# Small is Beautiful: Knowledge Management and Budget Reform in a Rural County

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**ABSTRACT**

Are small governments capable of adopting significant administrative reforms? Do they possess the capacity and sufficient organizational resources to adapt to legislative mandates, new technologies or changing environments? This case study explores these questions by examining the development and implementation of a performance budget by Schuyler County, New York's departmental administrators. The case illustrates how leadership fostered a collaborative culture that enabled the development of the requisite skills and knowledge necessary to implement the administrative reform. In the end, the county created a performance based budget that was a significant improvement over its previous line item budget.

***Key words:*** Capacity, performance based budgeting, knowledge management, complexity theory, local government, public sector innovation.

## Introduction: The Capacity for Innovation

Are small governments capable of innovating? Do they possess the capacity and sufficient organizational resources to adapt to legislative mandates, new technologies or changing environments? Small governments in New York state, USA have access to resources for innovation made available by federal and state policy makers engaging in capacity building for rural governments through programs such as the non-entitlement portion of the Community Development Block Grant Program (Collins and Gerber, 2006). On the other hand, programs such as grant and loan programs through the Economic Development Administration (Markusen and Glasmeier, 2008), and tax credits such as the New Markets Tax Credit (Rubin and Stankiewicz, 2005) bypass local governments altogether. In their adoption of regulatory requirements and policy mandates, state and federal policy makers rarely assess the burdens that they place on smaller municipalities which have more limited human and financial resources. Indeed, policy makers often assume that the best solution for dealing with low-capacity governments is to eliminate them through annexation policies, or financial incentives that encourage their dissolution such as New York State's Local Government Efficiency program. These initiatives are widely approved by business and media leaders who argue that consolidating governments will produce efficiency gains and lower costs. The underlying assumption is that small governments cannot manage their complex responsibilities in a post-modern world.

One way both large and small governments can manage complex and changing responsibilities is by being innovative. Gieske, van Buuren and Bekkers (2016: 2–3) define innovation as "the implementation of a new (technical, organizational, policy, institutional or other) concept that changes and substantially improves the functioning and outcomes of the public sector, thereby creating public value (Moore, 2005)." Furthermore, they view innovative capacity as both multi-level and multi-dimensional. Innovative capacity is multi-dimensional because it occurs at individual, organizational, and network levels. It is multi-dimensional in that it encompasses connective, ambidextrous, and learning capacities.

Gieske, van Buuren and Bekkers conclude with this question: "Do [the various concepts of the framework] reinforce each other, or does one mediate or moderate the others, and can we assess their relative importance or contribution of innovation versus gradual improvement to performance?" (2016: 16). We explore this question using the case of implementation of performance based budgeting in a small county in upstate New York. We argue that performance based budgeting exemplifies what Gieske, van Buuren and Bekkers call ambidextrous capacity because it allows individuals to balance autonomy and experimentation and control and efficiency. It also links the innovation process to regular organizational routines, making the organization "capable of connecting the innovation process to the goals of the organization, its regular knowledge base and the regular decision making process" (2016: 9). At the organizational level, performance-based budgeting embodies the characteristics of ambidextrous capacity because it balances "strategies, policies and routines supporting both innovation and efficiency" and provides a mechanism "to secure a balanced allocation of resources to exploration and exploitation" (2016: 10).

Over the past decade or so, research about performance budgeting indicates that it is an important innovation for local government systems. First, performance budgeting requires that an organization utilize performance measures. While these systems have been adopted by larger municipalities and counties (Poister and Streib, 1989; Melkers and Willoughby, 2005). More importantly, Rivenbark and Kelly argued that while local governments can adopt performance measurement systems, the key to performance budgeting is its explicit linkage of departmental performance measures and objectives to the government's budget process (2006: 36–37). Research has found that agencies often respond to demands to implement performance budgeting by doing only what is required and they often lag in doing that (Van Landingham, Wellman and Andrews, 2005; Broom, 1995). Forrester and Adams theorized that these failures might be due to a misunderstanding of the purpose of budget reform, which they contend is organizational learning: "From an organizational perspective, the objective becomes to reform the budget for the organization's purposes, to help it identify and correct problems and, more generally to think and act strategically" (1997: 471). Andrews (2004) builds upon that insight by noting that having the personnel and technical skills to implement performance budgeting must also be augmented by legal, procedural and organizational authority as well as political and managerial acceptance of the changes. Thus, in theory performance budgeting represents a significant organization-wide innovation in an administrative system.

