Incentives work
- given the right context!

Motivation for increased re-training of social security recipients in Denmark

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Abstract

KREVI has evaluated a common tool in public policy regulation: economic incentives as a means to encourage a specific behavior. The evaluation gives important insights in the consequences of economic incentives and shows how evaluations can be strengthened using mixed quantitative and qualitative methods.

In Denmark 98 municipalities are responsible for social security payment for uninsured, unemployed workers. The payments are partly refunded by the State. The project evaluates the results of a change in the fiscal refund of social security, initiated because the government wanted to increase the municipal incentives to re-train social security recipients. The change increased or decreased the refund dependent on the recipients' status as either in re-training programs or not.

The evaluation shows that the economic incentive – in general – did not increase the percentage of social security recipients in re-training programs. However, the same quantitative data shows that in a few municipalities the economic motivation dramatically increased re-training. On the basis of the data, 8 municipalities were selected for the qualitative part of the project with the purpose of explaining how, when and why the incentive did work.

The qualitative analysis suggests that 'perceived economic pressure' and 'positive attitudes regarding the effect of re-training' are important elements in explaining the municipalities' reactions on the economic incentive. The analysis also shows that managerial resources are a necessary condition for the possibilities of reacting on the economic motivation.

The analysis also clarifies that a possible effect of regulation with economic incentives is that the content of the rewarded behavior is changed. In our evaluation we see clear tendencies of lighter and cheaper re-training programs in towns with increasing proportion of social security recipients in re-training programs.

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Content

1 Introduction and theoretical background

In Denmark a relatively high proportion of total public expenses is spent by the 98 municipalities. The State is however heavily involved in the financing of the municipal expenses. A high proportion of the municipal budgets are funded by a large block grant, and expenses on other areas are to some degree refunded directly by the State. The latter is especially used when it comes to welfare payments to citizens.

Fiscal refund of municipal expenditure has been discussed for a while in Denmark, and the fiscal financing has shifted more and more towards general block grants, letting the municipalities find optimal ways of arranging their services. The logic has been that refund of specific expenses can lead to sub-optimal use of public finances, due to undesirable incentives for the municipalities. However, fiscal refund of specific expenses has continued on some areas, e.g. social security payments, public pension and disability pension, due to the argument that the municipalities only to a low degree influence these expenses.

This view that fiscal refunds can lead to undesirable outcome draws on insights from economic theory and builds on the assumption that individuals – and public institutions – respond to economic incentives (e.g. Dixit 2002). This means that organizations will adjust their behavior in order to maximize their economic gain. As such economic incentives become a means of regulation. In order to adjust the behavior of an organization you have to adjust the economic incentives, so that the desired behavior causes economic gain. The New Public Management (NPM)-tradition draws – among others – on this assumption.

But some economists and political scientists question this assumption. They state that public institutions and workers do not automatically follow economic incentives. One argument distinguishes between individual and collective incentives. Workers at the operating level do not have an individual interest in the public finances and possible economic gains for an organization (e.g. Miller 2005). Therefore an organization must overcome the problem with the right strategy that motivates the desired individual behavior. Another argument states that people often do not behave according to economic incentives. Extrinsic motivation, e.g. economic incentives, must be seen in combination with individual's intrinsic motivation based on beliefs, professional standards or social standards. That means that it is very important whether an economic incentive is perceived as either *controlling* or *supporting* by the individual employees (Frey & Jegen 2001). The latter will give the desired results since the incentive will not conflict with the intrinsic motivation.

The discussion raises the question: does regulation through economic incentives work? Several examples of regulation through economic incentives can be found, and in the Danish examples it is very often assumed that the regulation does work. But empirical studies in Denmark are very few and show varying results.

KREVI's (Danish Evaluation Institute of Local Governments) task is to promote quality improvement and better application of resources in the Danish public sector through evaluation of the performance of the public sector. Fiscal regulation of local government using economic incentives has therefore been an obvious case for evaluation and analysis. This paper is a shorter English version of the evaluation conveyed in the Danish study "Styring kræver styring".

1.1 The case for further investigation: change in the fiscal refund of social security expenses

In Denmark 98 municipalities are responsible for social security payment for uninsured, unemployed workers. July 1st, 2006 the rules for fiscal refund of the municipal social secu-

rity expenses were reformed. The reform increased or decreased the refund dependent on the recipients' status as either in job re-training programs or not. The fiscal refund was before the change 50 pct. of all municipal expenses. After the reform the municipalities receive 65 pct. of expenses regarding social security recipients in job re-training programs, but only 35 pct. regarding social security recipients without job training.

