

Cutback Management Decisions

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Abstract

The aim of this paper is to review the evolution of the literature of cutback management and discuss its impact on the budget theory. To study the relevant cutback issues, this article discusses and reviews several studies related to this issue. The review showed that several tactics have been used to cope with the fiscal stress. Moreover, scholars found that the rules of the incremental budget theory were still operative under fiscal conditions.

Keywords: Cutback Management, Budget, Fiscal Stress

Introduction

Cutback management means managing organizational change toward lower level of resource consumption and organizational activity (Levine 1979). Cutback management scholars have shown that local and state government use wide variety of cutback management policies to close their budget deficit during recessions. Cutback management addresses processes and strategies used by policymakers when their organization faces a situation of resource scarcity. One of the major causes of resource scarcity is what Levine (1978) calls, environmental entropy. It is based on external economic forces that cause the deterioration of a government's economic base that does not allow a government to extract the necessary taxes for at least the maintenance of the status quo. One of the development emanating from the cutback management literature was the rational approach framework developed by Levine, Rubin and Wolohojian (1981). Their framework addressed on what rational basis cutback management policies would be implemented. The rationality of the framework is based on the idea that policymakers are forced to manage their organization's decline during an economic recession and therefore budget decisions are based on efficiency versus political needs.

Literature Review

The literature on decision-making, discusses budgeting as a decision-making process promises to be of assistance in explaining behavior in declining organizations. Levine (1978) has set two basic decision criteria for allocating cuts which are equity and efficiency. Equity-based decision rules such as across-the-board cuts were characterized as politically expedient and likely to minimize conflict, but also as being uncontrollable and in many cases directly counter to efficiency. Efficiency-based decision rules were characterized as very costly, because they require substantial analysis which is often not available due to time and resource limitations, and because they are likely to generate considerable turmoil.

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Levine argues that equity-based allocation or decision rules which combine analysis with political bargaining and partisan adjustment are the most likely to be employed.

Hills and Mahoney (1978) found that in times of abundance, precedent was the greatest determinant of a department's budget. They also found that a department's ability to generate external matching funds had a positive effect on their allocation, while the generation of grants had no effect at all. Ferlie and Judge (1981) found that budgetary retrenchment does not appear to have resulted in greater 'rationality' in social services departments budgeting, but quite the reverse as recurrent crisis budgeting tends to be neither synoptic nor rational but aims solely at preventing total collapse. Glennerster (1980) argued that in a period of restraint it is likely that 'strategic' rationality is likely to be overwhelmed by modes of decision making which are based on the vested interests of local and central politicians, professional or consumers. Moreover, he suggested that social service planning must come to term with greater uncertainty and abandon long term targeting. He believes that it should use instead incremental planning methods which are more appropriate to the world of economic crisis.

Greenwood's study (1983) appeared to support the above explanation and attempts to identify whether local authorities experiencing sustained fiscal stress find it necessary to adapt their budgetary procedures. He relies on Wildavsky's conception of budget preparation as an essentially incremental process, and indicates: (1) the extent to which activities and existing expenditures were reviewed each year, (2) the mode of analysis employed during the review and the time-scale of the budget. Greenwood believes that the political acceptable strategy through "percentage cuts across the board" is commonplace.

Lewis (1984) examined changes in the revenue and expenditure patterns of twelve major cities between 1964 and 1979, to determine whether resources scarcity results in significantly expenditure pattern. He found that incremental budgeting was operationalized as similar budget cuts for different city departments, regardless of their importance to the provision of core city services. The results of this analysis support the incidence of decremental budgeting by cities experiencing revenue declines.

Rickards (1984), in an analysis of 105 West German cities over nine years, found incrementalism more likely in certain fiscal conditions. More populous cities are more likely to follow incremental budgeting patterns. The author speculates this is due to the larger size of the budget and the increased demands by interest groups that result in decision-makers relying more on "fair-share" rules.

Downs and Rocke (1984) operationalized three incremental theories of budgetary decision-making: bureaucratic process theory, interest group politics theory, and managerial theory. While all three theories resulted in similar incremental outcomes during times of fiscal growth, they result in divergent outcomes in times of fiscal stress. This study tests how incrementalism in a fiscally stressed setting operates. They found that budgeting is essentially incremental and that the fair share principle applies with no consistent departmental winners or losers – although this is not operationalized as across-the-board cuts. Furthermore, their findings showed that in response to fiscal stress, budget cutting tends to take the path of least resistance.

Behn (1980) offered the following options for leader behavior during the time of fiscal stress:

1. Cut the fat tough guy. This type of leader adopts a combative approach to managing decline. The "tough guy" drastically pares overhead and holds down labor costs through tough negotiations with employees;

2. Revitalizing entrepreneur. The leader adopting this approach attempts to redirect the organization into a narrower scope of activity, in hopes of recreating equilibrium between resources and expenditure;
3. Receiver in bankruptcy. This leader is not concerned with organizational maintenance; rather, he or she is interested in enhancing his/her own image by smoothly managing the elimination of the organization.

Behn (1996) identified the basic tasks facing the public manager a cutback environment:

1. Deciding what to cut
2. Maintaining morale
3. Attracting and keeping quality people
4. Rallying the support of key stakeholders
5. Creating opportunities for innovation
6. Avoiding disasters

Jimenez (2014) examined whether the use of rational management approaches, in information gathering, analysis and use in decision-making can help local governments adapt to a fiscal crisis by facilitating targeted cuts in expenditures that preserve administrative capacity, and avoiding across-the-board cuts that trim both the organization's muscle and fat. He used a large sample of city governments to examine if rational management approaches such as strategic planning and performance management, increase the probability that city governments will adopt targeted cuts to expenditures. The results of this research show that rational analytic techniques can help local governments target cuts to expenditures. The results also suggest that rational analysis and politics are not necessarily mutually exclusive. Analysis can be used as a tool to minimize political opposition, as when performance information is used to justify targeted cuts.