The assumption underscoring the lack of theoretical or managerial interest in smaller governments in the United States is that they lack core administrative capacities such as skilled personnel in key financial and general management positions. When lacking these core capacities, such governments make do by restricting their activities to only those necessary to maintain critical operations. Consequently, such governments emphasize compliance with regulatory requirements imposed by higher levels of government. For example, the state of New York specifies that its counties and other local governments categorize their budgets according to broad categories of expenditures, and to report their expenditures annually. Many small governments in New York have adopted a simple budget template that complies with the state requirements, but does not facilitate the use of budgetary data for managerial activities.

Despite their *low capacity* small governments may have some advantages over larger organizations when they confront a need to innovate in order to adapt. One study that explicitly considered smaller municipal governments was conducted by Hoontis and Kim (2012). The authors examined two townships in New Jersey to identify the antecedents to successful implementation of performance measures. They found “that leadership support, leaders who have past experiences using performance measures, clear expectations, a desire to learn from other townships, and the allocation of resources are the antecedents for successful implementation” (2012: 171). In addition to the importance of leadership, from a complex adaptive systems perspective, small governments may actually have greater potential to adapt and change than larger governments. Kauffman describes the “inexorable onset of a novel complexity catastrophe” that arises from “attempting to optimize in systems with increasingly many conflicting constraints among the components” (1993: 52). He shows that as the number of agents in a system increases, the system as a whole is less able to move toward an optimum state. Beinhocker extends this argument to organizations and shows that as organizations grow they gain informational economies of scale at the expense of an increase in conflicting constraints:

> Put simply, large organizations inherently have more attractive opportunities before them than small organizations do (the large can theoretically do everything the small can do, plus more). But reaching those future opportunities involves trade-offs, and the more densely connected the organizational network, the more painful those tradeoffs will be (2006: 152 –153).

We show that it was the learning capacity at the individual and organizational levels that made the development of this ambidextrous capacity possible (Gieske, van Buuren, and Bekkers, 2016). At the individual level, learning capacity refers to individuals’ abilities to reflect on their own norms and values, tolerate ambiguity and change, and be open to new experiences, ideas, and knowledge. At the organizational level, learning capacity is reflected in an organization’s ability to accumulate, store, and utilize this collective knowledge by the creation of formal processes and organizational routines. This learning capacity was enhanced by the county’s connective capacity, specifically its “linking of actors and roles within [the organization] by building meaningful relations in terms of trust, social capital and reciprocity and overcoming institutional, organizational and socio-cultural borders” (2016: 7).

The case study that follows resulted from a two-part exploration into the implementation of performance-based budgeting in a small, upstate New York county, Schuyler County. Phase one was conducted in 2005 when the authors were asked to assist the County as unpaid consultants in implementing performance-based budgeting, This phase utilized collaborative inquiry as its method with the authors acting as co-researchers with the County department heads. Collaborative inquiry is an appropriate action implementation research method when conflict is low, ambiguity about outcomes is high, and the goal of the project is meaning making

(Mischen and Sinclair, 2009). The authors' roles during this phase were to act as outside experts on collaborative inquiry (process expertise) and performance-based budgeting (technical expertise). However, neither had experience implementing performance-based budgeting in a small county. During the second phase of research in 2012, the authors returned to the County as more traditional researchers to conduct follow-up interviews. These semi-structured interviews allowed the authors to explore the ongoing implementation of performance-based budgeting and the impact it had on innovation.

