

# Making a difference: Strategic positioning in municipal reputation-building

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## Introduction

Municipalities in different national contexts are currently facing contradictory demands from different pressures. On the one hand, they are required to adhere to national laws and regulations concerning the production of services (Elander and Montin 1990, Rhodes 1981, Page and Goldsmith 1987). Hence, they must respond to strong pressures of similarity. On the other hand, local government and democracy means adapting to local needs (Page and Goldsmith 1987, Rhodes 1981). One reason for having municipalities in the first place is that public service deliveries work more efficiently if they are decentralized and tailored to local variation (Oates 1972). As a result, municipalities must also respond to pressures of difference.

Traditionally, this tension between difference and similarity has not been considered an anomaly that needs to be rectified. Rather, it has been seen as a normal albeit at times ambiguous operating condition with which municipalities must learn to live and balance. Central and local government relations have typically been characterized by tensions and periods of centralization followed by decentralization, and periods of decentralization followed by centralization (Sellers and Lidström 2007, Wilson 2003, Hansen and Klausen 2002), with corresponding shifts between differentiation and similarity pressures.

Over the last decade, however, the tension has become more complex and difficult to balance. Not necessarily because of central government intervention, but rather because competition among municipalities, regions, and cities has intensified considerably in many countries following the adoption of transparency regimes and a general proliferation of branding,

strategic communication, and reputation management practices (Aula and Harmaakorpi 2008, Kitson et al. 2004, Wæraas and Bjørnå 2011, Nielsen and Salomonsen 2012). Faced with strong pressures to explain why they are a better place to live, work, and grow old than other municipalities, why tourists should visit, and why business firms should relocate there, municipalities are likely to respond by defining themselves as “brands” and positioning themselves in the municipal “market”, competing for citizens, visitors, resources, reputation, and business ventures. As a result, municipalities can be expected to put more emphasis on differentiation than similarity pressures in order to achieve competitive advantage, thus potentially distorting the delicate balance between difference and similarity.

This paper examines the general magnitude of differentiation and strategic positioning in Norwegian municipalities as these efforts relate to municipal reputation management. On the basis of a questionnaire answered by 171 municipal chief administrative officers, supplemented with interviews, the paper examines three questions. First, it seeks to determine the extent to which differentiation indeed is a strategic concern of Norwegian municipalities. Although an extensive literature exists on various forms of strategic thinking in local government in general (O’Looney 1998, West and Condrey 2011, Parry 1999, Twewdr-Jones et al. 2006, Agranoff 2003, Worrall et al. 1998), also in the case of Norwegian municipalities (Bjørnå and Aarsæther 2010, Nylehn 1996, Johnsen 1998), we currently know little about municipalities’ efforts to position themselves as different from their peers. Although it seems plausible to assume that they do engage in strategic positioning and differentiation, empirical studies have yet to confirm this assumption. By providing data on this matter, this study is a first step towards a better understanding of the implications of intensified competition and transparency regimes and municipal reputation management strategies.

Second, this study intends to map the variation in strategic positioning in the municipal sector. If the municipalities seek to become known for something, they can be expected to not only differentiate but also position themselves in relation to each other. This question has remained a largely overlooked area of research. Given that municipalities are different and similar to each other on a number of dimensions, one could assume that their positioning indicates how they are, or want to be, similar and different. This study contributes to our understanding of this matter by revealing the municipalities' identification with a series of positioning statements, thus revealing aspects of the municipalities' identities.

Third, the study examines whether differentiation varies between categories of positioning. It is possible to imagine that the type of positioning determines the degree of differentiation. However, little is known about which types of positioning entail larger degrees of differentiation and which ones entail lesser degrees. For example, it is not known whether municipalities that position themselves as "agricultural" seek to differentiate more than those that seek to become known as e.g. "tourism" municipalities.

By addressing these issues, the paper stands to make two contributions. First, it improves our understanding of the competitive strategies of municipalities and the role of reputation management in that regard. Second, it extends the research on municipal competitiveness by highlighting how strategies entail not only differentiation but also positioning in relation to known categories, showcasing how pressures of difference and similarity reveal themselves and are handled by municipalities as they build their reputation. The paper does so, first, by reviewing the theoretical considerations pertaining to this study; second, by presenting the methodology that underpins the study; and third, by discussing the results and offering some concluding remarks on the need for future research.

## Theoretical observations

This section of the article serves two purposes. First, it describes the competitive background for which reputation management has become a relevant activity throughout the Norwegian municipal field. Second, the section provides a theoretical account of the tension between differentiation and similarity pressures, relating each of them to their own literature and research tradition.

### The municipal “market”

Municipalities are a central part of Norway’s public sector. About 450.000 employees work in the municipal sector, comprising about 20% of the total Norwegian workforce and 64% of public employment (Statistics Norway 2012). Municipal service production, primarily related to the production of welfare state services such as schooling, health care, social services, nursing homes, and child care, amounts to about 15% of the total Norwegian GNP.

The municipal sector cannot be equated with regular markets characterized by supply and demand dynamics. However, this does not mean that Norwegian municipalities avoid competitive pressures (see Figure 1). First, as long as municipalities benefit from increasing their population and attracting qualified job seekers, investors, and business ventures, they have incentives to increase in-migration rates and prevent “exit” responses to local government policies (Hirschman 1970) (i.e. out-migration). A larger municipal population means higher revenues because more people are paying municipal taxes and fees. Small municipalities are particularly vulnerable, having much to gain from increasing their in-migration rates. Larger in-migration rates in one municipality means out-migration in other municipalities, thus recreating the zero-sum games of regular markets. This line of reasoning implies that local residents are “consumers” of municipal

services and that they move “to that community whose local government best satisfies his set of preferences” (Tiebout 1956, p. 418).

