



THE CHALLENGES OF CUTBACK MANAGEMENT

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Government managers are used to operating in an environment where demand for service exceeds the resources available. But South Carolina is currently experiencing a period of unprecedented fiscal stress. The cumulative magnitude of the budget cuts will require a fundamental rethinking of the mission and scope of governmental administration and service delivery at all levels of government.

Marginal adjustments, simplistic approaches and short-term measures simply won't suffice if we want government to be more efficient and effective rather than just smaller

The choices managers make and how they make them in response to this fiscal stress will shape the governmental landscape in South Carolina for years to come and will significantly impact virtually every aspect of life in our state. This article provides a brief overview of the major tasks, challenges, and issues of cutback management and concludes with suggested "best practices" in cutback management.

THE CHALLENGES OF CUTBACK MANAGEMENT

South Carolina is by no means unique in experiencing fiscal stress. Robert Behn (1996) notes that:

Every public manager faces the challenge of cutback management. Real resources are declining (though demand for public service is not). Cutbacks are a reality. Consequently, public managers have the responsibility to make their agencies smaller while, simultaneously, fulfilling their organizations' missions (p.68).

Deciding what to cut. This is generally the most visible and controversial task. Decisions about what to cut have long-term strategic consequences for the organization and those it serves. There are no easy solutions. As we shall discuss in more detail later, simplistic measures and across-the-board approaches to cutting budgets generally have the effect of punishing those units that are efficient and effective, while not forcing those units that are inefficient or "fat" to make critical changes. Indeed such approaches almost ensure that no program or service area will have the support and resources required to achieve or maintain excellence. Unfortunately, given statutory mandates, bureaucratic rules and regulations, and the political environment in which they function, governmental managers may be severely constrained in deciding what and how to cutback.

Within those parameters, decisions about what to cut should be made in a systematic, inclusive manner with extensive involvement by employees and stakeholders. Beyond simply looking at the

budget, these decisions should be guided by the organization's strategic plan and informed by performance measurement data. In deciding what to cut, managers must consider such key strategic questions as:

- What business are we in (mission, purpose and mandates)?
- What is our vision for the future (what are we striving to become as an organization; what outcomes are we seeking for our stakeholders)?
- What are our guiding principles or values?
- Who are our stakeholders?
- What do they expect from us?
- How well are we performing?
- What would happen if the organization did not exist or did not provide a particular service?
- What opportunities does this fiscal environment present to us that we could exploit?
- What are the threats we must avoid if we are to succeed?

Maintaining morale and retaining quality people. In his study of downsizing in the private sector, Cameron (1994) found that in one survey of senior managers of downsized companies, 74 percent reported that morale, trust, and productivity suffered after downsizing. He suggests that one explanation for this is that downsizing created "resentment and resistance" (p.191).

Indeed managers are faced with different challenges in maintaining morale and productivity depending on the phase of downsizing they are in (Armstrong and Duffy, 2001). In the early stages, based on news reports about the state of the economy and economic projections, and persistent rumors of possible budget cuts, layoffs, furloughs, etc., the workforce becomes increasingly uncertain about job security. Turmoil increases. Organizational momentum is lost and inertia increases as managers and employees are hesitant to make decisions or take actions given an uncertain future. Highly mobile and skilled workers may begin

a search for greener pastures. As the possibilities of cutbacks become reality, shock and disbelief set in. The “brain drain” continues as the best and most mobile staff leave the organization. Those who remain may get into a defensive, survival mode, keeping their heads down and avoiding risk. Rebellion and resistance may become more common as changes are announced. Commitment to the organization and its goals decreases as employees grow increasingly concerned about their own survival and security needs. Clearly this has a significant impact on their motivation and morale as well as on the organization’s productivity, quality, and customer service.

In the aftermath of downsizing the surviving employees will be facing a period of readjustment. They may have feelings of loss, guilt, resentment, and insecurity. As with any loss, adjustment will occur in stages that may include shock and denial, anger, guilt, depression, and loneliness. Everyone adjusts at a different pace. They will require understanding and supportive management in order to accept the new organizational reality and regain their hope.

