Cutback Management and the Paradox of Publicness

Charles Levine’s call to study cutback management and organizational decline, issued more than 30 years ago in the pages of Public Administration Review, and to forge a link between the “great questions of political economy and the more earthly problems of managing public organizations” was answered vigorously for a while (Levine 1978, 316). It goes without saying that Levine and his colleagues wrote some of the most insightful and enduring works on cutback management (e.g., Levine 1979, 1980; Levine, Rubin, and Wolohojian 1981a). Levine’s pioneering work also inspired scholars in related disciplines to study organizational decline (e.g., Cameron, Kim, and Whetten 1987; Clark and Ferguson 1983; McKinley 1987; Murray and Jick 1985; Sutton and D’Aunno 1989; Whetten 1980). With time, however, scholarly activity on cutback management in the public administration literature has petered out, with fewer journal pages being devoted to cutback management.

This period of slowdown in scholarship on cutback management now joins an extended recession, a time period that may be characterized as an “era of cutback management.” The issues that public organizations and managers face during this downturn remain as challenging as ever. This essay builds on Levine’s pathbreaking work and on key developments in public organization theory over the last 30 years to provide a contemporary perspective on cutback management. In providing this perspective, there is no presumption of definitive answers to the complex challenges posed by cutback management. Instead, the goal is to raise somewhat inconvenient questions that get swept under the rug to accommodate seemingly more pressing issues. These questions acquire a special significance because public organizations must shoulder the burdens of “publicness.”

This essay is structured as follows: First, Levine’s legacy on cutback management is discussed. Second, an examination of the paradox of publicness—drawing on work on public organization theory (e.g., Bozeman 1984, 1987; Bozeman and Bretschneider 1994; Perry and Rainey 1988; Wamsley and Zald 1973)—depicts the complexity and challenge inherent in public sector cutback management. This is followed by an elaboration of three enduring themes—organizational goals, employee motivation, and organizational performance—that are informed by the publicness paradox and relevant to cutback management. The essay closes with a discussion on the implications of this perspective.

Levine’s Legacy on Cutback Management

Characterizing the depth and breadth of Levine’s scholarship on cutback management is a daunting exercise. Levine defined cutback management as managerial initiatives or interventions in leading “organizational change toward lower levels of resource consumption and organizational activity” (1979, 180). Levine and his colleagues’ work on cutback management covered almost every salient aspect of cutback management in the public sector. The arc of...
Levine’s intellectual contributions on cutback management touched the wide range of urban and municipal issues (e.g., Levine, Rubin, and Wolohojian 1981a), intergovernmental dimensions (Levine and Posner 1981), the human resource function (Levine 1984), and the management of police departments (Levine 1985). And this does not cover all.

The sheer volume of Levine’s work on cutback management makes it hard to distill the essence of his thinking. That said, there are clear markers of Levine’s intellectual goals. As the quote in the opening sentence from Levine’s lead article in the 1978 Public Administration Review symposium indicates, he saw cutback management as a field that was in desperate need of theoretical direction. Levine was also concerned about the passive role of management in the conduct of cutback management. Indeed, Levine was concerned that a lack of managerial attention would empower outsiders, with little knowledge of specific local conditions, to drive key cutback management decisions (Levine 1978; Levine, Rubin, and Wolohojian 1981b).

Although Levine recognized the inevitability of managing organizational decline, he also believed that abdicating cutback management to external institutions—such as banks, creditors, and even arcane public budget processes outside of management’s purview—would turn out to be inept and ham-handed. He identified four different causes of organizational decline in the public sector: political vulnerability, problem depletion, organizational atrophy, and environmental entropy (Levine 1978). Further, he provided an inventory of measures that managers could employ either to fight against or to cushion the impact of organizational decline (Levine 1978, 321). Although these and other similar and dissimilar lists of measures (e.g., Lewis and Logalbo 1980; Miller and Svara 2009) may have some practical utility for the manager, more valuable for the purposes of this essay is Levine’s use of paradoxes in discussing cutback management (Levine 1979).

Levine (1979) identified nine sets of conditions that posed challenges to cutback management, labeling six paradoxes and the other three a problem, a syndrome, and a dilemma. These nine cutback management challenges represented a set of heterogeneous concerns, such as difficulty in predicting the effects of cutbacks, short-term political influences, penalizing efficient organizations, the inability to plan for the long term, and human resource concerns. Levine’s use of paradox was consistent with its diverse use in everyday life, such as registering plain and simple surprise, documenting unintended consequences, and confounding common sense, intuition, or normative expectations (Lewis 2000). These paradoxes also shed light on the difficulties of providing theoretical direction on cutback management.