Second, a transparency regime introduced through the KOSTRA database (“Municipality-State-Reporting”) facilitates benchmarking and competition by collecting and disclosing public data on financial performance, quality, and service provision. KOSTRA was established as a pilot project in 1995 but was gradually expanded to include the entire municipal sector. Since 2001, all Norwegian municipalities report to the KOSTRA database. The database provides information that can be used to rank the municipalities on specific variables (e.g. money spent on schooling per capita, number of day care centres per capita, etc.), which is done regularly by national and local newspapers as well as independent third party raters.<sup>1</sup> As a result, “winners” and “losers” are created.

Third, when competition, comparisons, and rankings increase in importance, other competitive mechanisms increase in importance as well. During the last decade, Norwegian municipalities have become increasingly interested in the benefits of a strong reputation. Differentiation, competition, and reputation are virtually all on the same side of the equation, as standing out with a strong reputation is assumed to generate competitive advantage. The interest in reputation and branding is fuelled by a growth of independent reputation rankings comprising both municipalities and regions, regularly provided by consulting firms in the fields of marketing, market research, and PR. As a result, it is not surprising that Norwegian municipalities currently engage in a host of reputation management activities, including defining their distinct reputation platforms, organizing reputation seminars and slogan contests, seeking help from external communication consultancies to define municipal identity and desired reputation, and

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<sup>1</sup> Two of the most cited ones include the annual municipal “efficiency championship” ranking provided by the Confederation of Norwegian Enterprises and the “municipal barometer” published annually by the magazine *Kommunal Rapport*.

participating in educational programs to learn how to build an attractive municipality reputation (Wæraas and Bjørnå 2011). Such programs are primarily intended to attract new residents, tourists, and business ventures, but they also have favourable internal effects: By acquiring a strong reputation, local residents can be expected to identify more positively with their municipality, evidenced by, for example, higher levels of pride and local patriotism (“loyalty”) and reduced rates of “exit” responses (e.g. moving to a different municipality), especially if combined with structural possibilities for participating and influencing the local community (“voice”) (Hirschman 1970, Gofen 2012, Dowding and John 2012).

### Reputation, differentiation, and similarity

How formal organizations handle contradictory pressures from external environments is a topic that has been given increasing, yet insufficient attention. A focus on strategies in such situations is warranted, since they can have “major implications for social legitimacy and thus an organization’s access to critical resources” (Greenwood et al. 2011, p. 319).

One underexplored tension in this regard concerns the need to cope with pressures for similarity and pressures for differentiation (Deephouse 1999). Faced with pressures to demonstrate membership in the field by following socially acceptable strategies (Aldrich and Fiol 1994, Suchman 1995, Scott 2008, King and Whetten 2008, Deephouse 1999), organizations must conform with dominant logics in order to maintain legitimacy. This concern constitutes the traditional focus within the neoinstitutional approach to organizational analysis (DiMaggio and Powell 1983, Meyer and Rowan 1977). However, because conformity means having multiple competitors, organizations have an incentive to stand out. Difference reduces competition (Deephouse 1999). If competitors fail to copy the unique strategic position of a successful organization, the relative difference is a competitive advantage for that organization (Porter

1985). Thus, competitive pressures require organizations to secure a strategic position by differentiating from their peers (Porter 1985, Deephouse 1999). This view is commonly expressed in strategy and reputation management literatures. For example, reputation scholar Charles Fombrun (1996, p. 393) states that “The more a company pursues a strategy that differentiates it from rivals... the more likely are constituents to ascribe a strong reputation to the company”.

Thus, similarity and differentiation pressures are contradictory and prescribe different behaviours. This is precisely the type of situation currently confronting Norwegian municipalities (see Figure 1). First, municipalities should be unique not only because they are required to put in place arrangements that enable them to adapt to local needs and conditions (in accordance with Oates’ decentralization theorem (1972)),<sup>2</sup> but also because they are expected to manage their reputation and clearly signal their competitive advantage. For example, the Norwegian “Reputation School”, initiated and administered by the Norwegian Ministry of Municipal and Regional Development, encourages participants to define their unique reputation platforms and implement these in reputation-building activities. The curriculum provided by the school states that every participant must be able to define “a set of promises that originate from core values and identify the unique and attractive characteristics of the municipality” (Omdømmeskolen 2008, p. 27). Similarly, the Norwegian Association of Local and Regional Authorities serves as a transmitter of reputation management knowledge by publishing guides to reputation management and regularly offering seminars and conferences on the topic. Together with the general proliferation of reputation management and branding strategies in the private sector, which serve

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<sup>2</sup> Norwegian municipalities are free to assume responsibility for any service or function not mentioned in the Norwegian municipal act and develop strategies to meet goals independently of it.

as pressures in themselves, these sources require municipalities to engage in differentiation strategies.

Second, municipalities are not only subject to differentiation pressures, they are also constrained by strong similarity pressures. On a general level, they are involved in a shared mission of serving the welfare state, which requires them to adhere to national policies and regulations imposed by the central government. Full decentralization of authority would imply unwanted differences concerning welfare state standards due to differences in resources and local perceptions of service standards. National directives, regulations, and laws, therefore, are accompanied by budget allocations that serve to redistribute resources between different policy areas, giving different parts of the country similar opportunities to provide the same level of service. Differentiation might be seen as a violation of expectations of similarity and solidarity and of the idea that “we are all in the same boat” – a sentiment that seems particularly strong in Scandinavian culture (Hofstede 2001). In addition, on a more specific level, all Norwegian municipalities are members of various categories that constrain the amount of differentiation that is possible. Most importantly, municipalities within the same region share a number of characteristics that define their identities and create similarity pressures. Regions constrain the degrees of freedom that members have concerning differentiation because of expectations of collaboration and information sharing between peers. Coastal municipalities share many characteristics related to fisheries, as do agricultural municipalities that share the same challenges, history, and category identity. Failure to conform makes the organization a “stranger” and not acknowledged as “one of us” (Czarniawska and Wolff 1998, pp. 37-52). Thus, membership categories define the identity of an organizational actor and constrain the degrees of freedom concerning differentiation and positioning. This means that differentiation should be expected between categories (Peteraf and Shanley 1997) rather than within categories



(McNamara et al. 2003), and further, that a statement of position in the municipal market is not only a reflection of a reputation management strategy but also of the identity of the municipality and how it sees itself in relation to its peers.