The reform of the fiscal refund created an economic incentive for greater use of re-training programs. The Government did also communicate clearly that the higher refund proportion was introduced with the purpose of increasing the municipalities' motivation for using re-training programs in their programs towards social security recipients (SKR nr. 10093).

The refund reform is a simple and clear-cut case of regulation with the use of economic incentives. At the same time the reform is significant for the municipalities. The difference between having all social security recipients in re-training programs and not having anybody re-trained is for an average sized town worth 50 million Danish kroner (≈ 10 million US$). The total expenses for social security recipients is for the same town around 170 million Danish kroner (≈ 34 million US$). All in all you could expect that the refund reform would be given attention.

This makes the reform a very suitable case for evaluating a concrete example of regulation using economic incentives. And the basic question for the evaluation is naturally: did it work?

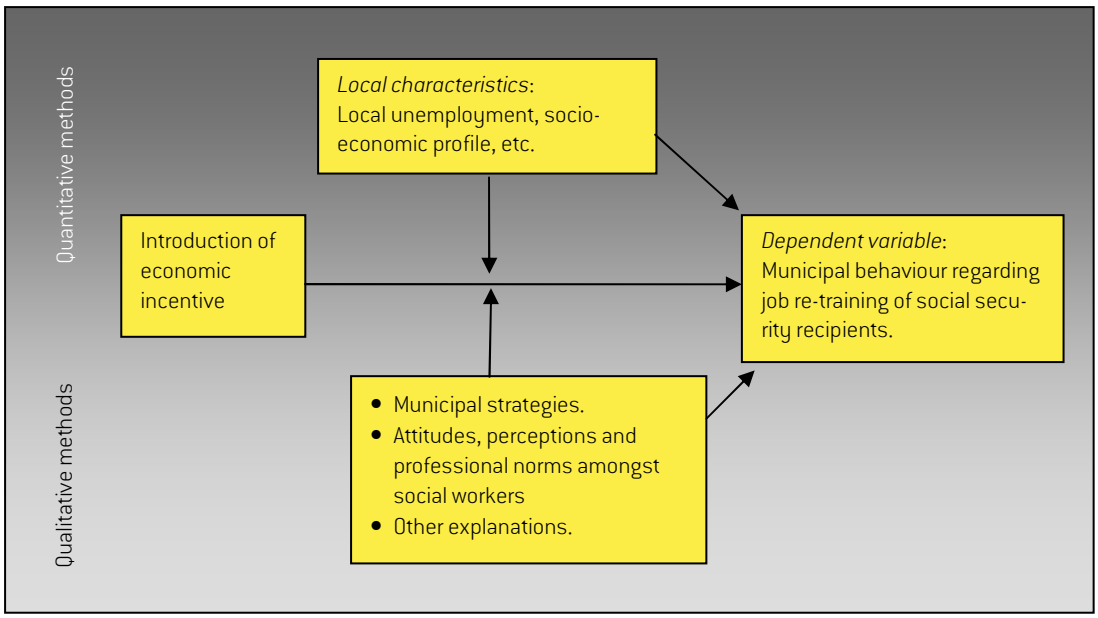
2 Methods

2.1 Design

Having in mind that our purpose is to analyze the effect in the Danish municipalities of the new economic incentive a quantitative design seems right. However, the theoretical debate points to some very interesting topics introducing strategies, attitudes, professional norms and perceptions as important for the effect of an economic incentive in an organization. But these topics and explanatory variables would be extremely difficult to include in a quantitative design. Instead, a qualitative design seems preferable.

But the inclusion of topics best analyzed with a qualitative design does not change the purpose of assessing the general effect after the reform: Has the introduction of an economic incentive changed the proportion of social security recipients following job-training programs? This question can only be answered through quantitative analysis. Therefore, we have chosen an evaluation design including both quantitative and qualitative methods. The design is illustrated below.

Figure 1. Evaluation design



The arrow from the left to the right illustrates the key issue for the evaluation: did the introduction of an economic incentive influence the behavior in the Danish municipalities regarding job re-training of social security recipients? The upper half of the figure illustrates the quantitative part of the evaluation. Here we analyze whether the reform has had the desired behavioral effect – controlled for a number of variables. The included control variables are expected also to influence municipal behavior regarding job re-training of social security recipients. The vertical arrow from the municipal characteristics to the horizontal arrow is also important: is it possible that local characteristics influence the effect of the economic incentive?

The lower half of figure 1 illustrates the qualitative part of the evaluation. Through qualitative studies of the strategies, attitudes towards re-training and perception of the refund reform in selected towns we analyze how these matters affects the use of re-training programs – and how it affects the effect of the refund reform.

2.2 Quantitative analysis

The following section shortly describes how we model the quantitative part of the evaluation.

