HOW FISCALLY DISTRESSED LOCAL GOVERNMENT AUTHORITIES CAN CREATE PUBLIC VALUE

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ABSTRACT

Fiscally distressed local governments face a critical challenge – how to create and deliver public value and sustain it. Drawing from the works of Porter (1995) and Moore (1995), this study highlights the concept of organizational strategy and the need to look into the "hidden" strategic advantages of fiscally distressed local authorities as a coherent approach for creating and delivering public value. To this end, case studies of local authorities in Israel that had been scrutinized by an investigation committee appointed by the Ministry of Interior were analyzed. This investigation committee eventually suggested replacing the heads of the local authorities with temporary nominated management committees until new elections were conducted. Findings on value creation are provided in the conclusions.

INTRODUCTION

How can fiscally distressed local governments organize their systems to meet the complex challenge of creating and delivering sustainable public value? This is one of any public sector organization's greatest challenges, but it is of particular interest to local government municipalities considering the growing efforts localities invest in enhancing their competitiveness and boosting their overall economic development (see Hill & Nowak, 2000).

The financial crises of local governments is a world-wide phenomenon, which has both a significant qualitative and quantitative influence on the provision of municipal services required and expected by various constituencies for which localities are accountable for. This phenomenon is prevalent in free market, economic-based countries (e.g., The United States) as well as welfare, economic-based countries (e.g., Norway). In the United States, a recent study has reported that approximately 500 municipalities have declared bankruptcy since 1937, when the Municipal Bankruptcy Act was passed by Congress. This, however, is an incomplete picture of the state of affairs as many more local authorities have experienced financial crises without declaring bankruptcy (Park, 2001). In Norway, although revenues have increased due to increased tax revenues of 15.1 percent from 2000 to 2001, and there has been an increase in central government transfers by 4.5 percent, current expenditures have also increased by 9.4 percent, resulting in a deficit before financial transactions of about 5.2 billion Norwegian Krone (NOK) in 2001, similar to the previous year (Statistics Norway, 2001).

Why do local authorities experience financial crises which prevent them from delivering public value – providing needed and expected services using public resources in an optimal way (Moore, 1995)? This question is of considerable interest because of its consequences on society, community and the individual. Policymakers and those in charge at state and local government levels have made significant attempts to find solutions to this public problem. Oftentimes, they have recommended and adopted policy programs that have tended to emphasize the need for public intervention for improving educational systems, stimulating economic development and developing new welfare programs. Unfortunately, these programs have not managed to solve the financial problems and difficulties experienced by local governments. Furthermore, the trend to adopt policies that were applied successfully in other places has also proved to be very problematic. Schwartz and Ellen (2000) noted that American cities seeking to foster economic growth have tended to follow the successful cases of others, but generic policies may not be applicable in every place. Hence, leaders must consider the context of a city and create a strong compatibility between the context and the selected policy.

Following the importance of planning or strategic management in providing high quality public goods more efficiently and effectively (see Boyne, 2001; Carmeli & Cohen, 2001), a potential direction for solving the fiscal crises of local authorities, is to look into the "hidden", strategic (competitive) advantages these local authorities may possess. Porter (1995) argued that the fiscal stress of American inner cities could be solved by the adoption of an economic model and suggests that the first step would be the identification of their unexploited competitive advantages. This requires a strategic change in the ways things, thus far, have been conducted; namely there is a need to break through existing boundaries towards new design models that aim to enhance the competitiveness of these communities, which results in the creation of public value (Moore, 1995).

This study applies the concepts of strategy and strategic advantage through an examination of case studies of fiscally distressed local authorities in Israel for which the Ministry of Interior appointed an investigation committee. This committee eventually suggested replacing the heads of these local authorities by temporary nominated management committees until new elections were conducted. Particularly, the major goal of this study is to explore what these local authorities can do strategically to create and deliver public value – the provision of needed and expected services by using public resources in an optimal way (Moore, 1995).

THE FISCAL CRISIS

To understand the financial situation of the local government in Israel, it is important to explore the local authorities' annual financial reports. The surplus (deficit) ratio in the ordinary budget of the local authorities is usually used. According to the Ministry of Interior in Israel (2002), the deficit in the ordinary (current) budget of the entire local authorities increased by about 95 percent from NIS (New Israeli Shekel) 655 million in 2000 to NIS 1,278 million in 2001, which accounts for 2.2 and 4.2 percent of the total revenues in the ordinary budget, respectively. More significantly, the accumulated deficit in the ordinary budget increased by approximately 10 percent from NIS 4,518 million in 2000 to NIS 4,970 million in 2001. This state of affairs may be better illustrated by the fact that, in recent years, some local authorities have postponed paying their employees' monthly salaries because of liquidity stress and perhaps, more acutely, we have witnessed an emergent norm according to which local authorities often pay off the debts owed to their suppliers only after a significant delay of weeks or even months past the due date.

