the option where the civil servant travels to the parents' home with the deed and a small gift for the newborn. However, stringent legal regulations demand filling out—and certifying—the required information behind a computer at the city office. The rules stipulate that a civil servant cannot travel with an official document unrestricted across the street (comparable with the earlier passport service). However, Hollands Kroon argued that a birth certificate is not an official deed if it is not yet certified; therefore, they believe that a civil servant is allowed to travel to the homes of its citizens with the deed (and without legitimate transportation) if the certification is performed after transport, in this case at the parents' home. This was the core of their strategy of mystifying the rules: they introduced uncertainty regarding the very definition of an “official” deed. The Hollands Kroon interpretation of the rules has been criticized by others in the field, and there is still uncertainty whether the home delivery is legally permissible. Nevertheless, there were no formal objections, which gave Hollands Kroon enough leeway to offer this innovative and highly appreciated service.

Cloud transition: In 2015, Hollands Kroon became the first municipality worldwide to migrate its entire IT infrastructure to the public cloud and adopt

Office 365 in pursuit of its digitalization objectives. The transition was conducted despite concerns at the time regarding the legality of public organizations moving applications to the cloud, particularly one hosted by an American company (Microsoft) and therefore possibly subject to the Patriot Act. Hollands Kroon engaged a leading legal firm to conduct an assessment that resulted in a solid report with arguments as to why Hollands Kroon was allowed to move to the cloud and under what conditions. This report was used to secure the support of local politicians, giving them a further mandate to proceed with their cloud transition. The legal report offered a different perspective that contradicted conventional thinking in the sector and removed or at least created uncertainty about the legitimacy of the traditional arguments. Although the report encountered skepticism and doubt, it created sufficient leeway for Hollands Kroon to proceed and challenged established opinions on the matter.

Despite this doubt, particularly between 2015 and 2019, Hollands Kroon's cloud transition sparked institutional discussions and showed new paths with benefits for the future. Hollands Kroon's actions created leeway and showed the world that new ways led to better services and more modern and productive organizations. In 2017, the municipality became a World Smart City finalist for its cloud transformation, signaling appreciation from the sector as a global leader. Cloud transformation was frequently used as a reference

case by the IT sector. It took the Dutch Association of Municipalities several years before they agreed to the terms and conditions with Microsoft in 2019. In the meantime, many municipalities decided they could not wait and instead used the Hollands Kroon case as legitimization following their footsteps. Similar agreements with other cloud providers outside the European Union followed in subsequent years.

6.5. Discussion

As stated earlier, organizations in the public sector are faced with large challenges that often cannot be dealt with by strictly following the rules and abiding by norms. They should use the gray area between illegitimacy and legitimacy to develop innovations that create public value and help to deal with urgent societal challenges. The popular saying that you cannot solve new problems with old methods is at the heart of this. The good news from studying the Hollands Kroon case is that there are indeed promising opportunities. We uncovered several pathways for innovation to be successfully introduced using the three different gray areas and, in some cases, reaching full (regulatory) legitimacy.