## The Small County and Its Need for Innovation

Schuyler County in upstate New York offered an excellent opportunity to study how a small government could build innovative capacity as it sought to restructure its antiquated line item budget as a performance budget system in 2005. By any measure, Schuyler County is small. Located in wine and tourist country in the Finger Lakes region of New York, the county's 19,000 inhabitants are scattered over 3,287 square miles. In terms of size, the county ranks 52nd of the 57 non-borough counties in the state of New York while its population ranks it second to last among all the state's counties. In 2004, the county employed fewer than 300 people. The county administrator position was vacant, and the newly elected County Treasurer managed a staff of three, none of whom had any experience with budget analyses.

The county's accounting system provided the basis for the county's budget. Although departmental budget lines were organized by expenditure classes that complied with state requirements, such as salaries, supplies, etc. there were no logical or consistent rules for allocating costs to these line items. For example, all of the health care benefits paid to all county employees regardless of their home departments were included in one line of the Treasurer's budget because the Treasurer paid the health insurance bill for the entire county. The resulting budgetary system was an adequate one for fulfilling the control functions of a government, but it provided little useful information for department heads, legislative policy makers, or members of the public to determine the costs of specific county programs, or to make informed assessments about the benefits compared to the costs of different programs in county government.

In August 2004, the Schuyler County legislature commissioned a project to establish a performance budget for the 2005 fiscal year. However, the county's treasurer opposed the transition and other department heads saw little benefit in investing in the project's success. The performance budget was not implemented. Despite this setback, the County legislature continued to push for budget reforms and a performance budget.

At this point we, the two authors, were asked to assist the County in its efforts to implement a performance based budget. We took an engaged approach to this project, working with the County Administrator and department heads. Underlying this process were two questions salient to this case study. What capacity is necessary to implement this type of administrative reform? And, did Schuyler County have the capacity to implement this administrative reform? Because the issue was framed as one of lack of knowledge about how to implement performance based budgeting in a small county, we used collaborative inquiry as our methodological approach and knowledge management as our theoretical approach (Heron, 1996;

McNabb, 2007; Mischen and Sinclair, 2008). We now present the process of the collaborative inquiry using the language of knowledge management, for that is the language we used during the process. A more thorough analysis follows that uses the language of innovative capacity.

## Knowledge Management and Budgetary Reform- Phase One Enter the Organizational Champion

Two key personnel changes occurred between the fall 2004 failed implementation of performance budgeting and the resurrection of the performance budgeting process during the summer of 2005. First, the county treasurer who actively opposed any changes in the system for budgeting and managing the county's finances retired. The new elected county treasurer was willing to try to implement a performance budgeting system by restructuring the legacy accounting and budgeting system operating in the county. As important, the county legislature hired a new county administrator with a Masters in Public Administration degree and extensive managerial experience. These two events significantly expanded the County's learning capacity and its organizational leadership. The new county administrator established an administrative council composed of all the department heads and made the development of a county-level performance budget the first project to engage the group in interdepartmental cooperation. It was this county administrator who contacted us for assistance.

### *The Collaborative Process Begins*

As our first step in this engaged inquiry, we conducted a knowledge audit of what was known and understood about performance based budgeting and what knowledge and understandings were lacking. This knowledge audit uncovered a number of issues that required attention. First, many of the department heads believed that they lacked sufficient capacity with respect to their budgeting needs and they were insufficiently trained. Second, only a few of the departments had much experience working with performance measures and most had not organized their departmental tasks into identifiable programs. Third, although there was a general consensus among the department heads that the legacy budget structure was obsolete and difficult to work with, many preferred working with a line-item budget that they knew to the difficulty of adopting a new structure. Finally, there was a high degree of mistrust about how the performance budget would be used, and whether it would be a useful management tool or just a means to reduce department expenditures. Successful implementation of a performance budget in Schuyler County required managers to learn a new approach to budgeting and acquire the necessary skills to implement that new approach. Until they determined that they would benefit directly from the effort, managers could be expected to resist yet another effort at budget reform.