However, using surplus/deficit ratio may lead us to incorrect conclusions with respect to the fiscal health of local authorities. For example, in 2002, the City of Dimona, located in the south of Israel, gained a surplus of NIS 63,000 (0.04%) (Ministry of Interior of Israel, 2002). This result, however, does not accurately reflect the fiscal stress this city faces. To have a clearer picture, we need acceptable criteria by which the fiscal health of the local authorities can be evaluated. The fiscal condition of a local government authority depends on the costs involved in providing services, relative to the revenue sources available. If costs rise faster than revenue capacity, then a city will face ongoing or structural fiscal difficulties (Chernick & Reschovsky, 2001: 1). A key criterion for measuring fiscal health is the need-capacity gap, which is defined as the gap between the expenditure need and the revenue-raising capacity. Expenditure need indicates the minimum amount of money a local authority must spend per resident for the provision of the standard or average level of public services for which it is responsible. Revenue-raising capacity indicates the amount of revenue per resident accessible to a local authority when its residents face a standard or average tax burden. Measuring expenditure need and fiscal capacity is difficult. Fiscal capacity is a function of the economic resources located within a jurisdiction and the extent to which these resources are exploited to generate revenues. It is also difficult to determine how much spending may be due to inefficient operations (Chernick & Reschovsky, 2001: 3-4). Nevertheless, Chernick & Reschovsky (2001: 4) advocate the use of this measure in the United States because it focuses on factors that are outside the immediate control of the local governments' public officials.

Drawing on their work, we used revenue-raising capacity and expenditure need to evaluate the fiscal condition of the local government in Israel. It is, however, important to note that due to the different characteristics of the US and Israel's local governments' financial systems, we used measures that (1) reflect the financial structure of Israel's local government, and (2) maintain the concept of the need-capacity gap. Revenue-raising capacity is comprised of self-income and designated grants received from governmental ministries. The self-income component includes all the income (e.g., property taxes, water fees) that the local authority collects directly from its residents, businesses and assets, and on specific occasions also from service receivers operating within its jurisdiction (Hecht, 1997: 21). Designated grants received from governmental ministries are comprised of governmental transfers designated by ministries to cover costs of state-level services (e.g., education, welfare). We have not included other incomes in the ordinary budget such as general governmental grants (aimed at ensuring the provision of a minimal amount of municipal services by weak local authorities) and balance and reduced accumulated grants aimed at assisting weak local authorities in handling their current and accumulated deficit. *Expenditure need* is comprised of the total cost of the municipal activities (i.e., local and state-level services, employees' salaries, interest and bank fees and general fees for municipal services. We have not included ad-hoc expenditure and loan repayment).

The *revenue-raising capacity* of the entire Israeli local authorities in 2001 was NIS 26,402 million, compared to an *expenditure need* of NIS 28,218 million, a negative gap of NIS 1,816 million (or approximately 7 percent). This indicates a problematic structural fiscal condition that demands careful consideration.

SOLVING THE FINANCIAL CRISIS

Although we are witness to a growing public demand to reduce the governmental bureaucracy significantly, its role and power, perhaps more than ever, seem so sustainable that from a practical point of view a totally non-public intervention is not viable in the foreseeable future. Scholars attribute the power of the government, illustrated by the level of intervention, to (1) technical problems in the free market (e.g., improper levels of production) that prevent the provision of necessary public goods and services and (2) the need to ensure justice and fairness in their provision (Moore, 1995; Stewart, 1999; Weimer & Vining, 1999).

On a parallel path, over the years the power of civil society has constantly been enhanced. This power is demonstrated by the higher levels of expectations and standards in the provision of public goods and services that the government is expected to meet. Civil society, represented by various players (the media, interest groups, non-governmental organizations, etc.), now demands a higher level of transparency, monitors government functioning, introduces new standards and, generally speaking, expects governments to do much more with less.

This growing demand to do much more with less is a problematic task for all local authorities, but for those local authorities that struggle with ongoing fiscal stress, it may be a “mission impossible.” Over the years, policymakers at both the state and local government levels have made significant attempts to overcome this public problem. Oftentimes, they have recommended and adopted social policy programs that advocated governmental intervention through subsidizations and governmental transfers. These programs, however, have not fulfilled their goals because they were not part of a grand strategy emphasizing wealth creation (Porter, 1995). Furthermore, local government leaders have revealed a tendency to adopt policies that were applied successfully in other places, but this approach has proved to be very problematic. Schwartz and Ellen (2000) noted that American cities seeking to foster economic growth have tended to follow the successful cases of others, but generic policies may not be applicable in every place. Hence, leaders must consider the context of a city and create strong compatibility between the context and the selected policy.

To solve the structural fiscal stress of local authorities in Israel, policymakers have adopted a similar approach; namely, claiming increased governmental transfers and economic resources to fulfill the *need-capacity gap*. Although additional efforts to reform the finances and structure of Israeli local government have led to some progress, they have not solved the fundamental *need-capacity gap*. These efforts, though well-intention, have not resulted in a better environmental structure because they have either lacked political feasibility or were concerned with only one key issue and lacked a clear strategy as to what kind of local government they wished to build.