It is important to distinguish between the *gross effect* and *net effect* when studying the consequences of a reform (Boyne 1998). The gross effect is the observed change in a given performance; the net effect is the consequences of the reform. Other factors influence a given performance; in our case the proportion of social security receivers following re-training programs. It is for example very possible that the labor demand in local firms influence the initiation of re-training programs. Therefore, it is important to isolate the effect of a reform by controlling for other important variables. And with the need for a model taking time-aspects into account we choose a panel data model.

Panel data – also known as time-series cross-sectional data – are characterized by having numerous observations over time for the same units. By looking at data as a panel you can take advantage of the information that lies in having observations of the same units several times. That makes it possible to control for unobserved, unit-specific heterogeneity, obtain more consistent estimates and examine connections that are not possible using cross-sectional regression or time-series models (Baltagi 1995; Frees 2004; Wooldridge 2002).

Unobserved unit-specific heterogeneity could be important matters that you cannot find described with quantitative data, but still are of importance. They could vary from unit to unit, but be constant over time for every specific unit. The local occupational structure could for example influence the possibilities for suitable re-training programs. At the same time different cultures among social workers could be important. By assuming that these matters are constant for each unit in the investigated time period, a panel data regression controls for their effect, without having the data describing them.

Our specific panel data model is modeled with *fixed effects* with estimation of the above mentioned heterogeneity for every single municipality. Fixed effects models are normally used when analyzing a total population, as in our case: all 98 municipalities (Wooldrigde 2002).[1]

The reform was implemented July 1st 2006, giving us the chance of using data from the 98 Danish municipalities before and after the reform. Our data consists of monthly observations from January 2004 to December 2007 in the 98 municipalities.

It is important to notice that in the time period being analyzed Denmark underwent a large amalgamation reform of local governments. In this analysis this is handled by aggregating data from the former (and smaller) municipalities to data for the new, larger municipalities.

The dependent variable: municipal behavior regarding job re-training of social security recipients is operationalized by studying the proportion of the social security recipients following job re-training programs in the Danish municipalities.

The effect of the refund reform is modeled by using a 'dummy'-variable with the value "0" before the reform, and "1" in the months where the economic incentive was implemented.

The local characteristics are modeled with a wide range of independent variables. This paper will not give thorough introduction of every single variable and the theoretic expectations linked to the variable. But table 1 gives a short summary of the included variables.

[1] A Hausman-test confirms this choice.

Category	Variable
Characteristics of social security recipients	Proportion aged 16-29, 30-54 and over 55+ Proportion part of a special program called "a new chance" Proportion characterized as "not ready for labor market" Proportion women Proportion immigrants from non-western countries
Local employment situation	Municipal unemployment Proportion social security recipients in the municipal population Number of local companies per citizen
Municipal characteristics	Municipals that underwent an amalgamation Municipals that underwent a fusion with institutions working with insured unemployed workers. Taxation basis per 1000 citizens Size (in 1000 citizens)
Time	Seasonal fluctuations are modelled with 'dummy'-variables for every month

2.3 Qualitative analysis

The purpose of the qualitative part of the project is to answer the questions: why (or why not) do we find different effects of the economic incentive in the Danish municipalities? What affect the impact of the economic incentive? As mentioned we are interested in the importance of strategies, attitudes and perceptions, but the qualitative analysis will also have an explorative approach, looking for other explanations.

2.3.1 Case selection

8 towns/municipalities are chosen for further evaluation. Four of the eight cases represent towns with the highest increase in the proportion of social security recipients following re-training programs; the other four cases represent towns with the smallest effect of the reform.

The practice of selecting cases on their values on the dependent variable are discussed (and criticized) in theoretical literature (Peters 1998). The argument is that when cases are selected on the variation in the dependent variable it is very difficult to conclude anything about the reasons for this variation. Even if we in the selected cases find explanatory factors varying with the effect of the reform, we cannot say for sure that this variation explains the outcome. Therefore, you easily exaggerate your findings with this kind of case selection, since you already have found differences in the outcome and will surely find other differences when you study different cases. The important point in the criticism is that the differences you identify not necessarily are the crucial ones.

Still we partially keep our selection principle. Firstly, because our intension with the qualitative part is to find possible explanations for differences in outcome and to describe successful strategies. Secondly, we do not have data for perceptions and attitudes among the social workers and it would not be possible to select cases on this basis.