Another potential issue that emerged was the wide variation in expertise among the department managers. For example, the directors of the departments of social services and public health had large staffs and administrative experience in implementing performance measures in response to state mandates. At the other extreme, the director of veterans services reported, "My budget is less than $27,000 per year - $18,000 is for salary" and the department of weights and measures was managed and staffed by a part-time retiree. Finding common ground among these administrators who also had divergent mandates could prove to be particularly challenging. Finally, the knowledge audit revealed that even a small county like Schuyler would pose challenges for performance budgeting implementation, not because of a lack of administrative capacity per se, but because complex and inter-related programs were difficult to fit into a performance budgeting context.

The county administrator convened an administrative council meeting to discuss the parameters of the performance budgeting project. He emphasized that while the legislature mandated this reform, he saw the new process as an opportunity for the administrators to get the word out about the good work that they were doing. He also stressed how performance budgeting could help the department heads as managers by allowing them to apply their financial resources to high priority programs and to make a case when additional resources were needed. By being realistic about the challenges that a new budget process would create for the administrators and emphasizing the direct benefits that the administrators could gain, he established a supportive environment for the group's work. The balance of that meeting focused upon clarifying the problems, identifying preconceptions or prior knowledge about the budgeting process, and identifying research questions associated with the process.

## *The Emergence of Communities of Practice (CoP)*

After the first administrative council meeting, the department heads broke into smaller teams, each focusing on a set of related research questions of interest to those participants. One group, comprised of many of the heads of the smallest departments in the county government, were skeptical that budget reform would accomplish much of value. One administrator argued that "modifying the line item budget would be better, especially if we can do away with line items." Two directors noted that "this was the first time that we sat down and looked at the whole process," and it became clear that the group wanted to clarify what was required of them by law and what was the outcome of a lack of consistency between departments. One participant noted that the budget structure was "created like layers of sedimentary rock." Budget simplification became this group's primary focus as they adopted a research question that asked, "How can we construct a uniform budget that melds programs with line items?"

A second group of administrators focused on technical implementation issues such as how programs should be defined and how costs, especially administrative costs should be allocated to programs. This group struggled throughout its first meeting to identify its tentative research questions. One member asked, "How do we select what we measure?" Participants realized that performance measures would differ for internal service departments. Efficiency measures that worked for a department like the county clerk where "we have to do nearly everything perfectly" would not be applicable for departments with less certain outcomes. After nearly an hour of discussion, one participant commented, "I thought we were going to focus on performance measures but I don't think we are there yet." At the end of its meeting the group tentatively developed three research questions: What are the criteria for establishing a *program*? What is the format? What does the public need?

Directors of most of the larger departments such as public health, social services, the Sheriff and the Office on Aging, who were accustomed to organizing their budgets by programs and reporting performance measures comprised the third group. They questioned whether they could adjust their highly regulated systems to fit within the context of the county's budget. This group also began its first meeting with general statements of frustration. One department director said, "I feel like we're guinea pigs. It is a big burden…" Another stated, "I feel like we are wallowing around." Discussion among this group illustrated that many of these leaders felt constrained by state requirements. One director stated, "The three state agencies I report to can't decide on standard performance measures or definitions. I don't think it is possible." The research question they finally agreed upon was, "How do we create viable and useful performance measures?"

Over the next two months, each team met three times to refine their research questions, carry out their research assignments, and review their progress. As they realized that the questions that were most important to them would be the focus of their study, their frustration turned to enthusiasm. One department head said, "It was like a light bulb turning on." Breakthroughs in understanding occurred as each team of administrators was able to see how budget reform could be used as a management tool. The teams established a practice of rotating leadership where a different team member would take responsibility for each subsequent meeting. This mechanism of shared leadership ensured that no one or two members of any group would control the direction of a group's work through the whole process.

