

Cutback choices and transformations of
management decision and control:

A comparative view of French, Italian, and
German local governments during the
fiscal crisis

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Local governments dealing with the fiscal crisis

- Cutback management, a branch of austerity management
- Defining cutback management:
 - “**managing** organizational activity **towards lower levels of resource consumption and organizational activity**” (Levine, 1979: 180)
 - « A cutback is a cutback... how to **wind back** bureaucratic **spending and staff** with least damage to whatever is held dear” (Dunsire & Hood 1989)
 - ‘A **managed cut**, characterized by a **permanent drawback in the acquisition and consumption of resources** assorted with an improvement of the link between cost and added value’ of the goods and services (Mersereau 1998).

Local governments dealing with the fiscal crisis

- The general approach to cutbacks

- An “accommodation” approach (paper cuts, cuts across the board)
- A technocratic-financial approach (debt management, forecasting/financial engineering, spending norms)
- Rational-comprehensive (targeted) cuts

- Implementing cuts: managerial adaptations

- Changes in decision-making processes (**centralization/decentralization**)
- Changes in decision-support systems & management control
 - Performance measurement
 - Performance incorporation

Research question

- How do the various cutback approaches affect the public organizations' internal management in terms of centralization/decentralization of decision-making power, and of the development and use of management control (performance measurement and performance incorporation)?

Organizational effectiveness & resilience

**Strg management
literat. & Mng ctrl**

The delegation model

- Decentralized decision-making
- Higher density of performance information (performance measurement)
- Performance incorporation through manag. ctrl tools & structural shifts

The « threat-rigidity » model

- Recentralization of decisions by top-management
- Narrower management spans of attention (lower density of PI)
- Fewer management tools (reporting rather than internal improv.)

**Cutback management
literature**

- Centralization of decision-making
- Efficiency driven performance measurement (NPM-consistent performance culture)
- Perf steering & ctrl tools (MBO, incentivization, ERPs, ...)

**Adaptations to higher levels of fical stress & cuts
(rational-comprehensive)**

- No centralization, middle-manag accountability
- No extra burden on performance measurement
- No further push for performance incorporation

**Accommodation (first-step) reactions to fiscal
stress**

Public sector: managerial adaptations to fiscal stress & cutbacks

Hypotheses

Managerial reactions to cutbacks

H1: The more local governments approach the rational-comprehensive side of the cutback strategies, the less decision-making will be decentralized.

H2: The more local governments pursue a rational-comprehensive approach to cutbacks, the more the organization will produce cutback-relevant performance information and measurements.

H3: The more local governments pursue a rational-comprehensive approach to cutbacks, the more the organization will seek to implement and use performance-incorporation tools.

Effects of national context and politics

H4: As opposed to the other countries, German LGs will experience cutback responses such as a stronger decentralization of decision-making, and a lower inclination for the development of performance measurement and performance incorporation tools.

H5: As opposed to the other countries, Italian LGs will experience cutback responses such as less decentralization of decision-making, and a higher inclination for the development of performance measurement and performance incorporation tools.

H6: The more the **ideology of the LG's political leadership** leans towards the left of the **political spectrum**, the more the LGs will experience cutback responses such as a stronger decentralization of decision-making, and a lower inclination for the development of performance measurement and performance incorporation tools.

H7: The less the number of parties in a government, the less decision-making is decentralized, and cutback responses will include a higher inclination for the development of performance measurement and performance incorporation tools.

H8: The more varied the ideologies represented in government, the more cutback responses will tend to stronger decentralization of decision-making, and a lower inclination for the development of performance measurement and performance incorporation tools.

Model and variables

Factored cutback approaches

2i Accommodation approach

3i Technocratic-financial approach

4i Rational-comprehensive approach

National factors (dummy variables)

Italy

Germany

Politics

Left/Right (10 point)

Majority (dummy)

Coalition with diverse ideologies
(dummy)



Decision-making decentralization

Decentr. of HR and financial decisions

Centers of responsibility, internal
contracting

Performance information (measurement)

Systematic cost calculations

Employee assessment

Steering and manag control tools (performance incorporation)

MBO

Incentive systems based on indicators of
efficiency and cost reduction

Implementation/development of Business
Intelligence systems

Sample & some descriptive statistics

Nationality of LGOs	Total usable records	LGs without cutback programs, or in the planning phase	LGs with ongoing or finalized cutback programs	Final number of LGs with cutback programs (after elimination of incomplete and redundant records)
Italy	336	58	278	142
Germany	291	168	123	97
France	856	383	473	338
Total of usable records				577

Table 2. National LGs' cutback approaches

Country means	Accommodation Approach	Technical/Financial Approach	Comprehensive Approach
Germany	2.69	4.81	4.86
France	3.87	4.84	4.77
Italy	4.02	4.58	4.86