The problems with the selection principle are sought neutralized by combining it with selection on the basis of some independent variables. We selected the towns in similar pairs. The pairs have similar values on a number of independent variables but vary on the dependent value. The selection principle is chosen since we thereby expect to hold some possible, unknown explanatory factors constant between the pairs. That makes it less complicated to find possible explanations. At the same time the fact that we have four pairs gives us a chance to examine whether the same explanations are valid in different set-ups. Hereby we reduce our risk of exaggerating our findings. The independent variables we choose for the town-pairs are the following:

- *Proportion of social security recipients following re-training before the reform.* The variable is selected due to the assumption that the level to a certain degree indicates the town's belief in re-training programs as a means for social security recipients to become self-supporting. At the same time it must be easier to increase the level from a low starting point than from a higher.
- *Geography.* In Danish studies there has often been found a significant difference between the Eastern and the Western part of the country, probably due to cultural differences (Pallesen 2003). Therefore, we choose towns from the same area in the pairs.
- *Level of urbanization.* The variable is selected due to the fact that large towns often have similar demography, different from small towns and more rural areas. Therefore we expect different conditions for re-training programs.
- *Merged vs. non-merged municipalities.* The amalgamation reform has meant a big organizational pressure in the new municipalities and could have made it harder to react on the new economic incentive.

The collection of data is based on interviews with the municipal job center manager and a focus group interview with social workers working with clients. The interviews are based on semi-structured interviews giving us both a structure in data and a possibility to follow an explorative approach.

2.3.2 Strategy for analysis

The starting point for the analysis of the qualitative data is a table (table 2) giving overview of the towns' reactions on the economic incentive combined with the result on the variables potentially explaining the variation in the town-pairs. The explanatory variables are identified partly theoretically and partly empirically, i.e. indentified in the interviews.

The overview is very simple. An explanatory factor is either present in a town or not present. This is indicated with +/-. We have chosen this simple dichotomy since it is not possible to evaluate the strength of the variable in any consistent way, and even though some information is lost, the overview table gives a very useful ground for comparison between the town-pairs.

The towns are analyzed individually with focus on the reasons for the town's results after the reform. The towns are then analyzed across to find patterns in the explanations. Firstly the towns are analyzed in pairs, looking for the reasons for different behavior after the implementation of the reform. Secondly, the towns reacting similar after the reform are analyzed together. The different approaches give insight in the variables that seem to be important in different set-ups.

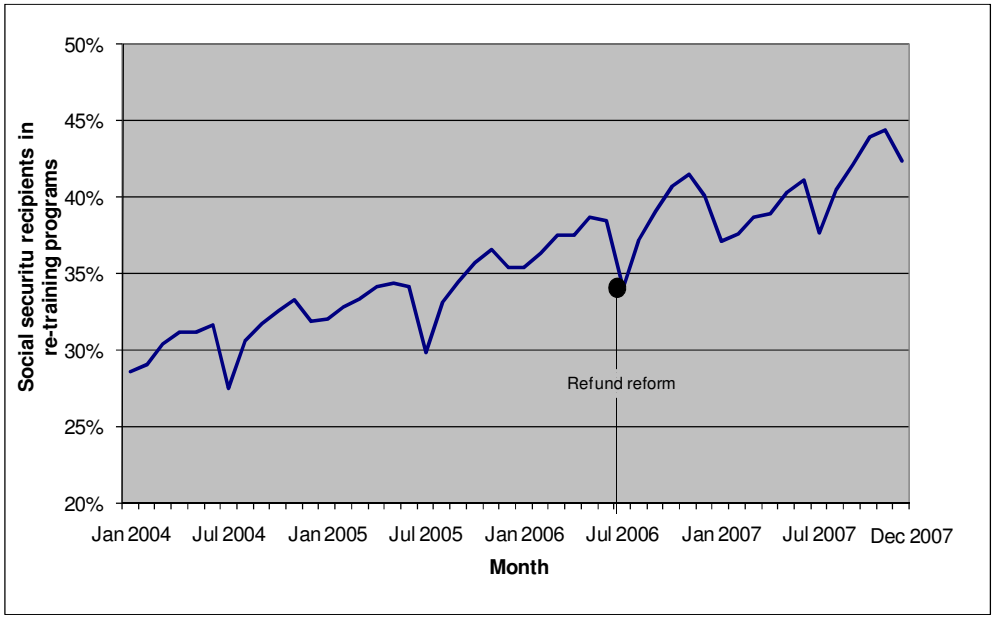
The strategy for analysis combines in its design a qualitative and a quantitative way of thinking. The qualitative element is visible in the fact that the analysis takes it starting point in the results and in the explanatory factors found in the towns. The quantitative element is visible in the attempt to split the cases into specific explanatory factors with dichotomous values. The strategy draws on insights from 'Qualitative Comparative Analysis' (Ragin 2000), even though we have not conducted a regular 'crisp set analysis'.