Paradoxes highlight the limitations of theory, especially with respect to reliance on a set of “internally consistent” assumptions that may deny contrarian aspects of reality (Poole and Van de Ven 1989). Lewis (2000) argues that “paradoxical tensions”—acknowledging conflicting and equally valid perspectives on reality—have to be embraced in order to advance understanding. Recent developments in scholarship on public organizations, especially on publicness, provide an opportunity to reframe cutback management paradoxes in contemporary terms. Considering various aspects of cutback management reality under the rubric of publicness paradox can help us clarify and extend our understanding.

**The Paradox of Publicness and Cutback Management**

Although Levine’s work on cutback management predated much of the development in publicness theory, he recognized the burdens of publicness: “Cutting back any kind of organization is difficult, but a good deal of the problem of cutting back public organizations is compounded by their special status as authoritative, nonmarket extensions of the state” (1978, 318). Indeed, Levine also played an early and influential role in advancing arguments about the distinctiveness of public organizations (Rainey, Backoff, and Levine 1976). In the last 30 years or so, a sustained body of work has developed a theory of publicness (Bozeman 1984, 1987; Coursey and Bozeman 1990; Perry and Rainey 1988; Rainey 2009; Scott and Falcone 1998; Wamsley and Zald 1973). Rainey’s rhetorical question on publicness encapsulates the dominant perspective in public administration: “If there is no real difference between public and private organizations, can we nationalize all industrial firms, or privatize all government agencies?” (2009, 66). Clearly, public organizations are different, even though much of management theory paradoxically operates on the contrary assumption. Considering publicness theory along with different aspects of public organizations gives rise to more than one paradox. I turn to these paradoxes of publicness after briefly reviewing publicness theory.

It is with some trepidation that I discuss publicness theory in this essay because a companion piece in this issue is authored by Barry Bozeman, who is both its architect and doyen. Publicness theories—just like other versatile theoretical frameworks in social sciences such as institutionalism—have been applied and extended in a variety of ways (e.g., Heinrich and Fournier 2004; Moulton 2009; Pesch 2008). Indeed, Bozeman masterfully applies the publicness perspective to assessing the value of the generic managing decline literature. In using publicness theory, my focus is on its implications for the distinctiveness of public organizations.

**Considering publicness theory along with different aspects of public organizations gives rise to more than one paradox.**

Put simply, publicness theory asserts that public organizations are different. Publicness casts its shadow not only on the study of public organizations, but also on the entire field of public administration. Indeed, Lan and Anders (2000) go so far as to assert that publicness is the “paramount paradigm” in the study of public administration. Public organizations are different because their organizational structures and processes are shaped profoundly by their external political environment (Bozeman 1987; Rainey 2009). Later sections deal specifically with three attributes of public organizations that are distinctive: organizational goals, employee motivation, and organizational performance. As a worldview on the study of organizations, publicness is the polar opposite of the generic (or “mainstream”) view on organizations (Rainey 2009, 58–88; see also Bozeman’s essay in this issue).

Publicness influences public organizations by simultaneously conferring opportunities and imposing constraints, and thus it has effects on cutback management as well. One way to illustrate this paradoxical aspect is by considering public organization resource inflows.
Public organizations can be expected to have great predictability in resource inflows. This is because macroeconomic conditions are the principal determinant of public organization resource inflows. Thus, there may be fluctuations in the revenues of public organizations, but the techniques to get good estimates of these deviations are within reach (Dotan and Thompson 2009; Thompson and Gates 2007). Predictability of resource inflows also means that public organizations can be expected to enjoy a relative degree of continuity and stability in operations. While public organizations are by no means immortal (Levine 1978), they are less vulnerable than small businesses or even large private organizations.

Public organizations are fairly limited, however, in their ability to take actions to shape their resource inflows. This is because publicness, which confers predictability, continuity, and stability, also constrains organizational ability to raise resources. Ever since the tax revolts and their subsequent effects (Mullins and Wallin 2004), it has been hard for the federal and state governments to raise general-purpose taxes. Although the federal government can buy some short-term flexibility by raising the debt ceiling, most states operate under a balanced budget requirement, and local governments are often subject to statutes on tax and expenditure limitations. Countercyclical fiscal capacity for subnational governments in the form of rainy day funds or budget stabilization funds have been proposed to ease shortfalls during hard times (Hou and Moynihan 2008; Marlowe 2005). However, the size of most such funds would be inadequate for the current recession or most recessions of some duration. Publicness also means that public organizations face a “fickle” master. While there are attentive publics who follow public organizations regularly and diligently, by and large, in good times, most are inattentive (Garnett 1992). In hard times, public attention is focused, but in an impatient manner, looking and hoping for the capacity and decimate the ability of public organizations to offer solutions that are quick and easy.

