



# SOUTHERN AREA CONSORTIUM OF HUMAN SERVICES

## Cutback Management Strategies: Experiences in Nine County Human Service Agencies

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SERVICE AGENCIES

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ABSTRACT: This study of nine county human services agencies identified successful strategies used to address budget reductions and the management tools/processes used to inform these decisions. Fifty-nine managers and executives who were interviewed identified 213 separate tactics for managing cutbacks at the executive and program levels. These were in areas including minimizing the impacts of budget cuts; building staff understanding, acceptance, and support; processes for deciding how to allocate cuts; increasing productivity; and modifying levels and types of services. Strategic themes emerged in the data analysis. These themes included collaborative leadership, taking a big picture approach, maintaining focus through strategic planning, relationships with key constituencies, communication with staff, preserving staff capacity, decentralized decision making, and using data to guide decisions. Implications for ongoing effective leadership and management are discussed.

KEYWORDS: cutback management, leadership, strategic planning, participative management, productivity.

## CUTBACK MANAGEMENT STRATEGIES: EXPERIENCES IN NINE COUNTY HUMAN SERVICE AGENCIES

In 1984, in the midst of the huge social service cutbacks during the Reagan administration, *Social Work* published a seminal article on cutback management (Austin, 1984). That article and others of the 1980's still have relevance today, in an equally challenging budget environment. There has not yet been a resurgence of publications on this subject since the recent budget cuts of the last four years. This paper reports on the results of a study to learn about effective management practices used in nine county human service agencies to maintain organizational capacity including client access, program quality, productivity, and staff morale, when funding for programs has been significantly reduced.

After a review of the literature and a discussion of the research methods used, overall themes in the findings will be presented, followed by some implications for practice and further research.

### LITERATURE REVIEW

The term "cutback management" emerged in the literature during the 1980's, following the taxpayer revolt sparked by Proposition 13 and the massive budget cuts of the Reagan administration. This literature covered factors and conditions leading to cutbacks, the effects of cutbacks, cutback strategies and tactics, and conceptual models for assessing cutbacks. Much of this literature was intended to critique the conservative agenda and attendant management strategies that were aimed at dismantling social and human services at that time.

After a brief discussion of major conceptual frameworks for looking at cutback strategies, we will highlight the literature that specifically addresses the study questions regarding effective strategies for preserving the capacity of human service organizations.

Several authors have offered different conceptualizations of cutback management that have in common contrasting approaches taken by management to address cutbacks. Austin (1984) contrasted traditional strategies such as across-the-board cuts, not filling vacant positions, and lobbying for reductions in cutbacks with newer strategies including improved management and personnel practices, setting priorities based on client needs, and building new partnerships with stakeholders and policymakers. In a related vein, Bombyk and Chernesky (1986) described the alpha, or traditional, leadership style, which uses traditional definitions of power and authority and hierarchical structure; and contrasted this with a beta leadership style, which involves sharing of power and decision-making, greater attention to staff needs, and non-linear problem solving strategies. The terms used by Weatherley (1984) for these types are technician and statesman, with the former using top-down approaches and rational means and the latter using bottom-up approaches and value-based and qualitative perspectives. While Bombyk and Chernesky and Weatherley agree that new, beta (or statesmen) strategies are more effective, especially in the long run, it was noted that all types of strategies are, in fact needed.

Taking these perspectives to the operational level, Ingraham and Barrilleaux (1983) used Theory X and Theory Y from the classic management literature to describe cutback approaches. They noted that Theory X approaches for motivation, such as promotions and raises, are generally not available in times of cutbacks, and that threats such as demotions and firing are not relevant because all employees are vulnerable to those. They suggested that Theory Y methods such as group decision-making, shared decision-making, and decentralization of authority are more appropriate during cutbacks. In fact, this approach seemed to be by far more common in the agencies studied here.