It follows that the tension between difference and similarity becomes particularly evident as Norwegian municipalities engage in reputation management work. While the quest for a favourable reputation drives municipalities towards defining and prioritizing their unique characteristics, membership in a region and in specific identity categories limit the amount of differentiation that is possible. This conundrum is what begs the following research questions: How much do municipalities seek to differentiate from each other, how do they position themselves, and to what extent do their strategic position determine the degree of differentiation? After a presentation of the methodological choices underpinning the study, the final sections of the paper proceeds to discuss these issues as they relate to municipal reputation management and the tension between difference and similarity in a local government context.

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FIGURE 1  
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## Methods

*Data sources:* The findings from this study are generated from a survey administered online through Questback and conducted by a team of reseachers from Norway and Denmark. Distributed in May 2012 to all Norwegian municipalities, the survey was presented as a research project on municipal reputation management. The target respondent was the chief administrative officer (city manager), but it was possible for them to forward the questionnaire to a staff

member. The survey included a range of questions concerning the degree of differentiation from other municipalities, strategies, and areas of differentiation (for information regarding survey scales and items, see below).

The survey was supplemented with qualitative interviews with a total of 11 persons from nine municipalities; six chief administrative officers, three communication directors, one urban planner, and one project manager. Questions asked during these interviews were based on a semi-structured interview guide with follow-up questions from the survey results and concerned the significance of a favourable reputation, strategies for identifying unique areas in which to build reputation, as well as challenges and obstacles. All interviews were tape-recorded. Interviews lasted between 40 and 90 minutes. The names of municipalities represented in the qualitative interviews are not disclosed here for reasons of confidentiality.

*Sample:* One of the 429 Norwegian municipalities refused to disclose the e-mail of their chief administrative officer, who, as a result, did not receive the questionnaire. All other chief administrative officers received the questionnaire by e-mail. It was returned by 140 chief administrative officers, 13 communication or information officers, and 18 other staff such as project managers, senior advisors, acting officers, and policy directors, yielding a completion rate of 40% (171 responses).

*Variables:* The variables included in this study are the following:

- Differentiation from other municipalities: This is an ordinal variable with five categories denoting the municipalities' level of differentiation from other municipalities. The values range from 1 to 5 where 1 is "completely similar", 2 is "somewhat similar", 3 is "undecided", 4 is "somewhat different", and 5 is "completely different".

- Differentiation from neighbouring municipalities: This variable has the same categories as the previous variable, but measures differentiation from neighbouring municipalities specifically instead of “other” municipalities.
- Areas of differentiation: Respondents were asked to describe the level of differentiation for various areas for which Norwegian municipals are responsible or involved in, such as schooling, cultural and leisurely activities, business, tourism, care for elderly, and local democracy.
- Strategic positioning: This is a categorical variable that lists a series of position statements. It is not the *actual* strategic position that is measured, but rather, the identity statement that would follow from a particular position. On the basis of research conducted by Haug (2008) on the self-presentation of Norwegian municipalities, seven different statements are suggested: “The cultural municipality”, “the business municipality”, “the recreational municipality”, “the fisheries municipality”, “the services municipality”, “the care municipality”, and “the agriculture municipality”. Because these categories force the respondents to choose between predefined positions, an open-ended question offered those who did not feel they belonged to any of the above categories an opportunity to state their own position in the municipal landscape. Answers whose meanings corresponded to the predefined categories were merged into those categories. The other answers to this question were analysed and subsequently used to construct two additional positions; “the industrial municipality” and “the scenic municipality”. Answers that did not match any other categories remained in the “others” category.
- Municipal size: The size of the municipalities is the total population, as established by the Norwegian Social Science Data Service. Large municipalities are municipalities with

more than 20000 inhabitants. Medium size municipalities have between 5000 and 20000 inhabitants, while small municipalities have under 5000 inhabitants.

*Analysis:* Frequency analysis is used to identify answers to research questions 1 and 2.

For research question 3, correspondence analysis was used to examine how differentiation varies between categories of positioning. Correspondence analysis is ideal when dealing with categorical variables with multiple values (Greenacre 2007). Because patterns between variables are displayed graphically in a multi-dimensional space, they are easier to identify and analyse. Categories that are similar to each other are plotted close to each other, while categories that are different are plotted apart. As a result, correspondence analysis holds benefits over regular cross-table analysis where patterns between nominal or categorical variables can be difficult to describe, particularly when dealing with variables with multiple categories.

## Findings

### How much differentiation?

Figure 2 below suggests that Norwegian municipalities do tend to seek differentiation from each other, albeit with some reservations. 54.6 per cent of the municipalities (as indicated by the respondents) checked one of the two highest values on the scale of 1 to 5, where 5 indicates "completely agree" with the statement "we seek to be as different as possible from other municipalities". Less than 12 per cent checked the two lowest values. However, a relatively large proportion (33.9%) of the respondents were rather undecided on the matter, checking the middle value 3.

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FIGURE 2

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The desire to differentiate from neighbouring municipalities is weaker. The proportion of respondents checking the value that indicates the highest degree of differentiation (5) is the same (14.6%), but 31% checked the value 4, as opposed to 39.8% when asked about differentiation from other municipalities in general. The proportion of respondents indicating disagreement with the statement is also higher: 8.2% checked the lowest value, as opposed to 4.1% when asked about differentiation from other municipalities in general. 22.8% of the respondents checked one of the two lowest values, which is twice the proportion of municipalities seeking differentiation from other municipalities in general. But the proportion of undecided respondents remains high, with 30.4% placing themselves on the mid value.