The paradox of publicness, which confers opportunities as well as imposes constraints, makes cutback management a veritable challenge. The cutback management dilemma is whether to stand firm in the face of adverse public opinion or to follow through with cuts that will compromise organizational capacity for the present and perhaps disproportionately in the future. Some have prognosticated that we are entering a period of cyclical volatility, with cycles of decline coming rapidly one after the other. A cutback management challenge in this scenario is shepherding the organization through the period of volatility—short-term and inflexible budgetary responses to each downturn can wreak havoc on organizational capacity and decimate the ability of public organizations to offer valued services. A closely related issue is one of doing cutback management in an extended recession. An extended period of decline focuses public angst like few other things. It can feed an anti-incumbent sentiment. The anti-incumbent sentiment asks for change at the helm, regardless of whether the incumbent officeholders are making the right decisions and keeping the organization on track for coping with declining resources. While change can sometimes be good, making change midstream just because one is not happy with the pace of progress is a recipe for calamity.

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Indeed, this is the price of publicness—public organizations are asked to deal with the difficult task of pursuing multiple, conflicting, and vague goals. By doing so, public organizations are able to superordinate social goals that often embody some level of conflict. However, organizational goal ambiguity poses challenges for cutback management. First, there is the possibility that short-term political calculations will drive opportunistic behaviors.

Publicness, Organizational Goals, and Cutback Management

The publicness paradox on public organization goals emerges out of the need to pursue goals that can be both attractive and polarizing. On the positive side, public organizations have community- and service-oriented goals that appeal to employees as well as the communities they serve (Wright 2007). Related, there is usually enduring support for public organization goals. Although the level of support may wane in difficult times, nonetheless there is a high level of “residual” support. For example, even today, when some public opinion polls indicate that more than 80 percent of the public thinks that government is broken (CNN 2010), there is ample support for K–12 education, national defense, and so on.

The flip side of publicness is that public organizations have limited input in setting their goals. Private for-profit and nonprofit organizations can choose the products or services they want to make. Public organizations, on the other hand, cannot choose their missions. Furthermore, there is widespread agreement that ambiguity is a defining characteristic of public organization goals (Dahl and Lindblom 1953; Lee, Rainey, and Chun, forthcoming; Lowi 1969; Pandey and Rainey 2006; Rainey, Backoff, and Levine 1976; Rainey and Bozeman 2000). Most definitions of organizational goal ambiguity identify three attributes of public organization goals: multiplicity, conflict, and vagueness. It is not as if public organizations are courting ambiguity. Instead, compromises among competing interests in the political arena filter down to the organization in the form of organizational goal ambiguity (Lowi 1969). Once the inconsistencies and conflict at the political level get defined into organizational goals, organizations have no choice but to pursue the politically ordained set of goals.

Pursuing well-regarded organizational goals characterized by multiplicity, conflict, and vagueness is a challenge even in good times. Public organizations respond to goal conflict by pursuing optimal levels rather than maximizing on each goal. Under cutback management, the challenge is magnified, and there is an urge to simplify. Glassberg (1978) suggests that one way for organizational leaders to manage cutbacks is by directing the organization toward a “narrower scope of activities.” Similarly, Behn (1980) draws on the idea of corporate strategy to make the case for “active leadership” to direct organizational members to accept retrenchment and cutbacks. Boyne (2006) echoes these ideas and suggests that private sector turnarounds may provide models for the public sector. Although there is some value to such advice, often public organizations cannot pick and choose their goals. For example, K–12 schools cannot pursue excellence in the general cohort at the expense of special education.
Public programs that are as vital as others but serve the politically disenfranchised will be among the first to face the budget axe (Fossett and Thompson 2006; Pandey 2002). Second, the annual time frame for balancing budgets and the panoply of competing goals can have the insidious effect of trading short-term goals at the expense of long-term goals. Third, a combination of declining resources and prior commitments may completely take away organizational ability to pursue goals in a flexible and optimal manner (Bozeman and Pandey 2004; Marlowe 2009; Schick 2002). Marlowe (2009) believes that the rapid expansion of “financial engineering” techniques and the resultant inability to engage relevant stakeholders on broad organizational goals can strip organizations of the ability to prioritize goals.