3 THE GENERAL EFFECT

This section presents the results of the quantitative panel regression of the municipal behavior regarding job re-training of social security recipients.

As an introduction it is interesting to take a look on the development in the proportion of social security recipients following re-training programs. Figure 2 shows the average re-training proportion in the Danish municipalities.

Figure 2. Average proportion of social security recipients following job re-training programs



Source: The Labour Market Authority, Denmark.

Figure 2 shows that in the period being analyzed there is a general increase in the proportion of social security recipients in job re-training. The increase in the proportion can be calculated to a difference of 4.4 percentage points before and after the reform. So the proportion has increased after the reform and that is important to notice. The Danish municipalities receive a greater total refund from the State, than If the proportion had stayed at the same level as before the reform.

So it clear that the proportion has increased after the reform. The increase could be due to the economic incentive, but as outlined earlier other factors could also influence the municipal behavior regarding re-training. In the terms of Boyne (1998) the increase of 4.4 percentage points is the *gross effect* in the period after the reform, and it is necessary to isolate the *net effect* of the reform to obtain a more correct picture of the effect of the incentive. Panel regression gives us the possibility of controlling for other explanations of the gross effect after the reform.

3.1 The net effect

The results of the panel regression are shown in table 1. Only the direct effect of the variables has been included in the regression. Table 1 lists the results of every variable in the regression. Focus in the discussion of the results will be on the clarified net effect of the economic incentive.

Table 1: Results from panel regression

Independent variable	Coefficient
Introduction of economic incentive	
Period of time after implementation of changed refund	-0,831
Characteristics of social security recipients	
Proportion aged 16-29	0,006
Proportion aged 30-54	0,000 (ref.)
Proportion aged 55+	0,606***
Proportion part of a special program called "a new chance"	0,015
Proportion characterized as "not ready for labor market"	0,032**
Proportion women	0,132***
Proportion immigrants from non-western countries	0,197***
Local employment situation	
Municipal unemployment	-1,359***
Proportion social security recipients in the municipal population	-5,943***
Number of local companies per citizen.	-0,115
Municipal characteristics	
Municipals that underwent an amalgamation	-1,905***
Municipals that underwent a fusion with institutions working with insured unemployed workers.	-2,053***
Taxation basis per 1000 citizens	0,053
Size (in 1000 citizens)	-0,404**
Time	
January	0,000 (ref.)
February	0,368
March	0,994**
April	0,764*
May	0,535
June	0,141
July	-3,474***
August	-0,965**
September	-0,359
October	0,952**
November	1,581***
December	-0,017
Constant[1]	52,472***
R^2 = 28,0 (within)	

N = 94; n = 4512
Notes: ***p≤0,01; **p≤0,05; *p≤0,1
[1] The reported constant is the average of the unit specific effects.

The model explains 28 percentage of the variance. That means that the independent variables in the regression in total are important in predicting the proportion of social security recipients in job re-training in a Danish town. Of course the significance of the variables varies, which will be elaborated below.

The effect of the variable representing the refund reform is surprising. The coefficient is negative – or zero, given that the coefficient is insignificant. But it is easy to conclude that there is not a positive net effect of the economic incentive to increase job re-training of social security recipients. The positive gross effect described in figure 2 is not caused by the refund reform and the new economic incentives. Instead a number of other variables, especially two variables representing the local employment situation explain the increase in the proportion of social security recipients in re-training programs. The result points to the fact that regulation through economic incentives cannot be assumed to have an automatic effect.

Of the other results it is worth noticing the strong relation between the proportion being re-trained and the local unemployment and proportion of social security recipients in the population. Both variables have a negative correlation with the proportion of social security recipients in job re-training. The lower the unemployment and the smaller the group of social security recipients, the higher is the proportion of social security recipients following re-training. In 2004 the average unemployment was 6.1 % and in 2007 3.1 %. The decrease in

unemployment in the period has – according to the model – a positive net effect of 4.2 percentage points. The proportion of social security recipients in the population has also fallen in the period from 2.0 % to 1.5 %, resulting in a net effect of 3.3 percentage point. It seems to be easier to find relevant re-training when the economy is booming, as it did in the latter part of the investigated period. The correlation could be explained by local businesses being more willing to use trainees when it is harder to get qualified labor. But it could also be explained by the fact that towns only to low degree hire social workers by the number of social security recipients. And with low unemployment there will be fewer cases per social worker.

More could be said, but the overall conclusion is that the introduction of an economic incentive does not have a positive net effect on the proportion of social security recipients in re-training programs. Instead the proportion shows to be very dependent on business cycles. When the economy is booming the proportion of social security recipients in re-training programs is higher.