During the qualitative interviews, some informants drew attention to the growing competition between (neighbouring and other) municipalities when discussing their strategies for standing out from their peers. As indicated by an interviewee from a small municipality:

For most municipalities, the focus tends to be on people between 25 and 40. (...)The target group is usually highly educated people who are seeking work and a place to live. Lots of municipalities are able to promote themselves on the basis of beautiful surroundings, affordable housing prices, and good places to raise kids. In this respect, for us, the main competitors are the neighbouring municipalities. But you can also go further and say that Landsysse, Riversysse, Lakesysse, and Snowsysse are competitors. They are closer to Oslo, and people tend to move out of Oslo.

[project manager]

As far as uniqueness is concerned, I believe that most municipalities have a strategic resource of some sort that gives them a unique advantage. (...) Currently we have not focused on anything specifically, but everybody here talks about [the advantage]. If there is something we could rely on, it has to be [this advantage]. I believe every municipality has some unique advantage they can rely on in their branding strategies. (...) You have to build on the advantages.

[Project manager]

There are some notable differences between large and small municipalities concerning the degree of differentiation. When asked about differentiation in general, 60.8% of respondents from large municipalities indicate the values 4 or 5 on the differentiation scale, as opposed to 51.1% of the small municipalities. But interestingly, when the question is differentiation from neighbouring municipalities, the numbers are reversed. 37.5% of large municipalities indicate differentiation at some level from their neighbouring municipalities, whereas for small municipalities the corresponding percentage is 48.9%. As a whole, the relationship between differentiation from neighbouring municipalities and municipality size is not statistically significant (Cramer's  $V = .21$ ,  $p = .12$ ). The same applies to the relationship between differentiation and population growth. However, the specific difference between large and small municipalities concerning the willingness to differentiate from neighbouring municipalities is worth noting. Thus, both small and large municipalities tend to seek differentiation in general, and both are more careful differentiating from their neighbours. However, large municipalities tend to tone down their level of differentiation from neighbouring municipalities considerably more. Two informants representing a regional centre provide an explanation for this rather paradoxical form of self-moderation:

It's the same whether [people] decide to settle in Smallsyssel or here in Hubsyssel... We need the workforce. They come [to our municipality] to work and go shopping anyway. If Smallsyssel grows, it's good for us too. (...) As a regional centre, we must be much more careful compared to what our neighbouring municipalities can allow themselves to do. If we do selfish things, we will be perceived negatively by the neighbouring municipalities that surround us. We must be more generous than the neighbouring municipalities.

[Communication director, large municipality]

We depend on all our neighbouring municipalities, just like they depend on us. But we must lay lower.

[Chief administrative officer, large municipality]

It follows that large municipalities may benefit more from moderating their degree of differentiation in order to achieve competitive advantages for themselves than from maximizing it. By taking the needs of neighbouring peers into consideration, large municipalities benefit from collaboration with their regional peers while at the same time building (but not maximizing) their own reputation.

Figure 3 informs us of the inclination to differentiate in different functional areas. As in the first figure, this figure also points to a large proportion of respondents placing themselves in the middle of the scale. However, some notable differences between the various areas emerge. Generally speaking, it seems quite clear that schooling is an area in which the municipalities prefer not to differentiate too much. 38.6% of the respondents checked the lower values on the scale as opposed to the 21.4% that checked the two highest values. Norwegian municipalities

must follow the same national curriculum, which constrains how different a school program can be from one municipality to another. The same seems to be the case for local democracy. Local government arrangements are intended to be rather similar everywhere, albeit with some adaptations to local needs and preferences. 31% prefer to create no or very little differentiation from other municipalities in this regard.

On the other hand, facilitating business is an area in which the municipalities seem to favour larger degrees of differentiation. 59% of the respondents checked one of the higher values on the scale, as opposed to the 10% that checked the lowest values. The same is the case for cultural and leisurely activities. 56.8% of the municipalities indicate the two highest values on the differentiation scale as their preferred choice. Facilitating tourism is also an area in which differentiation is considered favourable. Although as many as 42.7% are undecided about the value of differentiation, 43.3% have checked one of the two higher values of the scale.

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FIGURE 3  
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### How do Norwegian municipalities position themselves?

The respondents were, as noted in the methodology section, given the opportunity to indicate which core characteristics are representative for their municipality and in this way state their strategic positioning. There is considerable variation in the respondents' answers (Figure 4), as demonstrated by the relatively large frequency of the "other" category. A number of unique positioning statements are included in this category such as "the regional center municipality", "the commerce and tourism municipality", "the entrepreneurial municipality", "the forest municipality", "the schooling municipality", "the ecological municipality", "the technology hub",



and so on. This is not surprising considering the specific purpose of strategic positioning and branding of providing a unique value proposition (Knox et al. 2000).

The largest category is “the agricultural municipality”, followed by “the business municipality”. The latter is particularly interesting, as the “real” number of municipalities whose economy depends primarily on business can be expected to be lower.<sup>3</sup> This suggests that some municipalities, traditionally known for other characteristics (e.g. fisheries, agriculture, industry, or recreation), are positioning themselves as members of a category that is perceived as more attractive. As confirmed by the chief administrative officer of “Westssyssel”:

For centuries, Westssyssel was an agricultural community (...) Now, we are “the business municipality”. We try to accommodate business as much as possible and we have succeeded. (...) There are big differences [between us and other municipalities] (...) A number of municipalities are not sufficiently market oriented, they are more politically oriented concerning what is perceived as “correct”(…) Now, even IKEA is opening up a large store here.