The county administrator attended all but one of the small group meetings and continued to provide important guidance by assisting them with defining key issues and keeping the process moving. For example, he would push a team by reminding them that the outcome of their work would be a performance budget by December. He emphasized that department heads needed to focus on performance measures that would be useful to them, saying that the budget reform process would be a waste of time if it was not useful for the managers. The county administrator consistently reassured the department heads that the budget reform work that they were doing would be an effective tool to share the good work that they were doing to the county's political leaders and the public. While the leadership of the small groups rotated among several department heads, the county administrator maintained responsibility for the overall process and kept the focus on outcomes. In one meeting, he encouraged department directors by saying, "Keep in mind what you want the final budget to look like." He reminded another group of participants, "While paying property taxes is never an enjoyable exercise, performance budgeting should demonstrate that said payments are the equivalent of an investment in public services. Our job is to show the taxpaying public what the return on their investment is." But he deferred to the teams to develop specific budgetary formats and instructions for all departments.

The first team consolidated the existing line-item budget and streamlined the accounting system. With considerable assistance from the county treasurer, this team drafted a new budget that eliminated many obsolete line items and organized the remaining lines into categories that were useful to them.

The second team considerably revised the focus from determining how costs should be allocated to programs, to asking what the public needed to know from a performance budget. During meetings, team members discussed how working backward from what they wanted to accomplish to what they needed to do to get there greatly simplified their analytical challenges. Upon completion of their work, they contributed the outlines of a performance budget which included elements for functions, departments, programs, pie chart graphics, narrative, mission statement, goals, accomplishments, and personnel costs.

The third team studied how to create useful performance measures. The focus of simplification was not about the structure of the budget, but upon refining the information that departments produced into a form that would be valuable to the public and to policy makers. Upon completion of their team activity, they created a document that provided all department heads with guidance for developing performance measures.

In August and September, 2005, the teams came together in the administrative council to review their work. The council was an important forum for assessing the validity of the findings of the small groups. These peer reviews were marked by a high level of collegiality, but they also emphasized refining the work of the teams to ensure that the outcomes would produce a set of guidelines that they could all use. For example, the first proposed budget structure did not include revenue estimates that would meet the needs of some of the larger and more complex departments. As a result of the discussion the teams reworked the draft budget structure to incorporate a more complete description of revenues. Additionally, administrators regularly probed each other on the importance of the programs and performance measures that they were creating, by asking whether selected measures were important outcomes to the public. While no members of the public participated in the process, the professional diversity of the managers was an asset because administrators often had little knowledge about the key activities of other departments. During one of these sessions, a department head exclaimed to another, “Oh, so that’s what you guys do over there.” Thus, the process produced a team-oriented problem solving approach among the departmental managers, by giving them a common purpose that transcended their routine duties, and a means to evaluate their work in a cooperative way.

## *Implementing the Solution*

By August, the administrative teams had organized their line item budgets into high priority programs in each department, developed procedures for creating and reporting program performance measures linked to their departmental missions, and created a web-based format to report their departmental budgets. Every county department used the performance budget process for developing their 2006 budget requests. However, the process of identifying performance measures for each department proved to be quite challenging. The larger departments that routinely reported to state agencies such as public health, social services and highways were familiar with performance measures and programs, but had difficulty isolating the most important measures from the many to choose from. When every task has an accompanying measure, departments may require assistance prioritizing from among them. In contrast, smaller departments such as buildings and grounds or purchasing lacked experience with using performance measures and needed help defining programs and creating performance measures (the very concept of refining their work into discrete program elements seemed to be a time-wasting exercise for some). While the participating department heads emphasized the importance of adapting performance measures to be consistent with managerial requirements, these small departments were more interested in streamlining the budget and accounting systems than they were rationalizing the output of their one or two person units.