3.2 Differences between municipalities

The panel regression builds on data from all the Danish municipalities. The same data gives possibilities for assessment of the development in every single town. The results from the regression can be used to compare the – on the basis of the model – the expected proportion with the observed proportion. Hereby we get a picture of how much each town differs from the general tendency. And the result shows whether some towns have changed their re-training behavior due to the new incentive.

The result shows great differences in the development of the proportion of social security recipients in re-training programs in the investigated time period. There is big variation between the towns and some towns have had a dramatic increase in the use of re-training, much higher than expected in the model. 10-15 of the Danish towns seem to have changed their behavior according to the economic motivation.

This project is interested in the contextual reasons for different effects of the economic incentive. This was a main purpose in the qualitative part of the project.

4 Reasons for changed behavior

The qualitative case study builds on interviews in 8 Danish towns. The case selection builds on selection of 4 'town-pairs'. The selection criteria for the town-pairs were that the towns should be alike on some rather simple background factors, but vary on the dependent variable: behavior regarding job re-training after the refund reform.

The figures 2-5 show the development in the proportion of social security recipients in re-training programs. Each figure represents a 'town-pair':

Figure 2. Randers & Esbjerg

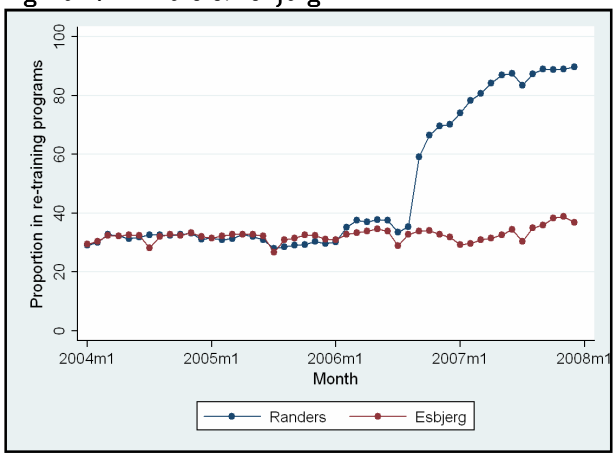


Figure 3. Lemvig & Brønderslev

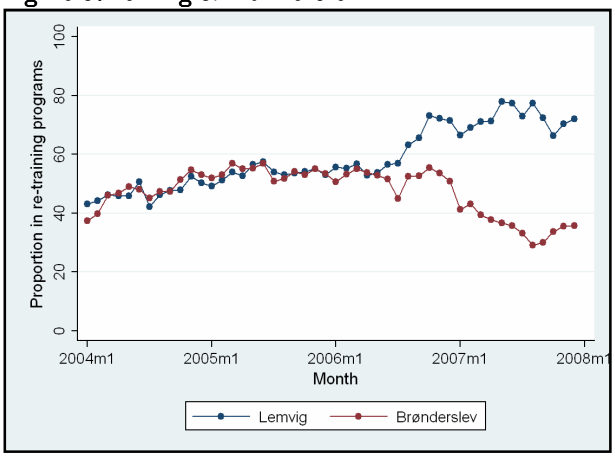


Figure 4: Odense & Fredericia

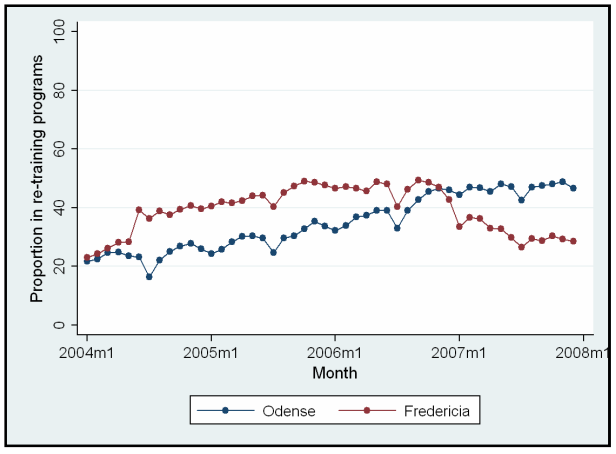
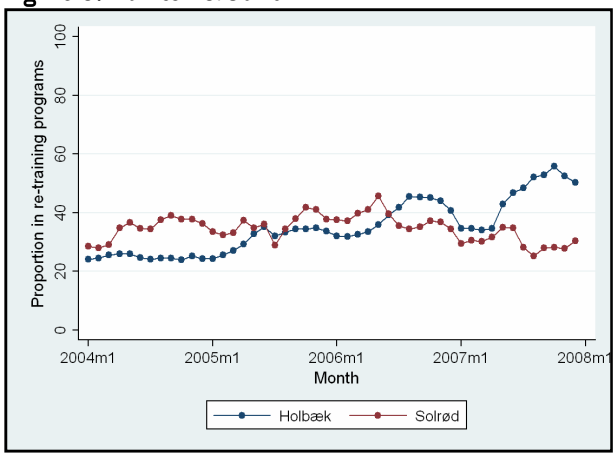


Figure 5: Holbæk & Solrød



As the figures show, we see great differences in the reactions after the refund reform in the four town-pairs. And quite surprisingly we also see decreases in some towns.