[chief administrative officer]

Similarly, very few municipalities have defined themselves as “the scenic municipality”. From a strategic perspective, this is not surprising considering that almost every Norwegian municipality is characterized by beautiful surroundings such as mountains, valleys, forests, fjords, lakes, and rivers. They are likely to know that a position as “scenic” municipality cannot realistically generate competitive advantage. As a result, the municipalities seem to prefer to

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<sup>3</sup> Statistics Norway (2012) does not provide a specific number for this category. However it finds that service production is the dominant form of economy for eight per cent of Norwegian municipalities.

identify themselves in alternative ways. One reasonable alternative is to emphasize the municipality as a good place to live in terms of cultural activities, services, and care. For a number of small rural municipalities, which struggle with out-migration and challenges related to job creation, this is a preferred strategy – especially if they are located in the vicinity of a larger municipality. One interviewee from the rural municipality of Valleysyssel noted the following:

We hardly have jobs here. We are a typical commuter municipality. The largest employer besides us [the municipal government] has only 22 employees. That says it all. (...) The goal, therefore, is to promote Valleysyssel as an attractive place to live. (...) We score pretty well on quality. We can attract people from Miningsyssel and places even closer to Oslo and have them settle down here. (...) We don't believe in attracting big business here.

[chief administrative officer, small municipality]

Larger municipalities generally already have favourable conditions for business ventures and investors and only experience limited competition from smaller municipalities. As a result, they position themselves in ways that differentiate them from other larger municipalities. In fact, for some municipalities, facilitating business and developing cultural and leisurely activities seem to be two sides of the same coin. The communication director of one of the larger Norwegian municipalities noted the following:

It's the competition with the other large cities that makes us develop [our program].(...) Among the large Norwegian cities, we spent the most on cultural activities per capita until Southsyssel passed us a couple of years ago. We still are big spenders on cultural

activities per capita, and it makes businesses want to relocate here. Why did Aker Solutions come? Why did the last three companies come? Why did they choose us and not Midsyssel? Because of the total package we offer to families, spouses, and kids.

[communication director, large municipality]

There is also a large category of "other" claims. For example, one municipality claims to be "the growth municipality", another "the commuter municipality" and a third "the entrepreneurial municipality". Only statements whose meanings are not shared with other municipalities (12.9%) are grouped in this category. These claims confirm the search for unique positions. Four municipalities combined core characteristics indicating dual positions, such as "the commerce and regional hub municipality" or "the commerce and tourism municipality". They are included in the "other" category as well, but will not be analysed below.

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FIGURE 4  
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### Is degree of differentiation contingent on strategic position?

The relationship between strategic position and differentiation from other municipalities is relatively strong and statistically significant (Cramer's  $V=.37$ ,  $p<.05^{**}$ ). A correspondence analysis comprising both variables, presented in Figure 5, helps to understand the patterns of this relationship. Four classifications emerge. First, "the business municipality" and "the cultural municipality" tend to be the ones seeking the highest degree of differentiation. Located in the upper right of the plot, they are the most similar and the most often associated with categories denoting the highest degree of differentiation. "The recreational municipality" and "the services

municipality” also tend to emphasize differentiation, but to a lesser extent. Second, and conversely, “the fisheries municipality” tends to seek the least amount of differentiation from other municipalities. It is located by itself in the lower part of the plot, apart from the other positioning categories, but close to the lowest values on the differentiation scale. This indicates differentiation patterns that are reversed compared to the patterns for e.g. “the business municipality”. Third, there is a group of municipalities whose positioning is undecided with respect to differentiation. These are ”the care municipality”, ”the industrial municipality”, ”the agriculture municipality”, and the ”others” category. Finally, located in the upper left of the plot, ”the scenic municipality” is not similar to any other category of municipalities.

Thus, dimension 1, which accounts for about 50% of inertia, places the categories of strategic positioning on the plot according to their level of abstraction. The farther to the right, the more the municipalities tend to rely on cultural activities, services, and recreation as a basis for their positioning. Conversely, on the left hand side of the plot, we find municipalities primarily promoting the primary and secondary sectors of the economy such as fisheries, agriculture, and production (industries), along with care. Furthermore, accounting for 29.2% of inertia, dimension 2 differentiates between two main positioning strategies. Municipalities in favour of differentiation tend to be located in the upper part of the plot, while those that are not, tend to be located in the bottom part. The patterns are not perfect, as it could be argued that care belongs on the right hand side of the main divide and business on the left hand side. Nevertheless, the evidence seems sufficiently strong to suggest that some strategic positions are associated with greater degrees of differentiation, and others with less. Some general implications of these findings are discussed below.

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FIGURE 5

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## Discussion

In a time characterized by raising demands concerning transparency and reputation management, strategic differentiation and competitiveness are important components of any municipality's attempts at survival and success. In observing clear tendencies of strategic differentiation and positioning, and patterns of differentiation and similarity concerns across various types of positioning, this study not only contributes to our understanding of the reputation strategies of municipalities but also of the tension between difference and similarity in a more general sense. Although the Norwegian municipal sector is the only context in this study, it is hardly unique. Many other comparable Western countries are divided up into lower level regional self-governing units whose success is dependent on a favourable reputation and the ability to generate competitive advantage in the areas of municipal services, employment opportunities, recreational activities, care, health services, and so on. Thus, it should be possible to extend the findings from this study to a more general context (c.f. Lincoln and Guba 1985).

This study has attempted to answer three research questions. First, the paper set out to determine the extent to which differentiation is a strategic concern among Norwegian municipalities. The results from the study are first and foremost a confirmation that local government entities such as municipalities are concerned with their standing relative to each other. While it could be argued that all of them, in this case, are involved in the same mission of serving the welfare state, and therefore should observe similarity and solidarity principles as much as possible, they do not refrain from seeking differentiation. Differentiation tends to be more favoured than similarity, not just from others on a general level, but also from neighbouring peers more specifically, albeit to a slightly lesser extent. And, even if some municipalities are

undecided with respect to the level of differentiation, strikingly few indicate an unwillingness to differentiate. The findings thus contradict expectations of similarity between municipalities, as would be the implications from neoinstitutional theory (DiMaggio and Powell 1983, Meyer and Rowan 1977), resonating instead with Porter's (1996) strategy of differentiation.