This study draws upon a strategy approach for managing public sector organizations (Moore, 1995) to suggest different paths for solving the financial crises of local authorities. This approach looks into the "hidden" strategic (competitive) advantages these local authorities may possess. Porter (1995) argued that the fiscal stress of American inner cities could be solved by the adoption of an economic model and that the first step would be to identify their unexploited competitive advantages. This requires a strategic change in the ways local government authorities have, thus far, operated. Specifically, there is a need to break through existing boundaries towards new design models that aim to enhance the competitiveness of these communities, which would result in the creation of public value (Moore, 1995).

THE CONCEPT OF ORGANIZATIONAL STRATEGY FOR PUBLIC SECTOR ORGANIZATIONS

Scholars have been devoting considerable research attention to studying the importance of strategies for organizations competing in the private sector. This interest in strategy can be attributed to the works of Ansoff (1965), Andrews (1971) and Porter (1980, 1985), among others, who argued that successful organizations are likely to develop a unique competitive strategy. Scholars have been skeptical as to the degree to which the principles of the strategic approach for private sector organizations are also applicable for public sector organizations. The major contention is that public sector organizations are monopolies that operate in a quasi-competitive landscape for public goods in which the benefits of a competitive market may be approached but not fully achieved (Schneider, 1989). Nevertheless, recent work indicates that the concept of organizational strategy exceeds the boundaries of the private sector to include the public sector (Moore, 1995) and the not-for-profit sector (Brown & Moore, 2001; Oster, 1995; Moore, 2000). Within this line of research, we can understand the relatively new concept of "best value" aimed at sustainable improvement of both processes and outcomes of governmental agencies (Boyne, 1999, 2000; Boyne, Gould-Williams, Law, & Walker, 1999). In this regard, the conduct of public agencies is subjected to regular and rigorous examination regarding the '4Cs' (challenge, compare, consult, and compete). Managers should challenge the organization's current policies, determine and execute the best practices through a comparative approach, consult stakeholders to detect issues and explore approaches to be adapted in the future, and build competitiveness.

The major reason for this development is the belief that the organizational strategy perspective may have the potential to provide satisfactory explanations for the variance in organizations' performance and create distinctive public policies for producing better outputs and outcomes. Furthermore, the concept of organizational strategy may help us to better understand why government fails as it incorporates a broad set of interrelated elements whereas other perspectives tend to focus on a more narrow set of factors.

A major step forward on this path has been taken by scholars at The Kennedy School of Government, who have provided us with perhaps the most coherent concept of organizational strategy for the public sector and non-profit organizations (see Moore, 1995). In this study, we build on the "strategic triangle" for positioning public sector organizations proposed by Moore (1995), which was recently extended to not-for-profit organizations (Brown & Moore, 2001; Moore, 2000). In this way, we examine the financial stress of the local government in Israel through case studies of the local authorities. These local government authorities underwent investigation by a committee appointed by the Ministry of Interior, which eventually suggested replacing the local authority heads by temporary nominated management committees until new elections were conducted. The next sub-section describes the "strategic triangle" for public sector organizations.

The Strategic Triangle

To cope with the growing demand that the public sector provide better services to its stakeholders, a strategy approach for managing public sector organizations becomes prominent. Particularly, the "strategic triangle" developed by Moore (1995) has the potential to break through the classic administrative approach towards fostering competitiveness by which organizations in the public sector deliver higher public value.

The strategic triangle is a framework that simultaneously requires that leaders (1) create clear and socially valuable strategic visions and goals; (2) attract the necessary political, financial, social and legal support and legitimacy from the political authorizing environment needed to attain organizational goals; and (3) develop an operational capacity that enables the organization to produce the expected outputs and outcomes. If any one of these conditions is missing, the organization is not likely to deliver public value. For example, an organization cannot have a valuable strategic vision without an established operational capacity to achieve it because either the strategic vision will be perceived as unfeasible or other political entities will be assigned to accomplish it.

This framework is very useful for local government units as it enables them to break through existing boundaries towards new design models that aim to enhance the competitiveness of these communities. However, the importance of the strategic triangle might be further enhanced by incorporating the concept of competitive advantages. The strategic triangle is not explicitly concerned with the competitive advantages that organizations may possess. One may argue that operational capacity and competitive advantage are synonymous constructs, but the two actually differ from one another. Operational capacity is synonymous with the term operational effectiveness, which means: "performing similar activities better than rivals perform them" (Porter, 1996). To achieve superior performance, it is important to have high operational effectiveness, but this is still not sufficient for two key reasons: (1) competitors can imitate all kinds of practices and (2) benchmarking yields organizations that are being conducted in a similar way. Hence, the objective of the strategy is to create a competitive advantage, which is likely to result in superior performance (Porter, 1985).