During the 1980s, local authorities in UK were in a bad financial situation due to a high rate of inflation and the drastic changes introduced by the central government, (cutting expenditure, setting targets, introducing a penalty system, applying rate capping system) have increase uncertainty in those authorities. Ibrahim (1993) found that three county councils (Staffordshire, Shropshire and Derbyshire) were living with three types of uncertainties: state, effect and response uncertainty, due to the dire economic condition and the intervention of central government in the 1980s. Such uncertainty had led these authorities to use incremental budget approach to manage the depression and achieve their objectives by proceeding in small moves (Ibrahim and Proctor, 1992).

Intervention of Central Government (1980-1988):

In the 1980s the United Kingdom Central Government had two basic objectives towards local government (Meadows 1986). The first, central to its economic policy, was to secure a sustained reduction in local authority expenditure. The second was to lift the burden of detailed central control off local government, and where possible for local government to lift unnecessary controls off citizens and business.

Strategies to cope with fiscal stress

1. Buying Time

As theorized by Wolman (1984) the immediate reaction of an organization to a period of widespread fiscal contraction is to rely on methods that avoid destabilizing the organizations internal and external equilibrium. These methods protect the internal and external equilibriums that exist within

and without the organization by avoiding the implementation of unpopular strategies such as tax increases and layoffs. This time purchase has the benefit of buying the organization sufficient time to plan and implement longer-term strategies.

2. Revenue Enhancement

Organizations may then begin to employ strategies that bring in additional revenue in order to maintain the uninterrupted provision of existing services. Levine et al (1981) and Wolman and Davis (1980) put forth several sources of additional funding that cities increasingly rely on during times when available public resources are inadequate.

3. Productivity Improvement

When under great financial difficulty cities must avoid relying on politically sensitive tax increases to protect revenues. They must therefore rely on alternative means of alleviating their financial pain. Enhanced focus should be placed on improving the productivity of the department so that cuts that create antagonism and mistrust among internal and external actors, namely employees and taxpayers are not resorted to.

4. Cutting strategies

The last resort cuts, should only be made if all other strategies to deal with fiscal stress have been exhausted. According to Lewis and Logalbo (1980), when cuts become an inevitability, they should be preceded by a review of municipal services. This review is conducted by preparing a detailed schedule that provides a thorough outline of the current services provided by the organization, with services being categorized according to the output and cost levels of each service. The managers should then determine what possible adjustments to service levels might be explored. An examination of current population trends may reveal areas where the ability of the organization to terminate services or shift resources comes at minimal harm to service recipients.

Cutback and Incrementalism

Some authors believe that incrementalism is insufficient and inappropriate to explain what is going on in the times of fiscal stress. Their concerns relate to several of the following conceptual usages.

1. The base. In periods of cutback, budget policymakers may focus more on the budget base rather than the increment to balance the budget. (Bozeman and Straussman, 1982).
2. Fair shares. Budgeting in cutback period can be considered as a redistributive tool of funds rather than distributive as is the case in growth period, (Schick, 1983).
3. Budgetary roles. In periods of cutback, the role of the policy makers becomes more important (Bozeman and Straussman 1982). As a result, Budgeting tends to be top-down rather than bottom-up, since spending departments are unlikely to volunteer to make cuts. Negotiations between the spending departments and the policy decision body become less necessary (Knott 1981).
4. The Role of the budget. The control function of budgeting will be dominant in a period of fiscal stress more than the planning function. (Schick 1980).

However, with these objections in mind, there remains a strong case for why incrementalism will still be the dominant form of budgetary decision making in a cutback era. This is mainly due to the fact that managers often expect crises and perceive them to be a natural phase of the economic and political cycle and consequently made accommodating for them an important part of their budgetary routine. A secondary reason why incrementalism will remain the dominant decision making strategy is that

incrementalism inherently places a restriction on substantial cut-making and thus allows cuts to be made in the fringes of discretionary spending. This is a safe strategy as it minimizes conflict between program managers and policy makers.

The rationalism and incrementalist models of budgeting are not diametrically opposing viewpoints. The two models are competing and alternative strategies of cutback budgeting but they do have some commonalities between them. Firstly, the more scientific of the two, the rationalist model, places an emphasis on the value of analysis and comprehensiveness, while the incremental model regards interaction and selectiveness in decision making as of utmost importance. However, there exist many links between the two models that are self-evident. Secondly, the attainability of comprehensiveness in budgeting is considered an unrealistic goal and thus differentiating comprehensiveness, an ideal, and selectiveness, a realistic goal, is of little use in cutback theory. Incrementalists see the utilization of a variety of simplifying strategies as necessary in countering the high degree of complexity in decision-making. The third link between the two theories of budgeting is the shared assumption that both rationalists and incrementalists make in regarding decision makers as goal-oriented actors.

Conclusion

Cutback management theory studies the various possible strategies that governments employ when faced with a period of significant fiscal contraction. Cutback management examines the various strategy adjustments that state and local governments make when revenues are stagnant and budgets are squeezed. The study of cutbacks also help scholars gain a better understanding of the political landscapes within which governments operate as well as the many factors and forces responsible for creating fiscal stress.

The core objective of this research work has been to further explore the underlying reasons for implementing chosen cutback decisions and the strategies that different organizations devise to cope with fiscal stress. A study of the literature showed that management in public organizations often responded inappropriately to the issue of fiscal stress by avoiding a review of the structural features that form the backbone of the public services that these organizations provide. Instead, they responded by protecting their own service packages to the best that current resources allowed, using incremental theory rules and employing a combination of the popular four cutback management strategies discussed above.

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