The qualitative study revealed some explanatory factors that could influence the probability of a reaction to the reform. The explanatory variables are identified partly theoretically and partly empirically. The empirically founded possible explanations reflect the explanations given in the interviews, and our theoretical expectations are supplemented with three other explanations.

The five explanatory factors are the following:

- *Implementation of a strategy to facilitate a municipal reaction.*
- *Positive attitudes regarding the use of re-training program at political level, managerial level and among social workers.*
- *Perceived economic pressure.*

- *High level of managerial resources, resources for leadership.*
- *High level of 'fusion chaos' due to the amalgamation reform.*

Table 2. Overview of towns and explanations

	Δ Re-training (dep. var.)	Strategy	Attitudes Politicians/ leaders/ social workers	Perceived economic pressure	Managerial ressources	'Fusion chaos'
Randers	+	+	+/+/+	+	+	-
Esbjerg	-	-	+/+/+	+	-	+
Lemvig	+	+	+/-/+	+	+	+
Brønderslev	-	-	+/+/-	-	-	+
Odense	+	+	-/+/+	+	+	-
Fredericia	-	-	-/-/-	-	+	-
Holbæk	+	+	+/+/+	+	+	+
Solrød	-	-	-/-/-	-	+	+

4.1 The crucial strategies

Table 2 shows that there is a consistency between the towns that have reacted on the economic incentive and the towns that have strategies for increased re-training. This relation exits in all our four town-pairs. In the four towns with increased use of re-training the job centre managers were from the beginning aware of the fact that the refund reform made it essential to change their strategies. They systematized the municipal re-training practice and ensured that there was re-training offers at different levels. They have only to a very low degree established individual (monetary) incentives for the social workers, but three of the towns have implemented performance goals for every social worker, measured as the proportion of social security recipients in job re-training.

In some of the eight towns the size of the incentive has been discussed and some towns have objected to the economic attractiveness in the new refund proportion. They claim that very often the price for re-training programs is still higher than the refund gain. This objection points to some very interesting insights. First of all it gives reasons for the missing positive net effect of the reform. The incentive could be too little. Secondly it points to that attitudes toward re-training could be important. A job centre manager states:

> *"The equation is only positive, when you count in the effects of re-training. They are the important effects"*

If you believe that re-training increases the probability that a social security recipient becomes self-supporting you do not have to weigh the price of re-training up against the higher refund.

The third important point is that some of the towns with increased use of re-training do not think traditionally about re-training programs. There is a tendency that these towns have shifted towards a "re-training light"-approach with less extensive content, with the purpose of establishing cheaper re-trainings programs. An example is a program called "job search" with the only content of searching and applying for jobs – sometimes alone. Some of the towns without reaction to the reform enhance their comprehensive re-training programs working with empowerment of social security recipients. It is not surprising that it is easier to make the first type of re-training financially viable.

A similar picture is shown when it comes to the extents of re-training programs. In towns without reaction it is pointed out, that in their view re-training programs should be full-time in order to look "like a real job". But in the other towns they very often use the possibilities of making exceptions to the general rule of at least 25 hours re-training per week. Again the

content of the re-training programs becomes lighter and less expensive since the refund reform does not reward the quality of the programs – only the quantity.

A simple point regarding the theoretical debate is that this conclusion challenges the simple logic that regulation with economic incentives *will* work. Only when the incentives are implemented in relevant local strategies incentives will have effect.

4.2 Reasons for a strategy

Table 2 also gives possible explanations of why some of the towns develop strategies and others do not.

Managerial resources
Managerial resources, meaning free resources at leader level, could be an important explanation. This especially appears from the town-pair Randers/Esbjerg. The towns are very similar – except when it comes to managerial resources. Esbjerg's current job center manager was not engaged in her job when the incentive was implemented. Managerial resources seem to be explaining why the incentive does not result in a strategy in Esbjerg when it does in Randers. Managerial resources seem to be a *necessary* condition for a reaction. But in the towns without reaction the Fredericia and Solrød cases point to, that if there are no economic pressure or positive attitudes towards re-training nothing will happen. Managerial resources are therefore not a *sufficient* condition for an effect.