The Concept of Competitive Advantage

Competitive advantage is "the unique position an organization develops vis-à-vis its competitors through its patterns of resource deployments" (Hofer & Schendel, 1978: 25). Although this definition is drawn from the business strategy literature, it is applicable to the local government sector assuming that local authorities compete for economic, social and political resources, among others. The nature of competition among businesses is different from the competition existing among local authorities, because the latter are monopolies within their jurisdictions. Though localities are monopolies, they compete, for example, to attract new residents from high socio-economic levels as well as businesses to increase their revenues and to create a favorable reputation. This often generates intense competition.

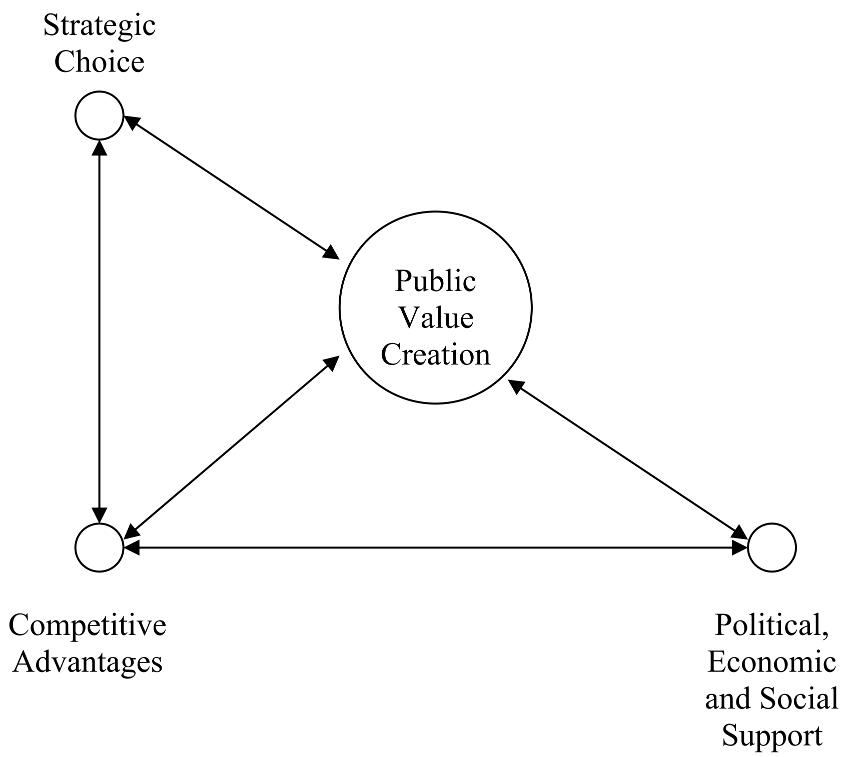
The question is: what kind of competitive advantages do local authorities possess? The most significant attempt to provide a coherent answer was made by Porter (1995) in his work on the competitive advantages of inner cities in the United States. Porter (1995) identified four competitive advantages: strategic location (inner cities located near busy, high-rent areas, business centers and modes of transportation and communication), local market demand (inner city markets provide an immediate opportunity for entrepreneurs and businesses because of its size and underdevelopment), integration with regional economics (leaning on competitive regional clusters that host unique and competitive businesses can enhance economic development by establishing supporting businesses and enabling businesses to lean on other businesses within the clusters to supply products and services that meet the city's needs), and *human resources* inner city residents are a potentially dedicated work force, one, which thus far, has not been utilized effectively and which has increased entrepreneur and management skills). Though Porter's study is concerned with inner cities, we can extend the concept of competitive advantages to the level of local authorities. An attempt to integrate both the concepts of the strategic triangle and competitive advantages would be the most significant.

INTEGRATING THE CONCEPTS OF THE STRATEGIC TRIANGLE AND COMPETITIVE ADVANTAGE

Figure 1 presents the public value creation triangle that integrates both the concept of the strategic triangle and the concept of competitive advantage. The major role and goal of any governmental agency is to create public value for the constituencies it is accountable for. Public value is created when (1) the perceived utility of the constituencies about the program is high and the price they are required to pay is relatively low, and (2) the price the organization demands from its constituencies exceeds the costs needed to fulfill the program. In other words, compatibility between the needs and expectations of the constituencies and those of the organization is essential for the creation of public value.

The question is: how can a public organization develop compatibility between its necessary needs and expectations in order to create public value? The triangle of public value creation suggests that a public organization should address three key points simultaneously. These points – strategic choice, political, economic and social support, and competitive advantages – are represented by the three small circles in Figure 1.