The second research question addressed the strategic positioning of Norwegian municipalities. The variation in the positioning statements, combined with the large residual category of "other" statements, tell the same story as the results generated from the first research question: Only one municipality indicated that it does not have a specific position or profile, whereas the others did. Consequently, the findings suggest a noticeable impact of competitive mechanisms and transparency regimes on the workings of municipal sectors. If municipalities were not affected by competition, they would not need to stand out and perhaps not identify with a positioning statement either, let alone engage in a process of defining one that is different from those that are promoted by others. Whether municipalities are *de facto* exposed to more competition or not is less the issue – what matters more is how they experience the threat of competition (Almqvist 1999). Consequently, their strategic positioning and engagement in differentiation strategies can be expected to follow not only from current exposure to competition but also from their perception of future competition. The fact that 78.5 per cent of municipalities state that they will be (even) more concerned with reputation management in the future is indicative of the perceived threat of competition.

Similarly, the findings suggest that differentiation initiatives are shaped according to the level of perceived competition. The study highlights diverging levels of differentiation across functional areas. Municipalities seek to be more different in some areas (e.g. attracting business ventures) in which they are likely to experience more competition, and more similar in other areas (e.g. schooling and the municipal health care service) in which they are likely to experience

less. Those areas in which there is little or no differentiation attempts because of centrally determined policies and regulations are subject to similarity pressures and thus less conducive for developing competitive advantage or a unique reputation. Although there are likely to be some exceptions to this generalization (for example, competition between schools in large municipalities can be expected to be increasing), the overall implication is that differentiation pressures continue to coexist with similarity pressures. The findings thus link competition, reputation, and differentiation at the municipal level, suggesting that municipalities faced by competition and stricter transparency pressures must – similarly to their counterparts in the private for-profit sector – assess in which areas they would benefit from being similar and different, respectively.

The third research question examines whether differentiation varies between categories of municipal positioning. On a general level, strategic positioning is about differentiation, but also about placing oneself in relation to others that are both different from and similar to oneself. In this case, Norwegian municipalities place themselves in well known categories in which members share important characteristics, and from which differentiation is less relevant and less acceptable. By doing so, they accrue legitimacy benefits from their similarity with known categories (King and Whetten 2008), at the same time as they ensure reputational benefits from creating and signalling distance from other categories. They achieve these benefits in two ways. First, they position themselves in categories such as “agriculture”, “fisheries”, “industries”, “scenic”, and so on. Because municipalities share many of the same positioning statements, being a member of these categories ensures recognition and approval (King and Whetten 2008). Second, their regional membership appear to constrain the level of differentiation from neighbouring municipalities, especially for large municipalities. In general, large municipalities compete less with, and seek less differentiation from, their neighbours, collaborating with them

instead to ensure their support. This suggests that large municipalities are more inclined to follow a collective strategy as opposed to a strategy of differentiation (Barnett 2006, Wæraas forthcoming 2014).

For some municipalities, differentiation from neighbouring municipalities also means differentiating from a particular positioning category. As we have seen, this is particularly true for the typical “fisheries municipality”, which is the least interested in differentiation. Fisheries municipalities are spread along the entire Norwegian coast, but tend to find themselves in regions where other municipalities rely on fisheries as well. Thus, the findings suggest that for some categories of municipalities, both within-category and between-category differentiation are considered less relevant. In other cases, differentiation may imply changing from one category to another. The reliance of Westsyssel on a more business-oriented positioning is particularly telling. Agricultural municipalities like Westsyssel tend to find themselves in geographical regions with other agricultural municipalities. Instead of being an “agriculture municipality” seeking moderate or little (within-group) differentiation, it is now a “business municipality” seeking to stand out on a larger scale (between-group differentiation). It is more successful attracting business as a business municipality than as an agricultural municipality.

While the findings highlight how concerns of reputation, differentiation, and municipal competitiveness are connected and integrated into strategic thinking, they also inform our understanding of the tension between similarity and difference in local government contexts. In Norway, this tension has revealed itself with varying intensity over the years, as central-local government relations have shifted between periods of centralization and decentralization. With the introduction of reputation management, however, municipalities become much more sensitive to differentiation pressures. Reputation management inevitably directs the attention towards the definition and communication of unique and defining characteristics that have the potential of



generating competitive advantage. Thus, the differentiation pressures facing municipalities today are composed of elements that previously were much less significant. Reputation management was not introduced into the municipal sector in Norway until after the millennium, which means that differentiation pressures originating from competitive logics are added on top of the differentiation pressures emerging from the obligation to tailor municipal services to local needs. However, this is not to say that the balance between differentiation and similarity has been distorted. The municipalities' memberships in regions and specific identity categories weaken the positive relationship between reputation management and differentiation. The implication is that municipalities must assess whether it is in their best interest to be perceived as similar to or different from their peers. This suggests some sort of balance on the "competitive cusp" between similarity and difference (Porac et al. 1989).

## Conclusion

As Norwegian municipalities grapple with increased competition and reputation management challenges in the municipal landscape, differentiation becomes a concern of strategic importance. Municipalities' identification with various positioning statements suggests that they do have ideas for what they are and what they stand for in contrast to others, and that these core identity characteristics may serve as the basis for a competitive edge in the quest for a favourable reputation. There is significant emphasis on differentiation, as the search for unique positioning in the municipal "market" has proliferated. However, we have also seen that the dynamics of difference and similarity, and the tension between these pressures, continue to be present at the municipal level of government in Norway, despite the introduction of reputation management programs that normally prescribe strategic differentiation. Norwegian municipalities try to make a difference as they build a reputation and position themselves, but they must also

adhere to similarity pressures, particularly from the region in which they are located and from the identity category they share with their peers.

Future research would benefit from investigating these pressures in more detail by, for example, examining how the municipalities handle these pressures in specific situations and why they handle them in the way that they choose to handle them. Which factors make a municipality rely on a strategy of differentiation instead of similarity is a question that merits further investigation. Our knowledge of these questions might be enhanced by using comparative designs through, for example, comparing municipalities that have chosen opposite strategies, and subsequently assessing the implications and consequences of their choices concerning their degree of success.