More recently, specific strategies have been identified by Edwards, Lebold, and Yankey (1998); Bovaird and Davis (1999); Gradet (2003); and others. In the nonprofit arena, Sink (1992) examined cutback management tactics identified in a survey of 155 nonprofit agency directors. In a comprehensive review of cutback management strategies for nonprofits, Angelica and Hyman (1997) grouped strategies into three categories: financial strategies, including cost cutting and revenue increases; structural strategies, such as modifying the organization's mission, structure, or culture; and engagement strategies, such as becoming more involved with community organizations. Examples of many of these strategies emerged in the research described below, with the additional data from practitioners indicating which have been most successful in maintaining organizational capacity

#### STUDY PURPOSE

This study was commissioned by a group of directors of nine public human service organizations interested in learning about current strategies which were helpful in addressing funding cutbacks. There were two major questions in this study:

- What strategies have been used by managers to address budget reductions in their programs? Of these, which seemed to be most innovative and effective in maintaining client access, program quality, productivity and staff morale?
- What management tools/processes were used to inform/support decisions by managers as they addressed the funding reductions?

#### METHODOLOGY

We devised an instrument to elicit strategies and practices used by executives and managers in nine county human service agencies in California to manage budget cutbacks and/or reduce expenditures in fiscal years 2002-03 and 2003-04. During these two fiscal years, there

were multibillion dollar state deficits, and much of the cost cutting burden was borne by health and human services administered by county agencies. Counties studied ranged from heavily urbanized to suburban and rural. In pilot testing the original instrument, it became clear that the perspectives and strategies used by agency directors and administrative support deputies were sufficiently different from those of program deputies and managers to require two different instruments. Thus the instrument for interviews with chief executives and deputies in staff positions, e.g. finance, personnel, etc., focused primarily on department-wide strategies for addressing funding reductions, including how 1) the executive team advocated for department priorities in the context of county decision-making, 2) where to make cuts in the array of department programs, 3) how these decisions were arrived at, and related issues.

The instrument for program deputies and management staff (e.g. director of child welfare) focused on cutback management practices that were specific to programs that fell under a respondent's span of control. Here we queried about specific cost reduction measures, and strategies that might have been used to manage the cutbacks, including modifying types and/or levels of services to clients, developing alternative resources or revenues to replace or offset reductions, increasing staff productivity, and shifting or sharing responsibility to/with other agencies. We asked respondents to tell us what if anything they had done in these four areas and to estimate the impacts of these actions on client access to services, service quality, staff productivity, and staff morale. Finally, we presented respondents with two lists of items relating to factors that influenced their choice of strategies and the tools and processes they relied upon in making their decisions and asked them to indicate the four most important in each list.

Both instruments contained both structured items and semi-structured items. The latter were designed to allow for open-ended responses. The interviewers were instructed to follow the

contours of the respondents' management practices so that they could later be put into vignettes. Our concern was to capture practice exemplars and only secondarily to learn about discrete elements of the strategies described.

The agency directors who requested the study all made their agencies available for data collection. The director or his/her designated representative in each agency suggested study respondents to the research team. A total of 59 persons were interviewed in the nine agencies. The sample included 24 department directors and administrative support executives (e.g. deputy directors of finance, planning, human resources) and 35 program deputies and managers (e.g. directors of children's services, adult protective services). The number of interviews in each agency ranged from four to nine. While this is a purposive sample, we believe we captured a representative picture of current strategies and practices. Nearly all interviews were conducted by phone. The interviews typically required 45 minutes to an hour.

#### SUMMARY OF FINDINGS: CUTBACK MANAGEMENT TACTICS AND PRACTICES

Respondents identified 213 separate tactics for managing cutbacks, clustered into the following areas, with the number of tactics indicated for each area:

Executive level:

- a. Representing/advocating for the agency's needs to Board of Supervisors (13)
- b. Processes for deciding how discretionary cuts would be allocated (18)
- c. Minimizing the impact of the budget cuts on the agency (42)
- d. Building staff understanding, acceptance and support (16)
- e. Building community understanding, acceptance and support (13)
- f. Moderating the impacts of the cuts on those staff/clients to be most directly affected (28)

Program level:

- a. Modifying levels and types of services to clients (24)
- b. Developing alternative resources/revenues to replace or offset reductions (22)
- c. Increasing productivity of staff, doing more with less (enhancing efficiency) (28)
- d. Shifting/sharing responsibility to other agencies or departments (9)

Upon analysis we found that these specific tactics and practices were typically embedded in eight larger management strategies or themes, each of which included a number of practices or tactics that collectively were intended to maintain organizational capability or minimize the negative impacts of cuts. The results that follow present these themes rather than the discrete practices, except where the latter are cited as examples.