Rallying the support of key stakeholders. While the manager’s task is to make objective, data-based decisions about cutbacks, these decisions are made in a political arena, not in a vacuum. Every organization, program, and service has vocal, passionate stakeholders. The term “stakeholder” is defined here very broadly. It is more than customers in the traditional sense (those who receive the services). The definition also includes those who have an interest in or are affected by the organization, program or service in question.

It is critical to get input from the key stakeholders, involve them in the process, and maintain good communications with them. Clearly, discussions with stakeholders about possible cuts will be emotional and value-laden. The manager is not likely to arrive at a universally popular decision. Ultimately there are winners and losers.

Create opportunities for innovation. Behn (1996) points out that “for a growing agency, innovation is desirable. For a contracting one, innovation is essential for survival. Indeed, innovation can help attract quality people and even earn stakeholder support” (p.68). Because it forces the manager to evaluate, prioritize, and get back to basics, a cutback environment presents a tremendous opportunity (perhaps the best opportunity) to change, to find

innovative solutions, to streamline processes and to focus on organizational strengths. Absent fiscal pressure or some other significant organizational stress, it is extremely difficult to overcome resistance to change. But if there are not enough resources to do business as usual and maintain a balanced budget (a typical definition of fiscal stress), then change must occur. Given the statutory or regulatory constraints and the political nature of the decisions discussed above, it may be appealing to take a simple, “across-the-board” approach to cutting the budget (incremental budgeting in reverse). But this effectively takes away both the pressure and the opportunity to make the organization more efficient and effective. Such approaches effectively make the entire organization worse.

Importantly, this also provides the manager with a wonderful opportunity to offset some of the negative impact of cutbacks on morale discussed above. Engaging and challenging employees to find efficiencies and innovative solutions can have positive effects on motivation, morale and commitment. In addition, employees are generally among the best sources of ideas about how to do things better.

DOWNSIZING STRATEGIES

Typical strategies used to reduce organizational expenditures include:

- Reducing staffing levels by attrition, hiring freezes, eliminating positions, layoffs, furloughs, early retirement, or buy-out programs
- Reducing the scope of certain programs
- Phasing out or eliminating whole programs
- Raising additional revenues from new sources
- Selling assets
- Privatizing or transferring responsibility for certain programs to other agencies
- Deferring certain activities until a later date (building maintenance, renovations, construction of new facilities, studies)
- Making improvements in quality, efficiency and effectiveness (process mapping and reengineering)
- Using lower cost labor (part-time workers, temporary workers, volunteers)
- Using labor saving approaches (increased use of technology and automation)
- Providing incentives for resource conservation and performance improvement

- Tightening up on selected budget items (freezes in travel and purchasing)

Cameron (1994) organizes downsizing strategies into three categories - workforce reduction, work redesign, and systemic changes. Each approach has its pros and cons and important long-term consequences for the organization.

Workforce reduction. These strategies focus on reducing the headcount by eliminating positions, layoffs, attrition, or early retirement and buy-out packages. Since personnel costs represent the biggest portion of most organizations' budgets, such approaches provide a short-term payoff. In the long term, however, this approach can seriously damage the organization because of the loss of talented, experienced staff and the lowering of morale and productivity.

Work redesign. These strategies focus on the work itself – what is being done and how it is being done. The idea is to identify and eliminate duplication, waste, and process steps that do not add value. Organizations may be able to combine functions, merge units, redesign jobs, streamline processes, and/or eliminate organizational layers (bureaucracy) as a result of such efforts. While such efforts can result in significant improvements in both efficiency and effectiveness, the payoff comes somewhat farther down the road. It takes time to study and map out the processes, identify inefficiencies, and design and implement new procedures.

Systemic change. These strategies focus on changing the culture of the organization, its values, and the attitude of its workers. This is a long-term, ongoing process that is embraced as the way to continuous improvement rather than as a response to mandated budget cuts. The idea is to eliminate the status quo by asking and answering the kind of fundamental strategic questions about the organization identified above. There are no “sacred cows.” Typically such approaches are very comprehensive and participative with input by key stakeholders. Change can be both top-down and bottom-up in nature. Such approaches would incorporate efforts to simplify and streamline processes and eliminate hidden costs as described in the “work redesign” approaches above. These approaches reflect a need and a willingness to make fundamental changes. Obviously such approaches will not result in many short-term savings and may increase expenses in the short term to support the process. Long-term, however, this may be the best investment the organization can

make to insure its excellence, relevance, effectiveness and survival.