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## FIGURES

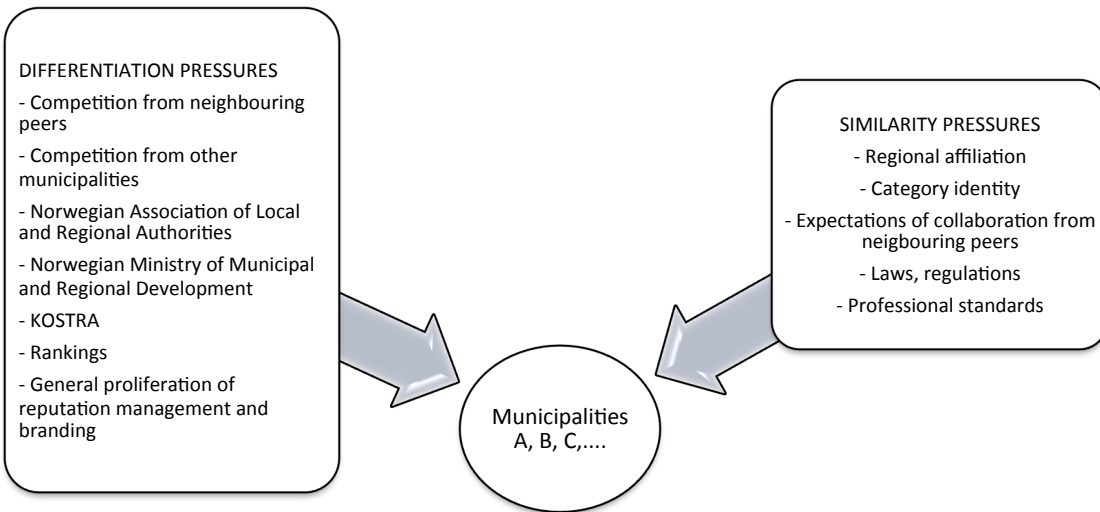


Figure 1: Sources of differentiation and similarity pressures

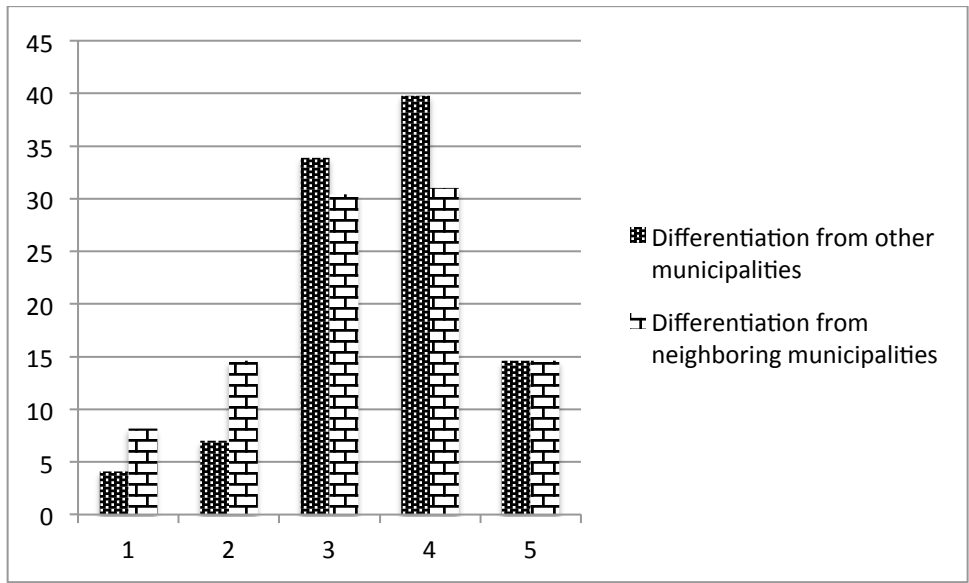


Figure 2: Degrees of differentiation from other municipalities and from neighboring municipalities. Percentages. N=171.



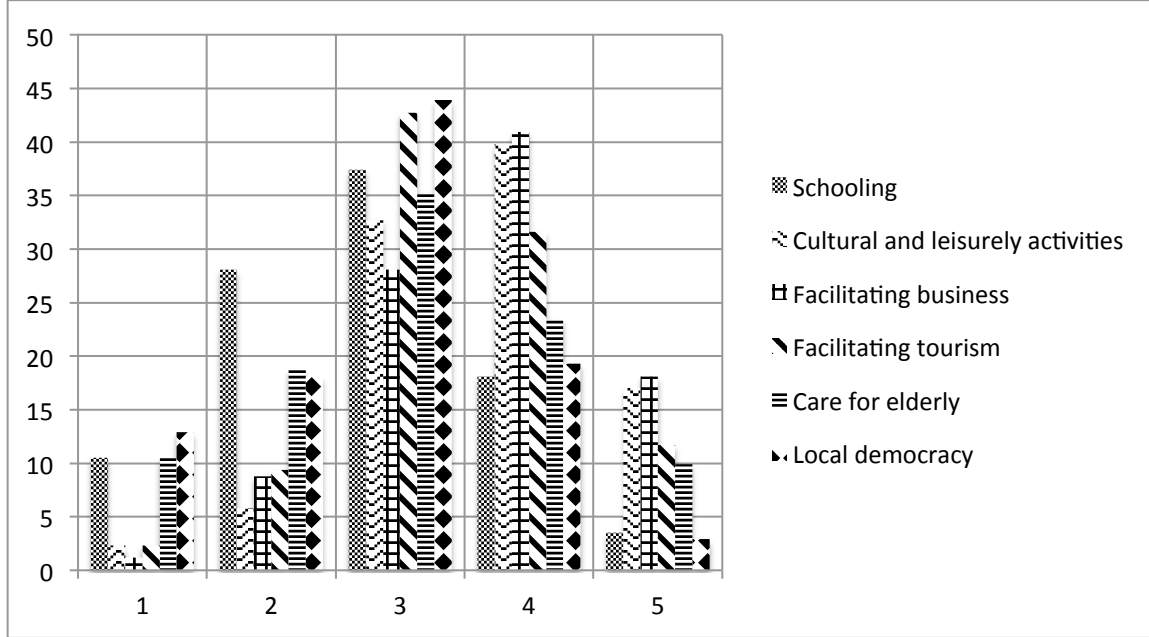


Figure 3: Degree of differentiation from other municipalities in functional areas. Percentages. N=166