## STRATEGIC THEMES

### The Collaborative Leader

There were many examples of directors demonstrating effective leadership through behaviors encompassing collaboration rather than competition, and compassion rather than judgmental attitudes (in Austin's [1984] model, "new" rather than "traditional" strategies), defining situations in ways that created positive attitudes for problem solving. Examples included collaborating with peers within and outside the agency to advocate for their agency's needs, and expressing confidence in the leadership abilities and efforts of their departmental staff. Other useful leadership behaviors included displaying enthusiasm and optimism and creating a problem-solving climate.

In several agencies, department heads formed strong collaborations with one another and presented information to the county leadership on how to make cuts that would have the least impact on services agency-wide while maximizing state and federal draw-downs. To advocate

for their agency's needs, many directors reported that it was essential to present their cases to the County Administrative Officers (CAOs) and the Board of Supervisors in areas such as mandated matches, the extent to which county general funds are used to leverage state and federal revenue, and the consequences of various funding scenarios. Alliances with directors of other county agencies e.g. probation and public health, served to build credibility with county CAOs and supervisors and strengthen relations with colleagues.

### The "Big Picture" Approach

Leadership in difficult fiscal circumstances was also reflected when directors and deputies tended to think and act in a system-wide context. The big picture approach was manifested in a number of instances, including shifting and sharing of employees across programs, leveraging categorical funds in collaboratives to serve shared clients across departments, and pursuing cross-agency collaborations in service delivery. In many cases, funding allocations reflected a broader-based view of the team, as opposed to the individual worker, and the region as a whole, rather than one office. This enabled work to be more effectively distributed and for proactive planning to take place.

Cross-training staff and transferring them across programs also proved to be a proactive approach to mitigating staff reduction. In cases where it did not look likely that a staff member would return from a long-term leave of absence, agencies brought on staff members who had lost their positions in other programs.

More profoundly, the big picture approach was evidenced in the way administrative leaders were willing to make trade-offs between programs and to forego maintaining vacancies in order to benefit the agency as a whole. Reflecting on the progressive outcomes of a series of budget meetings to prioritize services, an executive from one county stated, "Sometimes one has

to sacrifice their own department-specific interest for the greater interest...trade-off is necessary for the greater good of the agency.”

Many respondents felt that the process of involving the executive team in prioritizing services on an agency-wide level deepened the knowledge directors and deputies had of other programs and enhanced the relationships they shared. An example in one county involved executive level budget workshops to review program mandates, determine what was essential to the agency’s mission and funding, and evaluate program outcomes and impacts and where cutbacks would be least harmful to the community. Following this process, the participants were asked to prioritize where cuts should be taken. While there was some tension and conflict in this exercise, participants reported learning a great deal about other programs and acquiring a better understanding of the entire agency.

Another county engaged department and division heads in the process of prioritizing functions and services and the procurement of supplies. The management team knew that to deal with the fiscal shortfall they would have to cooperate with one another rather than engage in turf protecting behaviors. These alliances were most effective when they took a “big picture” view, looking collectively at available resources, and aligning their initiatives with county strategic goals and the highest priority areas of the agency rather than maintaining a divisional perspective.

#### Maintaining Focus Through Strategic Planning

Alliances with directors and community stakeholders were supported when new initiatives were aligned with county strategic goals. Many counties reported that existing strategic plans and the mission-critical services defined therein were useful in prioritizing programs and maintaining focus.