### *Summary of Phase One*

In 2004, the County department heads had no knowledge of how to create a performance-based budget, little connectivity in matters of budgeting, and no organizational learning capacity to create additional capacity. A critical turning point for the County was the addition of a County Administrator who recognized that performance-based budgeting could be an asset and who created the conditions under which both individual and organizational learning could occur. These conditions illustrate the reinforcing aspects of connective capacity, individual learning, and organizational learning. When the collaborative inquiry teams were formed, people with diverse skills and experiences came together around common concerns. These smaller groups were combined into a larger forum in which knowledge could be shared and further developed. The process of working together engendered trust, which allowed individuals to be more tolerant of ambiguity and change and be open to new ideas (Gieske, van Buuren, and Bekkers, 2016), which allowed the County as a whole to benefit from the group-level learning that occurred. This process established a nascent performance-based budgeting process that represents the ambidextrous capacity also needed for innovation.

## Performance Based Budgeting in 2012—Phase Two

Six years later, the authors returned to Schuyler County to assess whether the reforms begun in 2004 had become institutionalized or forgotten. Nine department heads were interviewed. All nine departments were actively engaged in the process of constructing annual performance based budgets and a review of the county website indicates that performance based budgets existed for all of the county departments.

Of the nine interviewed, four were new or new to their positions since 2006 when the collaborative process of creating the performance based budgets ended. All were expected to produce performance based budgets in the first years of their employment. However, they all noted that this was difficult because there was no training on how to construct these budgets. All mentioned how important the county administrator was as a resource for how performance based budgeting was to be done and each inherited a previous performance based budget as a starting point, but all recalled how difficult it was learning how to do performance based budgeting in isolation.

The department heads who participated in the original collaborative process as well as those newly hired noted that the performance measures used changed and evolved over time. Some added more measures, others realized that they had too many measures and streamlined, and some measures were substituted for others. This constant evolution resulted in a system that most who were interviewed felt aided their managerial decision making processes. Many remarked on how they were better able to measure outcomes, tie outputs and outcomes to program expenses, justify their budget requests, and modify their budget requests to be more effective and/or efficient. As one department head stated, without performance measures, “I would not have known how to really impact the various areas for productivity. It was a mystery. It was really, really a mystery.”

Several other themes emerged from the interviews that indicate the extent to which performance based budgeting has become ingrained in the culture of the county. Some of the department heads were involving some of their staff in the process of creating and using the performance measures. Others mentioned how performance based budgeting had increased accountability. In addition to using the performance measures as a budgeting tool, many of those interviewed commented on how they helped them detect potential problems. Finally, three department heads mentioned comparisons to other counties or the use of outside data. One was able to use estimates from other research to show how much her prevention programs were saving the county compared to their cost. Others mentioned that their performance measures would be more valuable if they could compare to other counties.

An important indicator of institutionalization is whether or not the reform would continue to be implemented without it being a requirement of the county administration. When asked if they would continue to create performance based budgets without the encouragement of the county administrator, most said that they would. Those who were able to use it for managerial decision making were more positive about the process than those who viewed it as a communication tool or a way to justify budgets alone.

Finally, we asked the interviewees whether they felt that performance based budgeting required great capacity to implement or if it increased their capacity. Most stated that they felt that it increased their capacity. Some viewed performance based budgeting as capacity building because it allowed them to advocate for and receive increased budget allotments. In terms of the minimum capacity required to implement performance based budgeting, the ability to collect and store data was identified as crucial.

## Analysis

Did the creation of innovative capacity contribute to the adoption of innovative practices by departmental administrators in Schuyler County? The 2012 interviews offered supporting evidence that they did. With respect to performance based budgeting, one director noted,

> Last year, when we were starting to work on the…budget [the county administrator] encouraged us to try and look at what other counties were doing…Try to see where you stack up with other counties…I put the question out to 56 other county directors…As far as some of the stuff I'm measuring, we're the only ones in the state that are really looking at it in an empirical way.