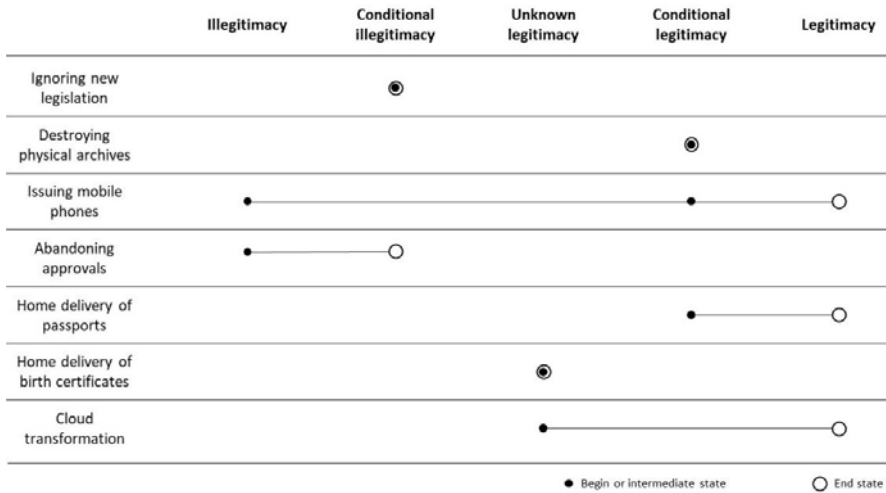


Figure 8 Pathways of innovations across the illegitimacy–legitimacy continuum

Our research shows how, in many cases, the organization first influences the context, changing a state of illegitimacy into one of the gray areas of legitimacy. In the case of the new spatial legislation, Hollands Kroon never received a formal exemption but explained their mitigating factors enough not to be penalized (conditional illegitimacy). In contrast, in the case of the physical archives’ digitization, clear conditions were agreed upon with the authorities under which an authorized exception was given (conditional legitimacy). In the case of the home delivery of birth certificates, Hollands Kroon first created uncertainty, consequently taking advantage of a state of unknown legitimacy.

However, our research also shows that organizations can also choose to launch an innovation in a state of illegitimacy and later transition it to a gray

zone. “Abandoning expenditure approvals” and “giving everyone a phone” are two examples of this. In the literature, we have seen Uber entering a market despite a lack of legitimacy to force change (Garud et al., 2020), but we have not seen public organizations using similar tactics. Our research shows how it can be beneficial for a public sector organization to launch an innovation from a position of illegitimacy. An interesting point is that one would expect major backlashes to be a normal implication of such an approach (DiMaggio en Powell 1983). However, our study showed that backlashes frequently were not the case. In some instances, organizations will be forced to make u-turns, but as we have shown, it can also be the starting point for productive negotiations. Our research also shows how several innovations continued to have a broader institutional impact, triggering change in taken-for-granted rules and regulations. Such was the case with the issuing of mobile phones, home delivery of passports, and cloud transformation, as they moved into states of full legitimacy at later stages. We also observed stalemates in all three gray areas, which lasted for years. This is in contrast to previous theorizing (Siraz et al., 2022) that presumed that gray states, and especially the state of unknown legitimacy, are unstable. Driven by a higher good, most evaluators can collectively choose to remain undecided or tolerate the situation. Our research shows instances in which it is not beneficial (enough) for “rule breakers” and “rule enforcers” to challenge unclear or suboptimal positions, making it

possible for innovation to exist and flourish indefinitely in the gray zone. This was the case with the home delivery of birth certificates, a practice that was widely appreciated but legally very doubtful.

6.6. Conclusion

Most public organizations are positioned to harness innovation opportunities that might otherwise be overlooked because of perceived illegitimacy; however, the relevance of the tactics we have identified for addressing these challenges is contingent upon the specific context. Notably, Hollands Kroon effectively capitalized on a window of opportunity triggered by a sequence of mergers and municipal restructuring, culminating in a period of flux. Although these changes were not designed to foster such innovations, and no other municipality across the nation attained a comparable level of innovativeness, it is reasonable to speculate that the instability of the surrounding environment played a role in nurturing legitimacy tactics. Furthermore, cultural considerations, including factors such as pragmatism, can significantly influence the acceptance of bending rules among practitioners. Across different cultures and political systems, we might observe varying degrees of adherence to established policies and procedures, alongside distinct severity in the consequences of violations through innovation (Dryzek en Tucker, 2008). Other determinants of applicability include the degree of public scrutiny, the leadership's risk tolerance, and the organization's historical reputation in terms

of adhering to or challenging established norms. However, it is important to note that while the specific applicability of these tactics may vary based on context, their broad relevance remains evident in their potential to reconfigure perceptions of legitimacy, navigate barriers, and stimulate innovative thinking within public organizations. Therefore, the potential effectiveness of the identified tactic hinges on the interplay of contextual dynamics, cultural dispositions, and organizational imperatives.

6.6.1. Lessons for administrative leaders

One overarching and promising finding is that by using the so-called gray area, public sector organizations can create new frontiers for unconventional and innovative change. “Regulatory conflicted” innovations can be introduced and upheld by administrative leaders through legitimation efforts, using a combination of distancing themselves from rules, circumventing rules, and mystifying rules to move away from a situation of illegitimacy to one of the intermediate states on the illegitimacy–legitimacy continuum. New in this context and possibly uncomfortable for many administrative leaders is the strategy by which they mystify the rules by offering alternative interpretations.