Attitudes
Table 2 also indicates that attitudes seem to be of importance. The Randers, Lemvig, Holbæk and Odense cases indicates that when managerial resources are combined with positive attitudes and/or perceived economic pressure the result is a changed behavior. This is supported by the analysis of the town-pair Odense/Fredericia. They differ in attitudes and in perceived economic pressure – and we see very different reactions. The economic incentive seems to be perceived as either *supporting* or *controlling* (Frey & Jegen 2001). When it is seen as supportive, since it is in accordance with the attitudes, it has the desired effect.

The importance of attitudes is enhanced in the theoretical literature. But we were surprised that the attitudes among the social workers did not seem to be very important. Our impression is that when job centre managers implement strategies, they seem to be followed. The reasons could be that in the last few years the towns had experienced a high staff turnover with the result that social workers with negative attitude seem to have changed jobs.

Perceived economic pressure
As a general rule the towns react to the incentive when they experience an economic pressure. Esbjerg is an exception, but as described they miss the necessary condition: managerial resources. Perceived economic pressure seems to be a central explanation.

Positive attitudes and economic pressure are important in the explanation of the differences between the towns. But it is not on the basis of the data possible to determine whether one of the variables is sufficient explanation for the municipal behavior after the reform. Table 2 shows that there is a consistency between economic pressure and positive attitudes in five of eight towns. But in three towns we do not see this connection. Brønderslev has positive attitudes among politicians and leaders but the job center has not experienced economic pressure and we do not see a reaction to the incentive. In Odense and Randers our experience is that the economic pressure to some degree has been used as a means to make a strategy change, since the job center managers have positive attitudes regarding the effect of re-training programs. So there seems to be some kind of connection between the two variables.

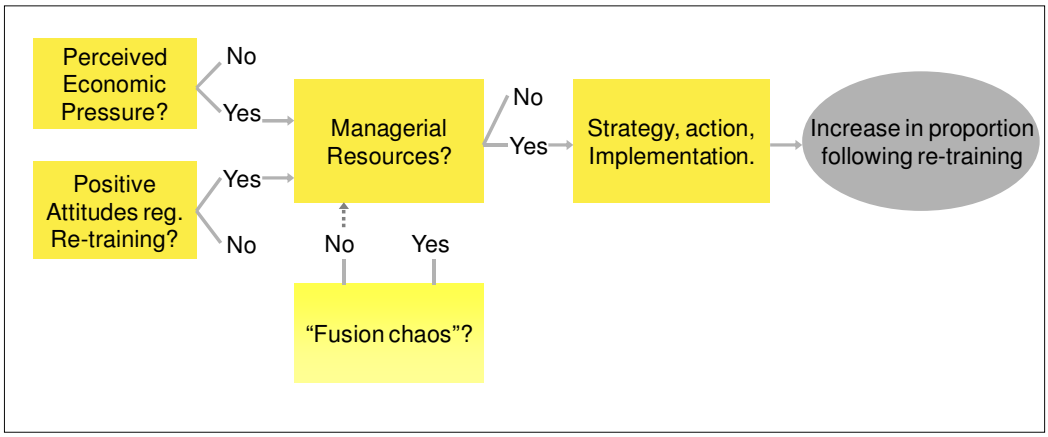
The Lemvig case is also relevant. Even though the job centre manager is not very positive regarding the effect of re-training programs he has initiated the town's strategy due to the economic pressure. A conservative conclusion is therefore that both variables are important explanations – and in combination they are particularly important.

'Fusion chaos'
The experience of 'fusion chaos' in the years after the amalgamation reform in Denmark has been a common "excuse" for missing reaction in the investigated towns. But overall the variable does not seem to have independent effect on the impact of the economic incentive. But there seems to be some links between 'fusion chaos' and managerial resources, which makes very much sense. But there are also exceptions. Managerial resources seem to be influenced by a lot of other factors as well. 'Fusion chaos' influence only to some degree the managerial resources.

4.3 Decisive variables

All in all the qualitative analysis suggests that managerial resources are a necessary, but not sufficient explanation of the municipal behavior. The analysis also shows that perceived economic pressure and positive attitudes regarding the effect of re-training are important explanations – especially in combination. Figure 3 illustrates the explanations.

Figure 3: Necessary conditions for an effect of the economic incentive



The flow diagram illustrates to the left that 'perceived economic pressure' and 'positive attitudes regarding re-training'– together or alone – are needed conditions for the development of a strategy for increased use of re-training. Still, such strategies can only be developed and implemented if the necessary managerial resources are present.

5 Literature

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