This director had significantly integrated the new performance budget system into his managerial operations thus exploiting the innovative practice. Moreover, by querying other directors, he was exploring ways to enhance the effects of the innovation, he sought to learn new ways to use performance measures to improve organizational performance. Nor was he alone. Another director reported that his adoption of performance measures permitted him to save businesses and consumers thousands of dollars over the course of a year, a significant contribution of public value. Another mentioned that performance budgeting "comes up in every department head meeting" and departments were increasingly able to link their measures to industry standards and implement programmatic or managerial adjustments to improving them. Another manager captured this attitude by saying, "I should always be going forward and never get to a point where I'm just here, maintaining what we have." Similarly, one head of a small department reported, "to me the performance based budget is so much more complete." Thus, a performance based budgeting system was adopted county-wide and implemented. It shaped both the budgeting and managerial practices of these public managers years later.

The departmental interviews also provide some evidence that additional innovative practices were adopted in Schuyler County. After implementing performance budgeting, several departments implemented shared services plans with a nearby county while others consolidated county-wide services from the individual towns. While other counties in New York have taken some steps toward service consolidation, Schuyler County is a state-wide leader in these innovative practices. This suggests that innovative capacity may contribute to further innovations in a reinforcing cycle as people in organizations become more capable of learning and adapting their work and managerial routines.

What made the implementation of performance based budgeting in this small, upstate New York County successful? We attribute the success to three factors: leadership, collaboration, and information technology.

What the interviews from 2012 show is the importance of leadership in not only initiating the administrative reform of performance based budgeting, but also in the process of its institutionalization over time (Yetano, 2013). Institutionalization implies the internalization of new rules and routines (Macinati, 2010; Yetano, 2013). By constantly reminding department heads of the importance of performance based budgeting and pushing department heads to modify and improve the performance measures over time, the County Administrator provided the will that was needed until department heads recognized the value of the process themselves.

Leadership from the county administrator was crucial because he established the social processes and collaborative culture that enabled knowledge sharing and creation (McNabb, 2007). Initially, the collaborative format allowed the department heads to engage in sense-making about what performance based budgeting meant to them (Choo, 2007). This was an important first stage because it shaped common understandings and questions that allowed smaller groups of department heads to move forward with their inquiries. Choo (2007) argues that sense-making is the foundation of subsequent knowledge creation and decision making processes and is therefore critical to the development of goal directed, adaptive behavior.

Additionally, by instituting the Administrative Council, the county administrator created a mechanism by which department heads could share both explicit and tacit knowledge (Nonaka and Takeuchi, 1995). "These communities of like-minded individuals, in fact, are often referred to as the 'lifeblood of KM programs' and one of the 'key building blocks in the organization and management of [agency] innovation and creativity'" (AGIMO, 2004; Ash and Cohendet, 2004, as cited in McNabb, 2007: 95 – 96). Furthermore, Snyder and Briggs (2004) argue that communities of practice at the state and local level can help build new capacities, increase current capacity levels, integrate new capability dimensions, and attract, retain, and develop talent. One of the factors that made collaboration successful was the diversity of the participants (Page, 2007). Some of the administrators knew how to create performance measures because they were required to do so for reporting to outside agencies, while others could share their experiences in the form of stories and experiences.

Another aspect of collaboration that cannot be overlooked in this case is the collaboration with the outside *experts* from the university. While the staff had knowledge of their own programs and needs, most were not experienced in writing goals and objectives, defining programs, and establishing measures for departmental performance. This is the type of *textbook* knowledge that the authors were able to provide.

Finally, information technology was an enabler to the entire process and considered one of the core capacities needed in order for performance based budgeting to take place. Each department needed to have software that enabled them to collect, store, and analyze data. For some departments, this was as simple as being able to utilize Excel, for others it was specialized software that enabled both reporting to outside agencies and the creation of reports for their own use. Information technology in this case encompasses both the software and the skills to use it.