Budget decisions were made based on compatibility with the agency's mission-critical services or higher priority functions, and low-value activities were, in many cases, eliminated. Getting back to the basics of the agency's core mission has also helped staff, who deal with increasingly complex aspects of health and human service provision. Using an organization's elemental values as criteria for making decisions provided additional focus. Another strategic priority was assessing the effects of state and federal matching funds or "draw down:" programs with significant matching funds tended to be protected from cuts.

#### Developing Relationships with Key Constituencies

Agency directors and staff spent much of their time communicating with and working with community stakeholders and informing policy makers of the likely effects of cuts in particular programs. Including the informed perspective of community stakeholders in creating budget strategies, or at a minimum, sharing information and exchanging ideas, fostered lasting alliances, which not only deepened community awareness but also secured future support for the client.

Agencies varied in how broad or targeted their outreach was to community partners. The common denominator seemed to be alerting all constituencies as early as possible about the potential magnitude of the cuts and the implications thereof. Some agencies also engaged community stakeholders in developing recommendations to Boards of Supervisors regarding the budget. For example, one agency director convened a meeting of approximately seventeen chairs of County boards and commissions. They used cross systems thinking to identify budget strategies, and participants appreciated the process and support during budget hearings. These meetings were perceived as good public relations as well as useful for enhancing mutual trust

with key constituents and mobilizing community resources in areas where agency programs would be cut.

There was a clear trend of developing alternative resources and revenue sources to assist community-based organizations (CBOs) to increasingly assume the responsibility of providing non-mandated services and diverting clients from entering the system. Agencies provided consultation to CBOs on applying for grants, organizing fundraisers, and establishing new programs, which helped preserve service delivery capacity for the community. Agencies have also successfully collaborated with CBOs to help them be in a better position to compete for funds in the future.

The emphasis was on casting a broader net, both in the community and regionally, in hopes of enhancing collaboration to leverage resources, exchanging information, and establishing partnerships in service provision, based on the belief that no agency alone has the role of providing needed services to a client.

#### Communication with Staff

The agencies devoted extensive energy to keeping employees informed of the budget situation and actions that were being taken. Most counties reported using comprehensive communication strategies to build staff understanding, acceptance, and support of budget cuts. Directors found that communicating how and why budget decisions were made was important to demystify the decision processes, counteract unfounded rumors, and show concern for staff and clients. Believing that one can never communicate too much to staff, one deputy director intercepted the rumor mill by sending letters to her staff stating: “if you ever hear rumors ... call me or e-mail me directly for clarification.”

Communicating with staff and being sensitive to their needs made a significant difference in how smoothly transitions and adjustments occurred. Communication was most effective when it consistently involved all parties who were impacted, used a variety of venues and channels, and was mindful of staff stress and burnout. Conveying to staff the efforts that were made to protect jobs and help with transitions to other jobs was important to staff morale and to management-labor relations.

Directors and managers were proactive in convening staff in forums for the sharing of information and problem solving. Sometimes communication forums with management and staff served as opportunities for employees to engage in problem-solving discussions on streamlining work processes, time management, and reorganizations. Although several modes of communication were used, the most effective and useful proved to be staff meetings, as these often resulted in candid sharing of ideas and concerns, as well as the involvement of staff in decision-making processes.

#### Preserving Staff Capacity

Efforts to retain staff expertise and minimize disruptions appeared to be a high priority for executives. Special efforts to help workers transition to other jobs, such as hosting job fairs, employee option meetings, and counseling sessions, were important ways of showing commitment to employees.

Directors cited a variety of recognition programs, both formal and informal. The more informal methods, such as manager-hosted pizza parties and ice cream socials, were viewed as a way to minimize the stress of the imminent fiscal year budget situation. Ongoing recognition programs for exemplary staff performance were shown to be important for morale and to contribute to a culture that values achievement.

Expressions of concern for staff who were laid off, such as presenting lay-off notices in person rather than through the mail, were not only important to those impacted but often had positive symbolic value to others who remained. Modeling compassion toward surviving employees during budget crises made it easier for them to focus on maintaining the level of services provided to clients. .