Figure 1: The Public Value Creation Triangle



Strategic choice

Every public organization has a mission, usually defined by law, to fulfill. At the same time, public organization leaders must make strategic choices as to what the organization stands for and which path it decides to take. Leaders of local authorities have much more complex tasks than just providing municipal services; they have to determine, for example, what kind of locality they wish to build. Do they encourage and pursue economic development by establishing and attracting businesses or keep the locality free of industrial zones? Furthermore, assuming that a local authority wishes to attract businesses to its jurisdiction – it is important to determine what type of businesses would be compatible with the community's skills, needs and expectations. A strategic choice represents the positioning of the organization. The problem with many public organizations that provide a similar set of services is that little attention is paid to how they differentiate themselves strategically from their counterparts. In the business strategy literature, strategic positioning is valued for its influence on the sustained performance of the organization (see Porter, 1996). In the public sector strategy literature, little attention has been devoted to its importance. One of the reasons is that public sector organizations have not yet fully understood the major problem of previous businesses, that is "the necessity of making choices" (Porter, 1996). The key is the organizations' belief that they can improve all dimensions simultaneously (Porter, 1996). Making trade-offs was perceived as an advisable way to conduct an organization.

As with other public sector organizations, local authorities have adopted this misleading conception. Enhancing revenue-raising capacity is mostly associated with the need for local economic development. The implication is that local authorities believe they must act to increase the number of jobs and businesses, but this is true for every locality. Is it reasonable to expect all local authorities to achieve success as regards local economic development? The answer is no. Many factors should be considered before pursuing such a goal, such as location and the locality's identity. Furthermore, even if we value local economic development, there are different policies by which a local government may achieve it. Schwartz and Ellen (2000) showed that competitive cities tend to follow procedures, which, in the past, had led to success stories without considering the context in which this success occurred. They have shown why seven generic strategies (infrastructure investment, three types of tax policy [lowering overall taxes, offering special tax deals to specific firms and enterprise zones], government efforts to draw high-technology industry, and two forms of tourism promotion [building stadiums and legalizing casino gambling]) are not likely to work without a leadership that "works hard to design a strategy that is appropriate for their environment."

Finally, a local authority should consider its current and future identity. What kind of place do we wish to build? This would be the first question that requires a strategic choice. What types of services are we emphasizing? Indeed, a local authority needs to provide a wide variety of services, but it must decide upon its priorities and, consider what its most suitable and appropriate strategies are.

Political, Economic and Social Support

Strategic choice is not viable without political, economic and social support (*legitimacy*, as defined by Moore). Business organizations have to earn legitimacy for their decisions and actions from various stakeholders such as customers, suppliers, owners, employees and financial institutions. If they make a strategic choice without earning strong legitimacy, they are not likely to gain a competitive advantage. Similarly, public sector organizations need to develop strong legitimacy for their decisions and actions. For example, a local authority whose residents favor a "green environment" will not receive strong legitimacy for a program desiring to create an industrial zone. In fact, if an organization looses its legitimacy, its very survival becomes questionable.

Competitive advantage

Organizations strive to develop and acquire a competitively advantageous position for its potential to lead to superior performance. A profitable organization is perceived as one that enjoys competitive advantages because customers prefer it to others (Coyne, 1986). In the public sector, organizations that satisfy the expectations and needs of the stakeholders for whom they are accountable are likely to enjoy competitive advantages. In the local government sector, one of the major criteria for local authorities is the extent to which they enjoy a positive or negative migration of residents and businesses. In a sense, residents and businesses make a choice as to the benefits they stand to gain from their location. Legitimacy is a critical source of competitive advantage; a local government authority needs to build legitimacy among its stakeholders, because an absence of legitimacy would result in stakeholders' confrontation of governmental policies and decisions that eventually may lead to the migration of a strong population to a competing local government authority. The negative migration of a strong population would upset the social, economic and political balance within a local government jurisdiction.

As mentioned earlier, Porter (1995) identified four competitive advantages: strategic location, local market demand, integration with regional economics, and human resources. It is important to note that when an organization makes a strategic choice, it has to consider its current necessary competitive advantages. Operational capacity is of importance but, as indicated earlier, only competitive advantages that are imperfectly imitable can lead to the creation of public value. Strategic choice should be made in light of competitive advantages. If an organization cannot develop or acquire a competitive advantage that is critical for a strategic choice it has made, then the overall organizational strategy is not likely to produce public value. For example, a small local authority, located far away from business centers and modes of transportation, would be ill advised to try and attract key financial institutions. Similarly, it would not be an appropriate strategic choice to attempt attracting high-tech firms requiring skilled people to or near a local jurisdiction where residents' socio-economic level is low. A local authority can, however, attract high-tech businesses when it enjoys other advantages, such as location, in which case the high-tech firms would create service jobs for the current residents. Over time, this decision along with other complementary choices (e.g., improving the educational system) may result in a positive migration of stronger residents. Local governments must also lean on competitive regional clusters that host unique and competitive advantages such as tourist areas, to enhance their attraction by establishing related, complementary services.

MANAGING POOR LOCAL AUTHORITIES TO CREATE PUBLIC VALUE

To explore the application of the public value creation triangle, presented in Figure 1, we analyzed poor local authorities for which the Ministry of Interior had appointed an investigation committee. The committee eventually suggested replacing the heads of these local authorities with temporary nominated management committees until new elections were held.