## Conclusion

This case provides some important theoretical insights about performance budgeting and capacity in general. Much of the literature to date has examined how states and large municipalities have implemented performance budgets. There has been a presumption that smaller governments may lack necessary capacity to significantly alter their budget systems. Low capacity organizations, with few slack resources that can be reassigned to developing comprehensive systems, would appear to be unlikely candidates for significant organizational change. And yet, as the Schuyler County case shows, smaller organizations are sometimes able to be quite innovative. Schuyler County's officials compensated for the lack of staff resources by sharing expertise freely with each other and by organizing their work into manageable parts. Perhaps smaller organizations possess alternative capacities in the form of social ties and collegiality that promote and sustain trusting relationships that are essential to successful collaborative action. The advantages of smallness were mentioned by several department heads.

The case also suggests that researchers may need to re-evaluate how they define and measure implementation success. When organizations implement new policies, they typically confront issues about how to accommodate the new with their existing context and culture. Many of Schuyler County's departments lacked the support staff that would be needed to put in place and monitor a sophisticated performance measurement system. So they adjusted their expectations to fit their lower capacities, and focused on measures that they already tracked. Although the adopted measures initially may not have met textbook ideals for validity and reliability, measurement of core activities, or the impact of those activities on the public, they evolved considerably over time and became *better* as judged by textbook standards. By setting lower initial expectations and focusing on improvement over time, the county did not get bogged down over the details and fail to implement anything at all. This approach is consistent with

Yetano's (2013) finding incremental change was more successful than radical change in the implementation of performance measurement and management in local government.

The case of Schuyler County's implementation of performance budgeting demonstrates that small governments are capable of acquiring organizational capacity to successfully implement innovative administrative reforms. While small organizations may lack dedicated resources such as a large analytical capacity, they may have advantages in organizational flexibility that permit leaders to quickly influence organizational procedures and culture.

However, we must also recognize that in many respects Schuyler County's government while small, is still an organization with considerable resources. Some departments have dozens of employees, and the county has at least 20 administrative leaders. When their individual capacities are pooled together to deal with a specific project or a particular problem, that represents considerable expertise and capacity. Thus, while the Schuyler County case demonstrates that smaller organizations can innovate effectively, there may still be a minimum capacity requirement for effective governmental management that the County exceeds. As policy scientists and administrators assess the benefits and costs of decentralization versus service consolidation, defining minimal practical administrative capacity is an ongoing theoretical and practical concern.

Issues of marginal or insufficient capacity also apply to sub-units of an organization. Schuyler County can be thought of as a conglomerate of organizations, each with specialized skills and missions that are linked together in a network. Mandates from the federal and state governments are not implemented by *counties* but by units within them which may or may not be capable of managing those responsibilities. Thus, analysts should be careful to assess, rather than assume, that an organization possesses or lacks required capacities. Of course this means that analysts should develop an accurate conception of what capacities a program or task requires.

The case of Schuyler County's budget reforms demonstrates that small governments can employ knowledge management and enhance their capacities to implement significant administrative reforms. There was little conflict among Schuyler County's department heads over the necessity to reform their budget processes, but they had a great deal of uncertainty about how they should accomplish that goal, and what benefits a revised budget system could have for them. This setting created an ideal environment for the participants to engage in genuine collaboration and shared knowledge development.

Knowledge management is not just a process of learning how to do a job more effectively, it also involves the development of patterns of interaction and memory that encourage participants to become more comfortable with the learning process. Through the leadership of the County Administrator, small groups of managers formed communities of practice. These communities of practice balanced the tension between exploration of new knowledge and exploitation of existing knowledge to stay in what McKelvey (2002) calls the region of emergence. Because of the supportive nature of these groups, participants discovered that they need not be constrained by their organizational routines and policies, but could question why those routines were in place restructure them to be more effective. Bolstered by this doubleloop learning, they became more willing to take risks and try new ideas. In the end, they modified their existing IT tools and added some new ones to create a performance based budget that was a significant improvement over their line item budget.

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