### Decentralizing Decision-Making

One of the more pronounced outcomes resulting from cutbacks was the involvement of staff in creating solutions. One deputy director summed this point up by stating: “The people who are closest to the client come up with the best ideas.”

Basic management theory holds that giving employees additional responsibility without increasing the level of control of their work environment can lead to dissatisfaction (Shera & Page, 1995). Many respondents noted value in getting lower-level employees involved in decision-making regarding program priorities and improving program efficiencies. In several counties, decentralized fiscal management was seen as particularly useful.

Typically, county leaders set the targets for budget cuts, but department heads were often provided discretion as to where the cuts should occur. Directors would then initiate work groups consisting, in some cases, of program staff, which would propose various percentage reduction scenarios to the directors for approval. Program staff also identified and prioritized mandated versus non-mandated services. This strategy contrasts sharply to the top-down, across-the-board cuts that used to be a common practice. Managers in this study tended to favor de-centralized decision-making for several reasons. First, those who are knowledgeable about the programs and closest to the client contributed significant value to an informed decision-making process.

Secondly, program staff recommended cuts that would have the least impact on service delivery. Finally, participation at the program level built support for difficult budget decisions.

In one county, the fiscal exigency has freed staff to think anew about how to solve problems, resulting in increased staff leadership growth. A division chief suggested that more opportunities to create solutions and respond to challenges, such as keeping staff morale up, have strengthened leadership capacities throughout the agency.

One county solicited input from Labor Management Committees, comprised of representatives from organized labor unions and agency management, to identify potential areas to cut. Staff were also sent a survey asking them how resources could be shifted to manage budget cuts more effectively. Taking decentralized decision-making to the community level, one county built community support by involving community stakeholders in developing resource allocation recommendations for the Board of Supervisors through a series of fourteen facilitated meetings using consensus decision-making.

In most counties, budget cuts resulted in increased staff productivity when employees were involved in developing the solutions and felt valued. Whether the staff involvement consisted of completing a survey to provide directors with valuable information, implementing a call center, or providing input on how a department should be reorganized, the key to involving staff is that they feel they are heard.

### Using Data to Guide Decisions

Using the tools of the information age to measure productivity and performance, streamline processes, and improve inter-agency collaboration can create a powerful and positive trend toward enhancing service quality in county agencies. We found that both executive and program managers relied heavily on information and data analysis to inform their decisions. The

most common decision-making tools used were consultation with staff and evaluations of program effectiveness and efficiency (both mentioned by 49% of respondents), financial analysis and consultation with management colleagues (46%), and internal committees or task forces and executive staff meetings (40%). Analyses of likely impacts, tradeoff assessments, and community meetings were other tools mentioned by respondents.

Good information systems are an increasingly important tool and can improve the quality of decision-making regarding program cuts. Agencies used their staff in both finance and program areas to clearly describe programs and administrative processes to guide analysis and decision-making. One manager noted that it was especially useful to train program staff on fiscal processes and to make fiscal staff more aware of program issues to facilitate their working together.

Directors relied on a variety of data sources such as worker to client ratios, time study results, and work participation rates to better understand how funding cuts would impact service delivery. These data were useful later as well. When directors presented their cases regarding budgets to their chief administrative officers and elected officials, they were able to use these data to document anticipated impacts of cuts and to support their decisions to continue or cut programs based on their documented effectiveness.

To operate in the most efficient way possible without stretching staff too thin, several agencies utilized reporting methods that showed the allocation of each program versus what was spent in each program. These reports were critical in maintaining compliance by informing managers where to assign staff, and adjust caseloads and assignments accordingly. Also, automated eligibility systems, the consolidation and simplification of forms, and online policy manuals and forms help employees to focus more efficiently on core services.

## CONCLUSION

This research has highlighted some important themes regarding how these counties have managed the recent budget crisis. First, engaged, visible and collaborative leadership emerged as an absolute precondition for effective management of the budget challenges. Directors and other leaders demonstrated confident and positive attitudes, articulated broad visions and strategies, and modeled effective team behavior. Related to this, taking a “big picture” perspective mitigated internal competition and kept all focused on the strategic goals of the department. Along with leadership, strategic planning and management provided a framework and context for ensuring that key priorities, issues, and stakeholders were always considered.