When using these strategies, administrative leaders hold a pivotal responsibility in shaping the narrative and engaging influential actors. Our study illustrates the importance of proper discourse by leaders when clarifying why legislation does not fit a rural community or why certain standards are not

suitable anymore for a digital municipality. Moreover, administrative leaders are uniquely positioned to gain the support of influential figures who can endorse their viewpoints. Backing from these legitimacy-conferring actors can deter authorities from rigidly enforcing regulations. Inherent within the gray zone is a level of friction, for example, because regulation frequently lags behind societal change. This friction subjects not only rule breakers but also those responsible for enforcement to potential scrutiny within the gray zone, especially when confronted by influential actors. As our study shows, rule breakers are less likely to face repercussions from rule enforcers when the rules are already conflicted or evidently outdated (for example in the case of the cloud transition). This offers innovators the possibility of pushing forward even if the rules have not yet changed. Hence, the state of legitimacy is not only driven by changes in prevailing norms (Alvarez et al., 2023) but also by the prospects of change, and leaders can use this tension to their advantage.

On the basis of our findings, our research highlights various strategies that administrative leaders can employ to (a) enhance the legitimacy of innovations and (b) broaden the legitimate (gray) space. The case study also demonstrates the synergistic potential of combining these strategies. As a result, leaders are encouraged to thoughtfully strategize to maximize the probability of successful innovation endeavors.

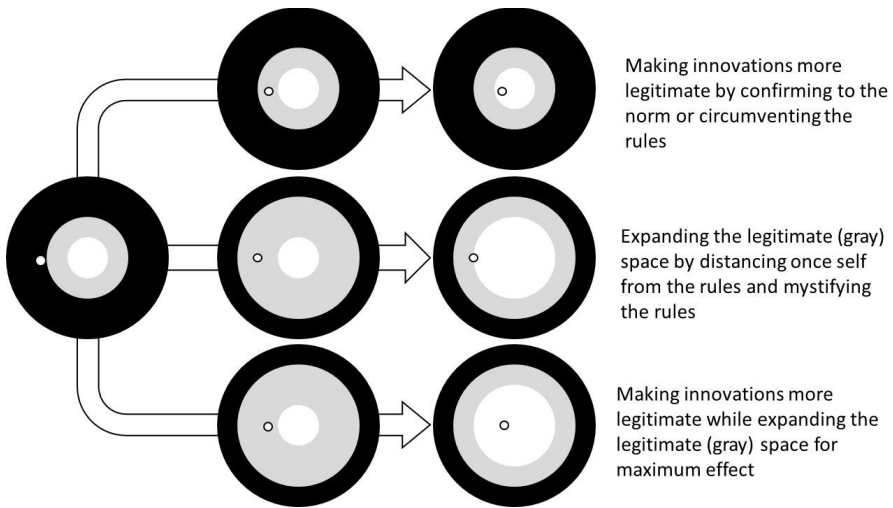


Figure 9 Effects of using multiple strategies to maximize the probability of successful innovations

We call on public administrators to take a more critical look at the rules set by the regulatory bodies, challenge the taken-for-granted interpretations, and embrace the “great gray opportunities” as opportunities for greater public value in the gray area between illegitimacy and legitimacy.

6.6.2. Lessons for policymakers

All the above have important implications for policymakers. We expect our public organizations to execute these policies. However, this deserves another perspective: especially in a time when public organizations are under increasing pressure to “confront demands for greater efficiency and effectiveness” (Cabral et al. 2019), the need for change might run counter to existing policies. Considering this conflict, it is important to encourage the use of the gray zone to innovate. Our research shows that distancing from rules,

circumventing rules, and mystifying rules can stimulate or accelerate wider institutional change. Authorities should offer public organizations more opportunities to “play in the gray zone.” They can do this by offering a “sandbox” opportunity in the form of an authorized exception meant for experimentation and customization. These sandboxes should offer secure regimes under which otherwise illegitimate actions can be pursued to help innovators in the field execute and experience change, ultimately creating new public value and setting in motion institutional improvements.