Publicness, Employee Motivation, and Cutback Management

The fundamental challenge that publicness poses to employee motivation is reconciling the capacity to inspire employee motivation with an institutional context that has a limited capacity to sustain it. The public sector motivational landscape is a product of “pull” factors of public service and its institutional differentiation from the private sector (Perry and Hondeghem 2008). The social contract in public organizations emphasizes job security, employee benefits, and equitable treatment (Durant, Girth, and Johnston 2009; Kelman 2006). Indeed, in certain respects, the public sector can be viewed as a model employer, offering women and minorities greater wage equity compared with private organizations (Llorens 2008). When employees believe that this contract is being fulfilled, this leads to greater organizational commitment and organizational citizenship behaviors (Castaing 2006; Coyle-Shapiro and Kessler 2003).

Another asset of the public sector is that it both attracts and provides a venue for fulfillment of public service motivation (Pandey and Stazyk 2008; Perry 2000; Rainey 1982). Christensen and Wright (2009) show that individuals with high levels of public service motivation are more likely to accept jobs that provide the opportunity to serve others, the public sector may end up playing second fiddle to the nonprofit sector and perhaps even the for-profit sector. Public organizations, by and large, perform well and provide fertile ground for developing organizational innovations (Borins 1998; Goodsell 2004). Yet the image of the public organization and public manager is out of step with this reality. The tension between image and reality gives rise to stereotypes and nostrums that complicate the task of cutback management. Rainey and Steinbauer (1999) invoke the image of “galloping elephants” to make the point that public organizations, albeit large, are “nimble” and perform well. The most compelling performance-related stereotypes of public organizations, however, refer to bureaucratic red tape (Bozeman 2000; Pandey and Welch 2005; Pandey and Scott 2002). Holzer and Slater (1995) remind us that the poor image of government organizations is an enduring staple of American life that has been reinforced by the popular media. The trouble with such images is they are based on simplifications and rely on an incomplete understanding of the public sector.

While publicness bestows some advantages on the public sector workplace, it also has its downsides. To the extent that employee motivation is shaped by compensation, the public sector is at a disadvantage. When public and private sector compete for talent, the private sector is able to pay a premium and lure human capital away from the public sector (Partnership for Public Service 2009). The public sector is also limited in its ability to fund schemes that tie extrinsic rewards to performance, such as pay for performance (Stazyk 2009). Although there are some who suggest that pay for performance works in the public sector (Durant, Girth, and Johnston 2009; Kelman 2006). Em- ployees with vital skills in specialty occupations, primarily motivated by monetary rewards, are likely to jump ship. Cutback management can also strain public service motivation of employees. It is unclear whether employees with high levels of public service motivation would soldier on in the face of adversity or turn to alternative employers such as private nonprofits. Over the long run, not being able to provide opportunities to do meaningful work to serve others, the public sector may end up playing second fiddle to the nonprofit sector and perhaps even the for-profit sector.

Publicness, Organizational Performance, and Cutback Management

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A variety of private for-profit and nonprofit organizations, through grants and contracts, are integral and intimate partners in the workings of the public sector and thus key contributors to performance of public organizations. Light (1999) has made the point that it is hard to determine the true size of the federal government. He describes the large number of private sector workers employed under federal government contracts and grants as the federal government’s “shadow” and cautions against expanding this shadow without thoughtful planning. Frederickson and Frederickson (2006) report that federal health agencies have been hollowed out to such an extent that the latest performance management tools at the federal level such as the Government Performance and Results Act and the Performance Assessment Rating Tool are of little help in managing performance of these agencies (Frederickson and Frederickson 2006; also see Radin 1998). These agencies perform a coordinating role at
Although government at all levels has been collecting large amounts of performance data, it is not clear how these data can shed light on performance questions. More notable from an organizational performance perspective are recent developments in the performance information use literature. A number of leading scholars (Moynihan 2008; Moynihan et al., forthcoming; Van de Walle and Van Dooren 2008) suggest that in order to better understand public organization performance, we need to answer a central organizational behavior question: Under what condition do employees use performance information? This stream of research argues that just because performance management systems are in place and organizations are collecting large amounts of performance information, that does not mean the data are used to improve performance. Individual employees may exercise substantial discretion in how and why they use the performance data to create performance.

If the goal of cutback management is to sustain or improve organizational performance under resource constraints, it is not clear how public organizations can achieve that goal. Although private organizations play a central role in the performance of public organizations, it is public organizations that get to claim “ownership” of performance debacles. This is clear from well-publicized failures such as Blackwater (and Agility)—few remember these private for-profit firms’ role, instead blaming the army for performance failures. The pervasive image problem of public organizations can thus reinforce the very forces that can further diminish the capacity to deliver performance. This can happen by reinforcing further contracting out without a compensating effort to strengthen parts of public organization that are supposed to manage the contracts. The pressures of cutback management can also counteract voluntary and innovative efforts to use performance information to enhance agency performance.