The Local Council of Jisser-al-Zarka

This local council is located in a strategic location; it borders on (1) Kibbutz Ma’agan Michael and Crocodile Stream (on the north), (2) Caesarea (on the south), (3) a major artery of transportation (on the east) – the road between two major cities, Haifa (a distance of 40 KM) and Tel Aviv-Jaffa (a distance of 50 KM), and (4) the Mediterranean Sea (on the west). Its jurisdiction includes 1,520 dunam. As of 1999, its population numbered about 9,000. All the residents are Bedouin who migrated from the Western Jordan Valley 700 hundred years ago and moved to their current location in 1926.

On December 16, 1999, the Director General of Israel’s Ministry of the Interior appointed an investigation committee to examine “whether the local council of Jisser-al-Zarka and its mayor were fulfilling their tasks satisfactorily” (Ministry of the Interior, 1999a).

The conditions of this local council indicate a collapse of the entire municipal system. The residents' socio-economic level is critical; out of 9,000 residents, 2,500 (about 28 percent) are cared for by the local council's welfare office (Ministry of the Interior, 1999b). In fact, according to the city index of The Union of Local Authorities in Israel, this is the poorest community in Israel. Its fiscal state is critical; the need-capacity gap for 1998 indicates that the revenue-raising capacity covered only 52.5 percent of the expenditure need. In addition, the salary expenditures came to only 49 percent of the total expenditures and 5 percent more than the expenditures needed for municipal services (see Ministry of the Interior, 1999c). Local council management was negatively affected by a problematic political structure in which the mayor and his supporters at the council were strongly opposed, equally in their voting power, a situation that does not allow for an efficient decision-making process.

Despite these significant problems, the destiny of the local council of Jisser-al-Zarka has yet to be determined; that is to say, its history and past decisions have resulted in these poor conditions, but that history can still be changed. The public value creation triangle illustrates a plausible strategic program for the recovery of poor local councils, such as this one.[1]

Jisser-al-Zarka has long faced fiscal and financial difficulties and the initial step for breaking this vicious circle would be a strategic decision regarding its future direction. In building its future direction, we need to consider both the weaknesses and strengths existing within the community. First, Jisser-al-Zarka is a closely integrated community and it is not likely to establish a vision of expansion or a strategy aimed at attracting a stronger population. Second, its residents have a relatively low level of education and skills. Third, the local authority suffers under the severe burden of current liabilities without a true source of revenue due to the low socio-economic level of its residents. At the same time, its location is certainly a strategic asset, what with the integration of the regional economics of the cities of Haifa from the north together with Tel Aviv, the business and financial center of Israel. More importantly, Jisser-al-Zarka is located near Caesarea, a significant historical and tourist site. Considering the above weaknesses and advantages, the creation of a tourist area would be considered a proper strategic choice. As Porter (1995) suggested, the leaders of Jisser-al-Zarka must initiate the creation of a supportive environment that will attract businesses. Another aspect to be addressed is gaining the legitimacy of the community and the central government. One of the difficulties is the social and political problems existing among the twenty extended families that make up the community. Any strategic choice should provide the community with a sense of a brighter future. It is important to penetrate the community and mobilize the residents not only to passively support the program, but also to be actively involved in it, which is critical for the success of the economic development program. The support of the central government is necessary for solving liquidity stress and providing minimal financial support for the establishment of appropriate infrastructures. Overall, the poor local council of Jisser-al-Zarka has better prospects than people once believed, as long as it is guided by careful strategic thinking.

The Local Council of Menhamya

This local council is located in the Jordan Valley, between the cities of Tiberias and Beit She'an in the north of Israel. It is not far from the Sea of Galilee (also known as Lake Kinneret), and within close proximity of the Golan Heights, the northeastern mountainous region of Israel, both major tourist sites. Its location is very close to the peace passageway between Israel and Jordan. Menhamya's jurisdiction is 6,000 dunam, and its population numbers about 1,400. The settlement, established in 1901, was the first Jewish settlement in the Jordan Valley. It is a rural community with about 60 agricultural farms. Most of its residents are employed by the regional enterprises.

On September 6, 1995 an investigation committee appointed by the Ministry of the Interior was assigned to explore whether the mayor and his council were fulfilling their tasks properly (Ministry of the Interior, 1995). It was managed under an appointed committee between May 1997 and January 2000.

Two major conditions of the local council of Menhamya indicate a deterioration of the entire municipal system. Its fiscal state is critical; the need-capacity gap for 2000 and 2001 indicates that the revenue-raising capacity was only 63.1 and 42.8 percent of the expenditure need, respectively (see Ministry of the Interior, 2002a). Local council management was negatively affected by a problematic political structure in which the mayor and his supporters in the council faced a strong opposition group of non-supporters with superior voting power (2 supporters vs. 5 non-supporters), a situation that does not allow for a reasonable decision-making process (Ministry of the Interior, 1995). To date, a new mayor and council body have been elected and the political problem has been solved. Unfortunately, the fiscal and financial difficulties remain.