In addition, policymakers typically constrain the administrative organization by providing detailed information about how they should make their decisions on behalf of the government (Hansen, 2022). In the so-called formalization strategy, political superiors specify all the characteristics of a legitimate decision and the direction in which each of these characteristics should influence judgment. Creating more leeway and reflection in these formalization strategies will create space and allow innovators to try new things in a state of conditional legitimacy, thus creating a more fertile ground for new opportunities for institutional change. We call on policymakers to facilitate innovators by giving them more options to act on their “great gray ideas.”

CHAPTER 7

GENERAL DISCUSSION

7. GENERAL DISCUSSION

7.1. Introduction

This dissertation embarked on a critical exploration of strategies for managing innovation in public sector organizations, focusing on the multifaceted challenges of legitimacy that administrative leaders face. At its core, this research was driven by a quest to offer new pathways for public organizations to navigate the delicate balance between adhering to existing rules and regulations and pursuing groundbreaking innovations. The journey began with a comprehensive systematic literature review, laying the groundwork for understanding the unique contexts of strategic change within public sector entities. This foundational stage highlighted the complex interplay of multiple stakeholders and diverse goals, all under the umbrella of persistent legitimacy issues. The subsequent empirical investigation was methodically structured across different analysis levels, using both qualitative and quantitative techniques to delve deep into the dynamics of strategic reorientation and legitimation processes of innovation in the public sector. At the meso level, Chapter 3 sheds light on how organizations initiating significant strategic innovations cope with the ideocratic legitimacy challenges unique to the public sector. Chapter 4 elevates the discussion to the macro level, examining the impact of strategic choices made by local governments and their effect on community economic development. Further, Chapter 5 delves into the

microlevel intricacies by examining the evolution and optimal distinctiveness perceptions of SMTs mandated to innovate. In its entirety, this body of work not only scrutinizes various management strategies and tactics but also pioneers new thought processes and approaches for public sector leaders striving to enhance the value their organizations deliver to society, which we will highlight in the following section.

7.2. Discussion

7.2.1. Conform, frame, and negotiate to accumulate legitimacy for strategic change

In Chapter 2 of this thesis, we review the literature on strategic change and legitimacy from three different perspectives—institutional, sensemaking, and stakeholder—each with different implications for how to deal with legitimacy issues. The institutional perspective highlights the importance of aligning or at least appearing to align with the taken-for-granted norms and rules of the institutional environment. This (perceived) alignment does not mean that new strategies have to conform to the status quo, which would contradict the idea of strategic change, but rather that change and innovation require a creative combination of innovation and compliance, which entails complex contradictions. For example, actors can align their strategies with emerging logic or selectively draw from multiple and conflicting logics. Alternatively,

they can use partial or symbolic alignment to create a perception of conformity sufficient to advance their agenda. Therefore, institutionalism suggests a dualistic process of conforming and innovating to achieve strategic change.

The sensemaking perspective provides additional tools to legitimize strategic change by offering rhetorical tactics to influence audience interpretations and evaluations of the strategic moves. In this perspective, we learn about the role of “narratives” because actors use their resources to shape the sensemaking process and elicit a positive judgment from audiences. Through framing, or strategically avoiding framing by being silent, actors can persuade or evade audiences and their legitimacy judgments, making (illegitimate) strategies seem more legitimate. Because of the number of different audiences, a major challenge in the public sector is not to alienate (too) many parties when implementing rhetorical tactics. In this context, the role of ambiguity should not be underestimated, as shown in previous research.

The stakeholder perspective, dominant in the public sector literature due to its highly political environment, makes audiences active actors. These stakeholders have interests and are willing to give their support and thus add legitimacy to strategies that serve their interests. In this view, strategies are negotiated to accommodate different needs, and legitimacy is traded as a resource if plans align with these interests. The accumulation of enough legitimacy creates a pathway for strategic change that does not require

consensus among all audiences but rather a coalition of legitimate stakeholders who transfer “enough” of their legitimacy to the plan. Through this lens, the legitimacy of strategic change is not about being appropriate but more about the power and influence of the actors backing the change. Successful innovation implies managing the “participant arena” because legitimate actors strategically enter the arena at various points to safeguard their interests. Managing this arena may also imply attempts to include and exclude actors from the arena.