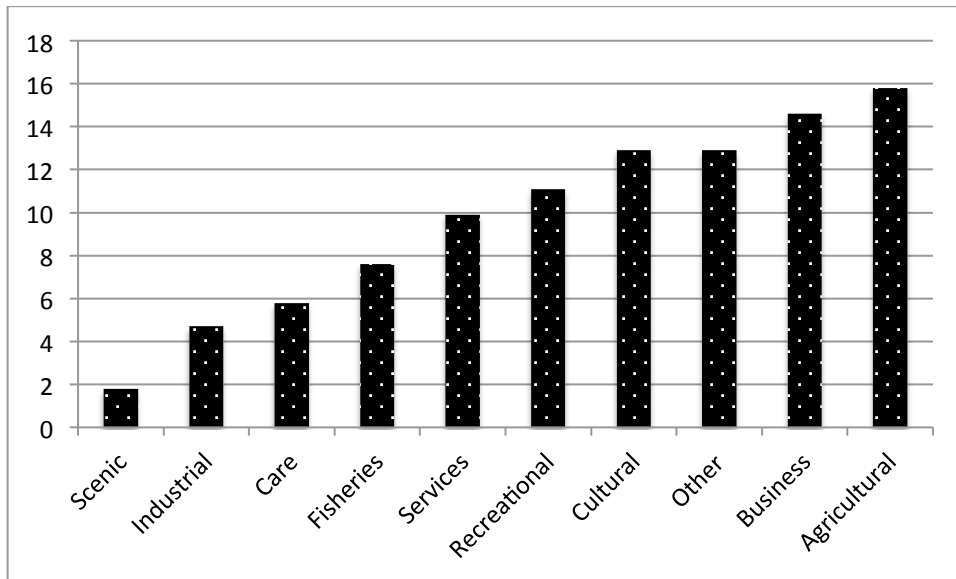


Figure 4: Categories of strategic positioning. Percentages. N=166.

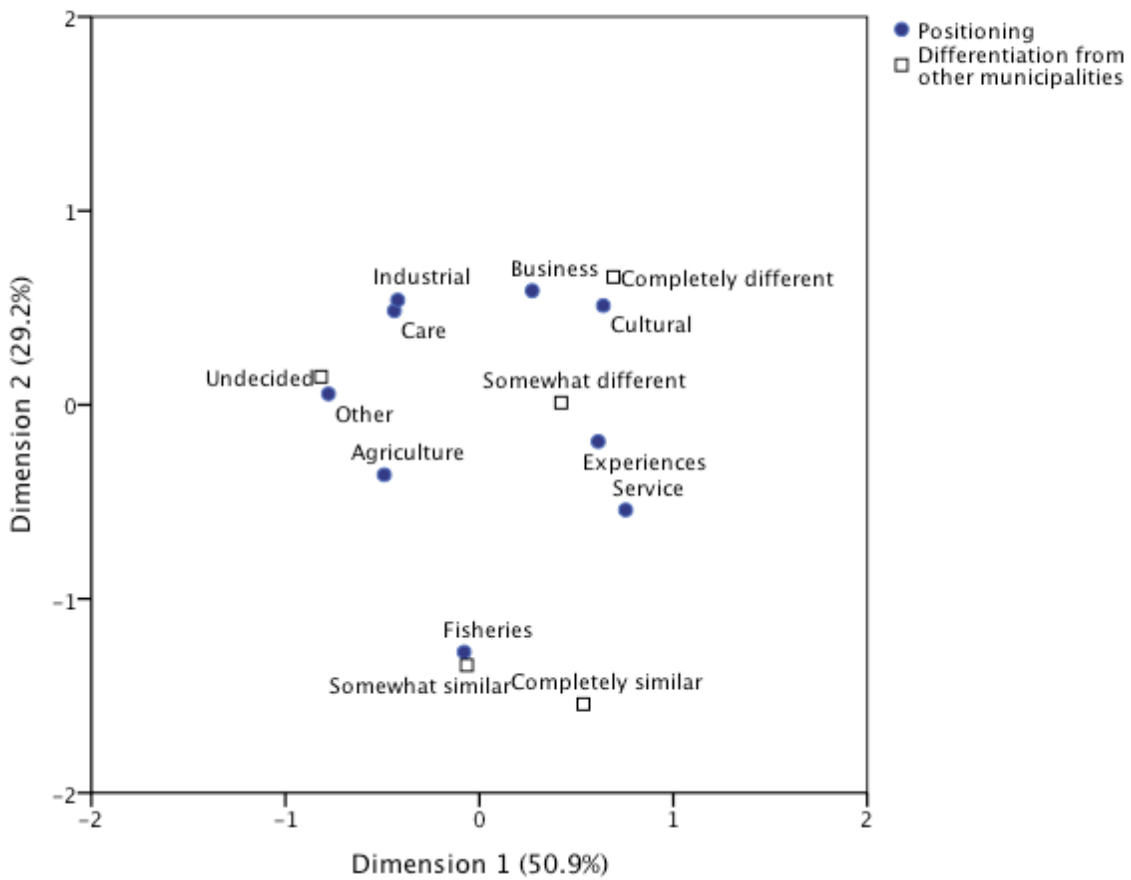


Figure 5: Correspondence plot: Differentiation from other municipalities and positioning. Total inertia explained: 80.1%