A critical source of the fiscal and financial difficulties in Menhamya is its size. It is a very small local council in which only 1,400 residents live. Though there is no optimal size for a local authority in Israel, it is clear that Menhamya has very limited options due to the absence of economics of scale.

The fiscal and financial stress of Menhamya has not significantly affected the socio-economic status of its residents. As of 2001, the socio-economic level of the overall local council's residents has been relatively fair, cluster 6 out of 10[2] (compared to cluster 2 of the local council of Jisser-al-Zarka). This is because most residents are able to find their livelihood outside the local council jurisdiction.

Menhamya's location and proximity to the city of Tiberias, the Sea of Galilee and the Golan Heights enables the local council not only to lean on a strong cluster of tourism, but also to be part of it. If Menhamya were an interesting or inviting place to visit or considered a vacation spot for individual families and groups, then it could become a tourist attraction and find its place (see Coyne, 1986) in the tourist market. This policy has the plausibility to generate and increase revenue-raising capacity, with no significant increase of expenditure needs since most projects would be led by the business sector. The major task of Menhamya's leaders would be to provide new business initiatives and create appropriate environmental conditions.

Furthermore, unlike Jisser-al-Zarka, Menhamya has the policy option to extend the community by attracting new residents with relatively strong socio-economic levels. In doing so, it may overcome a major difficulty – the absence of economics of scale. More importantly, new residents are likely to put an end to the problematic structure of social and political rivalry among groups within its jurisdiction, especially when considering the current condition of small numbers of permanent residents. Clearly, governmental financial assistance should be offered to provide a reasonable starting point. This could be done by a long-term loan or a grant to be repaid over time. As a peripheral local government authority, the central government must do much more to connect Menhamya and other local government units to the center. This, however, does not reduce the need to create a supportive and favorable environment for the business sector, especially the tourist industry, as well as the need to create a unique and favorable place to live in to attract a new and strong population. These two combined policies may serve as good building blocks in the foundation for the recovery of the fiscal crisis Menhamya has been facing so far. Legitimacy by residents and central government is likely to be established; the central government hopes to reduce the budgetary dependence of the local government council and residents are likely to be part of the tourist enterprise as long as the identity of the town and the community is preserved.

Thus far, we have discussed two relatively small-sized local government authorities. We will now analyze the case of a mid-sized local government authority, the city of Lod, which has been facing an acute fiscal and financial crisis.

The City of Lod

The city of Lod is situated in the middle of the shore plain on the crossroads of the Tel Aviv-Jerusalem and the north-south roads. It is also known for its close proximity to Ben Gurion Airport, the major airport in Israel. Lod’s jurisdiction is 12,340 dunam, and its population numbers about 73,000 permanent residents.

On December 19, 1999, the director general of the Ministry of the Interior appointed an investigation committee to examine whether the mayor and the city council were fulfilling their tasks properly, and whether a nominated professional committee or any other means could be applied to enhance the city's functioning (Ministry of the Interior, 2000).

The city had been facing several fundamentals problems. Demographically, this is a mixed city, in which about 20 percent are Israeli-Arabs, approximately 20 percent are new immigrants from the former Union of Socialist Soviet Republics, and the remaining are natives. This condition challenges the city leaders to meet different cultural, social and economic norms, needs and expectations. For example, the Israeli-Arab residents are involved in large illegal building and evade paying municipal taxes. As a result, the tax burden falls on a limited percentage of the population, and the overall socio-economic level is low. As of the year 2000, 6,221 residents were being paid a guaranteed minimal income (Ministry of the Interior, 2002b). In addition, Lod struggles with a high level of crime; it is considered a center for supplying both soft and hard-core drugs. The city’s educational system situation is critical. In her testimony before the investigation committee, the head of the Department of Education of Lod stated that the condition of its educational institutions is very serious both with respect to the facilities and the ability to provide students with the appropriate level of education they deserve (Ministry of the Interior, 2000). This situation is demonstrated by the low percentage (35.6 percent) of high school graduates who met the requirements of the selection test for candidates applying to study at institutions of higher education (Ministry of the Interior, 2002b). Finally, Lod's fiscal condition is problematic as well; the revenue-raising capacity for 2000 and 2001 was 80.8 and 75.4 percent of the expenditure needs, respectively, indicating a wider negative need-capacity gap (Ministry of the Interior, 2002a).

Despite the distress across key functional areas, Lod has the potential to build competitiveness. The most compelling problems the city leaders need to address are crime, education and employment. The strategic direction would have to create parallel paths for solving these three difficulties. The first two require significant support from both the community and the central government. The need for the support of the central government is fairly obvious. It should, for example, decide to include the Israel Airport Authority in Lod's jurisdiction to enable the latter to collect municipal tax. Thus far, the city of Lod has not been able to demand businesses within the territory of the Israel Airport Authority to pay municipal tax. Thus, businesses have been motivated to locate themselves within the Israel Airport Authority's territory. Nevertheless, it would be wrong to put the major part of the recovery task in the central government's hands; it is the city that must be the key player in the creation of public value.