7.2.2. Deliver provocative projects and manage responses to create and use liminal space

Contrary to the private sector, the public sector is characterized by a lengthier and complex process of strategic change. However, our literature review mostly acknowledges a traditional strategic change process similar to the private sector. This process is based on three sequential steps: strategy formulation, selling, and execution. Our research proposes a different approach. Chapter 3 of this thesis presents a case study of innovative strategic change that contrasts with the established paradigms. Our research positions itself uniquely against the backdrop of classical theories. Although the current research predominantly advocates for an incrementalist perspective on change, our approach champions the virtues of immediacy and sweeping shifts. This approach presumes that it is (more) effective to demonstrate legitimacy than to

debate legitimacy. It uses provocative projects to accumulate legitimacy and create leeway for other innovative initiatives and a new overarching strategic reorientation. We particularly underscore the potential of the often-underestimated liminal spaces, positing them as foundational enablers for transformative endeavors. Legitimation tactics remain important in this approach because provocative projects themselves require legitimacy, but the major advantage of this approach is twofold: (a) legitimation of a (small) project is more feasible than that of a (big) strategy, and (b) not all projects need to be winners; the innovators can cherry-pick successes to accumulate legitimacy for the overarching strategy, making the risky path to strategic change more manageable. It is important to note that this nonlinear perspective on innovation, especially within the highly political context, demands high persistence and responsiveness levels, including readjustments and even u-turns, to successfully execute and use emerging opportunities and sustain innovations, fitting a more agile way of working.

7.2.3. Configuration of an overarching strategy

The nonlinear approach proposed in Chapter 3 does not imply that an overarching strategic framework is not crucial for organizations to succeed. On the contrary, the new approach offers a more pragmatic way of getting there. In Chapter 4, we highlight the importance of a comprehensive strategic management approach by examining how public sector organizations allocate

their resources following the view of Joseph Bower (2017) that “the problem of resource allocation is the essence of strategy.” We did so by focusing on local economic development, which is one of the key priorities of all local governments as they seek to create an environment conducive to entrepreneurship. Our investigation studied the concrete configurations that municipalities have at their disposal to support economic development and boost economic activity. Although an array of economic development activities has been considered in the literature, most have been considered in isolation, and a holistic approach to budgeting strategy has not been proposed thus far due in part to the limitations of traditional correlational research designs. For this reason, we used fsQCA to identify what configurations of municipal economic capital spending strategies are most effective in promoting entrepreneurial activity at the local level. Our research shows that only a select number of configurations increased economic activity. This more nuanced understanding of local economic development based on exploring condition configurations that produce a desired outcome rather than merely examining the net effect of a single condition demonstrates the importance of developing an overarching strategy that not only performs but also aligns with our earlier discussed approach that offers organizations the opportunity to discover which configurations of strategic choices work and which do not. In the public sector, dominated by decision-making based on political

consideration, the total configurational impact of choices requires more attention.

7.2.4. Managing the participant arena

As both sensemaking and stakeholder perspectives from the literature review indicate, it is all about the participants and their judgments and interests. In Chapter 5 of this thesis, we investigate one group of these participants, the internal actors, as a governmental organization reorganizes into SMTs to increase its innovation and offer new services to its constituents and businesses that provide better public value. On the basis of the case analysis, we describe the tension of these participants to manage the apparent contradiction between (1) complying with existing rules and regulations and (2) pursuing groundbreaking new solutions and services. We offer four useful archetypes of teams that managers can use to assess and manage their “participant arena.” The Revolutionists are those who fully accept the need for change and are willing to not only push the boundaries of what is acceptable but also pursue radical innovation. The Crusaders are those who are lawful but willing to innovate. They initially avoid challenging the rules even at the expense of daring exploration and innovation. The Bohemians are those who are not concerned with regulatory compliance and are open to the idea of challenging the rules but face difficulties in how to approach groundbreaking innovation. The Magistrates are those who are lawful and find it difficult to justify the need

for radical innovation. They mainly advocate the continuation of current arrangements. Our research shows how managers can not only steer, lead, and support actors in the arena but also restructure the arena. It offers a framework for leaders to manage their internal “participant arena,” focused on creating and supporting Revolutionists and Crusaders, who are the drivers of innovation, while neutralizing the Magistrates, who are the defenders of the status quo. The management of the “participant arena” is one of the key challenges for leaders and for creating a more conducive environment for innovative change initiatives and achieving endogenous change.