Conclusion

This essay has advanced the relatively simple argument that contemplating the paradoxical tensions inherent in publicness can inform both the theory and practice of cutback management. Three attributes of the paradox of publicness are discussed. First, public organizations are given ambiguous goals and then faulted for not achieving them. Second, although public employees are motivated by the opportunity to serve others and perform civic duty, public organizations provide a less than ideal setting to nurture and reinforce employee motivation (Moynihan and Pandey 2007; Stazyk 2009). Third, public organization performance increasingly reflects the performance of private organizations, and yet we simplistically believe that the causes of performance failures lie almost completely within public organizations. One could go on with this list and find innumerable other ways in which publicness creates paradoxical tensions. We want public organizations to provide continuity and stability, and yet by design subject them to frequent leadership changes. Public organizations collect performance data in superabundance, yet it is not clear how these data can be or are used to improve performance (Moynihan and Pandey, forthcoming). Like the proverbial ostrich’s lot, obliviousness to these paradoxical tensions in conducting cutback management can produce less than desirable consequences.

Cutback management, like most pressing organizational concerns, brings forth an army of consultants who are ready to offer prescriptions to remedy the problems. Levine’s use of paradoxes to highlight the problems created by simplistic cutback management measures illuminates the weaknesses of a reductionist approach to cutback management. Therefore, there is a need to slow down this rush to prescribe, because such an approach runs the risk of either solving the wrong problem or, over time, making the current problem worse. In the spirit of raising inconvenient questions to slow the rush, I offer the following prescription on how to advance public interest in this era of cutback management.

Contrary to common instinct, cutback management needs to embrace a holistic and long-term perspective and defy the pressures to succumb to reductionist measures. At one extreme, cutback management can simply degenerate into the all too familiar budget cutback. One can just focus on balancing the books in a given year and, by and large, set aside considerations of managing for the long term. To extend the metaphor, wielding the budget axe to effect cutbacks is likely to cause long-term damage. Such measures are not wise in light of public sector’s goal and responsibility to provide continuity and stability. Instead, a holistic and long-term perspective should guide managers to design interventions and a “surgical scalpel” (not a “budget axe”) should be wielded, only if necessary.

The long-term questions often remain latent, and cutback management deliberations need to bring them to the surface. For example, what are the consequences of letting revenue volatility dictate the quantity and quality of public services? It would certainly be unwise to cutback on fire protection, clean water, or K–12 education to meet a budget shortfall. Are there other public services that can be ratcheted up or down to match the available resources? In a resource-constrained scenario, interest group activism can produce opportunistic behavior on the part of stakeholders as well as organizational leaders. If we accept that a key role for government is to provide for and take care of those least able to take care of themselves, what are the ethical and practical implications of letting opportunism prevail?

Cutback management also brings to the fore the trade-off between short-term goals and long-term goals. On what basis should such decisions be made? As Thompson and Gates rightly note, expediency often trumps common sense: “These expedients include cutting maintenance or deferring the replacement of assets, raiding trust funds (which is costly because governments are implicitly borrowing at the taxable rate, which is higher than the tax-exempt rate on state debt), and shifting fiscal obligations to local governments” (2007, 826). Clearly, a case exists for more explicit consideration of such trade-offs (see Berne and Steifel 1993).

Cutback management also focuses attention on the long-term workforce management and development of public organizations. Under ideal conditions, public organizations would see this as an
opportunity to bolster their edge as employers in the labor market. What are the implications of honoring the social contract that public organizations presumably have with their employees—can job security translate into employee loyalty and motivation over the long term, even among those who value monetary rewards more? What if public organizations do a hatchet job of cutback management—will it deliver some of the most motivated employees to the nonprofit sector, which also provides ample opportunities to fulfill public service motivation?

Finally, what are the implications of the manner in which organizational performance or public value is created? Heinrich and Choi (2007), for example, show that when third-party providers use data to implement cost reductions in order to increase profits, the profits come at the expense of access and quality. On the contrary, Andrews and Moynihan (2002) show that public managers use of performance information to save money is reinvested in efforts to improve service quality. What incentives can we provide to the public managers to help with cutback management, and what kinds of controls do we need on the private contractor to deliver the benefits of cutback to the public purse? To sum up, cutback management needs to be about the long term. Raising inconvenient questions about the long term, like the ones raised in this essay, are a step in the right direction.

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Notes
1. The Economic Cycle Research Institute (see http://www.businesscycle.com) has made some of the most accurate forecasts of business cycles. Early 2010 forecasts by the institute raise the possibility of a slow recovery and great cyclical volatility in the years to come.

References


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