THE NEGATIVE IMPACTS OF DOWNSIZING

It is clear that downsizing can have unsatisfactory, even disastrous results. In the aftermath of cutbacks, organizations may find themselves in serious decline. In addition, the high costs of making changes may offset some of the expected savings. In their study of downsizing of federal government in Canada, Armstrong and Duffy (2001) point out that:

The transactional costs of change – ongoing adjustments, turmoil, burnout, new system development, training and retraining – added to the costs of early retirement, pay in lieu of notice, outplacement costs, etc., often make restructuring a much more costly exercise than financial analysts predicted (p.8).

Cameron's (1994) study of private sector downsizing experience found that “most organizations did not consider their downsizing efforts to have been effective” (p.191). He cites a number of surveys to illustrate the reality of downsizing. One survey found that only 46 percent of downsized firms reduced expenses while only 32 percent increased their profits. Only 17 percent reported that they had actually reduced the bureaucracy in their organizations (p.190). And as discussed above, there are negative impacts on morale and productivity. Indeed downsizing, if not well managed, can result in long-term organizational decline. Cameron found significant predictive relationships between the approaches to downsizing and the ultimate improvement or deterioration of the organization after downsizing. Approaches to downsizing that contributed to deterioration include:

- Downsizing by attrition and hiring freezes
- Piling more work on remaining employees (no work redesign or reduction)
- Changing the reward and appraisal systems by eliminating cost-of-living increases and/or mandating salary freezes
- Failure to implement systematic, ongoing efforts to improve quality

As challenging as cutback management is, there are some instances where the results have been good. There are some suggestions about “best practices” that can be used to increase the likelihood that the organization not only survives cutbacks, it is improved as a result.

BEST PRACTICES IN CUTBACK MANAGEMENT

Pierce (1987), Cameron (1994), Behn (1996) and Nelson (1998) provide some useful guidelines and advice for managers about approaches, strategies, and attitudes that may minimize the negative consequences of downsizing.

- View downsizing as an opportunity for innovation and improvement rather than a threat. Set a positive tone rather than adopting a negative and defensive attitude.
- Establish diverse revenue sources. Local governments with enterprises such as utilities have been more successful in surviving financial crises.
- Plan and prepare for downsizing before it is mandated. Have an ongoing strategic planning process in place with clearly articulated mission, values, core competencies and prioritized goals and objectives. The information gathered as a part of good strategic planning process is precisely the information managers need to anticipate and prepare for the future and make good judgments about the allocation of scarce resources.
- View the organization's human resources as an asset rather than a budget line item that must be reduced when faced with tight budgets. Successful organizations typically have continuity in top management. Use downsizing as an opportunity for employee growth and development.
- Involve employees in, and hold them accountable for, the identification of changes that should be made and the implementation of those changes. De-centralize decision-making processes.
- Involve key external stakeholders and maintain good communications with them. Maintain a strong customer service orientation.
- Over communicate. Insure that there are frequent, consistent, and honest communications to all employees about every aspect of downsizing.
- Be compassionate and understanding. Provide support for those who stay with the organization (survivors) as well as for those who leave. Safety nets, outplacement,

counseling, and retraining must be provided for those who leave. Counseling, training and support must be available for the "survivors" to help them adapt to the downsizing.

- Use a variety of cost cutting measures, not just short-term reductions in headcount. Management tools such as benchmarking and process improvement can help identify opportunities for reducing costs and improving service delivery.
- Use performance measurement as the basis for identifying areas that need improvement and for tracking progress.
- Tailor the organization's reward and recognition system to the new organizational goals and priorities rather than leaving them unchanged or eliminating them to save money.
- Maintain momentum, morale and support by planning small wins in those areas where changes can be made quickly ("low hanging fruit"). Celebrate and communicate progress.

Organizational improvement or deterioration in the aftermath of downsizing is clearly dependent on much more than simply what or how much is cut from the budget. The approaches to decision-making and managing the cutback process are also critical determinants of success. But these practices are certainly not unique to cutback management. This is the way successful organizations manage in good times and bad.

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