7.2.5. Future research directions

This dissertation substantially contributes to understanding innovation management in the public sector. It sheds light on the intricate challenges of legitimacy that leaders face and offers new pathways for navigating these challenges. The theoretical and practical insights derived from this research enrich the academic discourse and provide valuable guidance for practitioners in the field as public sector organizations continue to evolve and adapt in an increasingly complex and dynamic environment. The dissertation also highlights some important aspects that remain underdeveloped. Building on the findings of this dissertation, we highlight three avenues for future research that we identified.

Deepening understanding of managing legitimacy backlash: Further research is needed to continue exploring the dynamics of legitimacy in the public sector particularly how organizations can effectively maintain legitimacy in the face of scrutiny and backlash, which is likely to always be a possibility in this highly political context, with numerous stakeholders and interests.

Examining the role of leadership in public sector innovation: The critical role of leadership in navigating the complexities of public sector innovation warrants more in-depth exploration. In contrast to leaders in the private sector, who have been the subject of extensive research, leaders working in a public contexts have received comparatively less attention. However, existing studies indicate that these leaders exhibit distinct characteristics and confront unique dynamics and challenges. Future studies could focus on identifying the specific leadership qualities and tactics that facilitate successful innovation in this context.

(Cross-)Sector comparative studies: There is an opportunity for comparative research that examines the strategies and outcomes of innovation management across different organizations and public sectors. Our fsQCA research offers the first kind of these studies, which have mostly been absent. Such studies could provide a broader perspective on how different organizational environments influence innovation processes and outcomes.

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About the Author

Dave Kiwi is a seasoned entrepreneur with a track record of successfully establishing, leading, and expanding businesses, focusing on the public sector market. His leadership experience spans roles as the founder, general director, and managing partner of multiple technology-focused companies, and he served as the Chief Technology Officer for public sector organizations. Recognized for his significant contributions to the business landscape, he has received numerous national and international awards in acknowledgment of his achievements in business growth and innovation. His expertise lies in digital transformation, organizational change, and strategy, all underscored by a dedicated focus on the public sector. Currently, Dave is actively pursuing a PhD, concentrating on effectively managing innovation within the public sector, considering its distinctive institutionalized and political contexts.

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FOSTERING INNOVATIONS IN PUBLIC SECTOR ORGANIZATIONS

ANTECEDENTS AND PROCESSES OF EFFECTIVE REORIENTATIONS AND LEGITIMATION

In recent years, the public sector has faced significant challenges, ranging from environmental crises to public health emergencies and humanitarian disasters. Research indicates that addressing these grand challenges requires ambitious missions to drive innovation and create public value. However, this endeavor is often impeded by a variety of constraints from institutional, political and organizational domains, which greatly hinder innovation and transformation efforts. Understanding the inherent differences between the public and private sectors, this study concentrates on the legitimacy challenges and complexities encountered by public organizations focused on innovation. It delves into effective strategies for managing innovation, providing guidance to policy makers, administrative leaders and change agents on navigating legitimacy challenges during innovation processes, all while balancing compliance with existing rules and regulations. This study highlights the concept of “liminal space” as a framework to support innovative ideas, strategies and solutions. This space represents an environment that is willing to relax established norms, values, beliefs, rules and definitions to support an idea, and it can be influenced by innovative actors. By embracing this concept, organizations can foster an atmosphere conducive to innovation within the public sector.

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Dave Kiwi is a seasoned entrepreneur with over 20 years of experience in leading digital innovation and transformation. His career began in strategy consulting before venturing into entrepreneurship. Dave has founded and led multiple IT businesses, specializing in enhancing public sector operations through strategic applications of technology. He holds a Master's in Business Administration from the University of Groningen, with a specialization in strategic management. His recent research focuses on strategic management and innovation within public sector organizations, in particular the dynamics between innovation and legitimacy.