Maintaining relationships and communication with key constituencies, from board staff and County CAOs to community leaders and groups, was another important factor in reinforcing strategic thinking and ensuring that proposals were appropriate and would have broad support. Internally, department leaders engaged in constant and thorough communication with staff. Using a range of communication tools, employees were kept informed about current developments, and interaction with employees regarding fears, concerns, and suggestions was useful in problem solving.

Department leaders also decentralized decision-making to broaden the range of solutions and ensure that those most affected by decisions would have a role in making them. This not only built commitment and support but also resulted in many creative solutions, which had not been considered by upper management. Finally, in a time of chaos and uncertainty, the departments maintained an emphasis on using data to inform thinking and guide decisions.

While data analysis was useful in assessing the impacts of cuts, there was little mention of the specific analytical processes used, perhaps partly due to the time limitations of our

interviews. Without knowing exactly what analytical tools and technologies were used in these counties, we can nevertheless refer to those in the literature which may be useful in cutback management. It is particularly important to note here, consistent with our findings, that productivity improvement processes seem to be most effective in the context of active, collaborative, and participatory leadership. Technologies in performance measurement (Martin and Kettner, 1996), performance improvement (Sluyter, 1998), cost analysis (Martin, 2001), and Total Quality Management (TQM) (Hawkins and Gunther, 1998) have been applied effectively in human services organizations. While these are appropriate for agencies on a regular basis, they may be particularly valuable during the challenges of cutback management. As one study respondent put it, it is good to always operate in a “lean/mean mode,” trying to save money and plan for a bad budget year. In a related vein, O’Toole (2000) noted that fiscal stress may in fact force the use of productivity improvement techniques.

One final overriding observation is worth noting. While it was not a focus of this study, we observed in the agencies studied some themes related to organizational preconditions which seemed to be important. These organizations generally had existing strategic plans, at both the county and agency level, and they were clearly used to guide decision-making regarding cutbacks. Second, the agency executives appeared to be positively regarded by their own staffs as leaders with a history of collaborative behavior, facilitating successful use of “beta” (Bombyk & Chernesky, 1984), “statesman” (Weatherly, 1984), or participative approaches. This seemed to have a positive effect on management and staff morale, lessening the negative impacts of inevitable budget cuts. For example, while some managers may have a tendency to withdraw from uncomfortable situations such as facing anxious or angry staff during budget cuts, the directors and managers we studied were proactive in convening staff and community forums for

information and problem solving. This implies that leadership and management skills, particularly in the area of change leadership (Kotter, 1996), should be continually enhanced over time, because they may be particularly valuable during times of stress and challenge.

We also note here a limitation of this study. Data gathered here came from a sample of 59 managers, in agencies which had employees sometimes numbering in the thousands. Workers at lower levels may have had perspectives that differed in some respects from those represented here. This points to the need for further research, as noted below, focusing on other organizational settings.

With prospects of more difficult budget years ahead, the strategies outlined here should be useful to other human service organizations in managing and even strengthening organizational capacity in a cutback environment. While this research focused on public sector organizations, most strategies should be relevant in not-for-profit organizations as well. Further research regarding implementation of successful cutback strategies as the national economy and human services funding continues to change would highlight evolving challenges and progress over time. In particular, studies focusing on the perspectives and experiences of line workers and supervisors should augment existing research, which has generally been from a management perspective.

Finally, in looking beyond the current budget crisis, many of the cutback management techniques, from positive and visionary leadership, ongoing communication with staff and outside stakeholders, strategic management, and collaboration, to searching for new revenues, can be seen, in fact, as useful at any time, not just when budget stress is the greatest. In that sense, organizations which have these characteristics and capabilities can be expected to do well

not only in times of stress but also under more routine conditions. Even when times are good, these strategies can help the organization get ready for the next challenging budget cycle.

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