How can the city build support? The community must make an irreversible commitment to the new strategic direction the city is pursuing and appreciate it. Such support would serve to further build upon the community's recognition of the need to be highly involved in this restoration process. This notion was presented by Robert Woodson[3] with respect to the urban distress in the United States at the Brookings Institution's (1999) conference on "Solving the Urban Crisis through Sustainable Community Development" held in Washington D.C. In that conference, Woodson stated:

I believe that while policy makers focus on technical and economic issues, the fact remains that urban decline or restoration is also an event in the autobiography of urban residents. We must take some of the same principles that are currently operating and drive our market economy, and apply them to the social economy. We know that 80 percent of the jobs are created by small businesses … and that it is the commercial entrepreneur that drives our economy, someone with a good idea comes together with capital and management, and then takes that idea to scale, and eventually we have a corporation that is formed that hires thousands of people, that helps to pay taxes.

Woodson went on to describe an example of a community where you could not find a single food store within a five-mile radius, because of crime and lack of organization. A friend of Woodson contacted representatives of Pathmart, a chain of large supermarket stores, and told them he could take them to an institution, a black church, where ex-drug addicts and people who have been rehabilitated could be found. He said "why don't we bring you into partnership with them, and let them select all of your personnel to work in your store, because the reason stores don't function in those neighborhoods is because of crime and employee pilferage …" They formed a partnership. To date, there has been no employee pilferage and no crime around the store. As a consequence, they have been able to perform better than any of the Pathmart stores in the wealthy suburban communities.

This description should serve as an important direction for local government authorities characterized by high levels of unemployment, crime and poverty. The city of Lod can build its strategic plan upon high community involvement together with the competitive advantages it holds; namely, its proximity to the major airport in Israel and the fact that it is situated in the middle of the shore plain on the crossroads of the Tel Aviv-

Jerusalem and the north-south roads, which creates unique advantages for businesses in which logistics is a major activity in their value chain. What the city's leaders need to do to advance this strategic direction is to build infrastructures that enhance technical and management skills and attract businesses by providing them with a favorable environment.

CONCLUSIONS

This paper has explored the fiscal condition of local government authorities and the concept of managing poor local government authorities for creating public value. In addition, this study extended and integrated the concept of competitive advantages (1995) and the concept of the strategic triangle (Moore, 1995). Using extreme cases of fiscally distressed local government authorities for which the Israel Ministry of the Interior appointed investigation committees, which eventually suggested the replacement of the elected heads of these local government authorities, the study showed how useful the strategic approach could be for the future of the local government sector in particular, and perhaps for the overall public sector in general.

The current study also suggested several implications for the management of local government authorities. We would like to emphasize the transition process that members (at all levels) of local government authorities would have to make both conceptually and emotionally. Conceptually, they would have to assimilate advanced knowledge of the way they conduct their organization. Emotionally, they would have to internalize the essence of strategic concept. For example, competitiveness, the heart of strategic management, requires much more than just oral and written statements; it requires a strong commitment to be competitive regarding every core element of the system, a never-ending mission. Local government authorities would have to be, for example, more transparent and collaborative entities; work hard to create sustainable economic, social and political support; and view and feel the accountability more than as just a burden or duty.

Future studies may extend the theoretical foundations of the concept of competitiveness and its implications for the management of public sector organizations in general, and local government authorities in particular. For example, substantial progress was made by Schwartz and Ellen (2000) with regard to generic strategic choices often pursued by cities for enhancing local economic development, but the latter is only one of many other important public values residents expect local government authorities to provide (e.g., safety, education). Empirical work is clearly needed to explore the impact of the strategic approach on the performance of local government authorities. Additionally, the extents to which this study's scope and focus can be generalized to other places outside Israel bear careful examination. Although Israel's local governments have their own unique legal, political, social and economic characteristics, the basic functioning and services are similar to local governments in the USA, Western Europe, Australia and other places. In any of these countries, distressed local government authorities tackle the challenge of creating higher public value, and transformations in local governments competitive positioning can be identified (see for example, Carmeli & Kemmet, 2006), implying that managerial choices are a common rather than unique issue, often associated with a particular location.

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NOTE

[1] Due to the limited scope of this paper, it has only aimed to outline main strategic points that could be useful for the establishment of a new strategic direction for the local council. In addition, these points are mainly concerned with fiscal and financial remedies.

[2] The socio-economic index is published by the Israel Bureau of Statistics and the Ministry of the Interior. The index ranges from 1 = the weakest cluster to 10 = the strongest cluster.

[3] Robert Woodson is the founder of the National Center for Neighborhood Enterprise, Washington DC.

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