Results – regression on the whole sample

VARIABLES	Decision-making Decentralization		Performance Measurement		Performance Incorporation Tools		
	Decisions decentr.	Creation of responsibility centres and internal contracting	Systematic Cost calculation	Employees Assessment	MBO	Incentives systems	BIS
Accommodation	0.0422 (0.0710)	-0.114* (0.0646)	-0.122** (0.0595)	-0.106* (0.0631)	-0.0348 (0.0623)	0.0197 (0.0676)	-0.0676 (0.0659)
Technocratic-Financial	0.500*** (0.0710)	0.533*** (0.0644)	0.614*** (0.0596)	0.606*** (0.0631)	0.619*** (0.0623)	0.598*** (0.0676)	0.622*** (0.0659)
Rational-Comprehensive	0.0744 (0.0702)	0.300*** (0.0639)	0.344*** (0.0588)	0.0788 (0.0625)	0.162*** (0.0614)	0.147** (0.0668)	0.188*** (0.0652)
Political Leaning	-0.0403 (0.0300)	-0.0211 (0.0274)	0.00596 (0.0251)	-0.0555** (0.0264)	-0.0515* (0.0263)	0.0450 (0.0284)	-0.0140 (0.0278)
DVPartyMajority	-0.0836 (0.170)	-0.403*** (0.155)	-0.316** (0.143)	0.00119 (0.151)	-0.0969 (0.149)	-0.101 (0.162)	-0.210 (0.158)
DVPartyCoalDiff	0.345** (0.161)	-0.152 (0.147)	0.112 (0.135)	0.138 (0.143)	0.0422 (0.141)	0.00454 (0.154)	0.0893 (0.150)
DV_ITA	0.146 (0.173)	0.807*** (0.158)	-0.328** (0.144)	0.185 (0.153)	0.378** (0.151)	0.584*** (0.164)	-0.235 (0.161)
DV_GER	0.303* (0.173)	-0.410*** (0.158)	-0.0901 (0.145)	-0.909*** (0.154)	-0.485*** (0.152)	-0.445*** (0.165)	-0.507*** (0.161)
Constant	3.731*** (0.221)	4.541*** (0.202)	4.974*** (0.185)	5.546*** (0.195)	5.168*** (0.193)	4.254*** (0.210)	4.416*** (0.205)
Observations	481	479	484	489	482	485	481
R-squared	0.134	0.282	0.313	0.260	0.258	0.221	0.229

Results

Managerial reactions to cutbacks

H1: The more local governments approach the rational-comprehensive side of the cutback strategies, the less decision-making will be decentralized.

H2: The more local governments pursue a rational-comprehensive approach to cutbacks, the more the organization will produce cutback-relevant performance information and measurements.

H3: The more local governments pursue a rational-comprehensive approach to cutbacks, the more the organization will seek to implement and use performance-incorporation tools.

Results

H1 – not verified; decentralization more linked to rational-comprehensive & techocratic-financial approaches (correlated at 0,28**)

H2 – verifies.

H3 – verifies partially. See in light of Pollitt (2012): “what is challenging is the need to tighten the actual implementation of performance management at the same time as making further expenditure savings”

H1 & H2 & H3: more consistent with the “decentralizing/delegation” model of organizational improvement than

Results – regression for Germany

VARIABLES	Decision-making Decentralization		Performance Measurement		Performance Incorporation Tools		
	Decisions decentr.	Creation of responsibility centres and internal contracting	Systematic Cost calculation	Employees Assessment	MBO	Incentives systems	BIS
Accommodation	0.0252 (0.149)	0.260* (0.136)	0.0964 (0.113)	0.127 (0.133)	0.0727 (0.138)	0.232* (0.137)	0.255* (0.132)
Technical-Financial	0.229 (0.147)	0.524*** (0.135)	0.714*** (0.112)	0.768*** (0.132)	0.536*** (0.136)	0.762*** (0.135)	0.780*** (0.131)
Rational-Comprehensive	-0.287** (0.145)	0.0952 (0.132)	0.340*** (0.110)	-0.0414 (0.129)	0.0127 (0.134)	-0.0926 (0.133)	-0.0389 (0.128)
Political Orientation	-0.0339 (0.0882)	0.0465 (0.0806)	0.0514 (0.0670)	0.0906 (0.0789)	-0.0716 (0.0817)	0.0735 (0.0810)	0.125 (0.0782)
DVPartyMajority	0.265 (0.352)	-0.0184 (0.322)	0.251 (0.268)	0.452 (0.315)	0.0745 (0.326)	0.352 (0.324)	0.733** (0.312)
DVPartyCoalDiff	-0.0259 (0.280)	-0.0302 (0.256)	0.430** (0.213)	0.637** (0.250)	0.191 (0.259)	0.414 (0.257)	0.402 (0.248)
Constant	4.120*** (0.515)	3.826*** (0.470)	4.482*** (0.391)	3.648*** (0.461)	4.745*** (0.477)	3.489*** (0.473)	3.002*** (0.457)
Observations	151	151	151	151	151	151	151
R-squared	0.040	0.126	0.309	0.217	0.107	0.196	0.248

Results

Managerial reactions to cutbacks

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H5: As opposed to the other countries, Italian LGs will experience cutback responses such as less decentralization of decision-making, and a higher inclination for the development of performance measurement and performance incorporation tools.

Results

H4 – verifies almost entirely (but for internal contracting & decentralized structures)

In greater detail:

- German partisans of « accommodation » approaches (rarer) but also partisans of « technocratic-financial » approaches conform more with the delegation/decentralizing model
- German LGs implementing « rational-comprehensive » approaches oppose decentralization & enforce cost calculations (cutback model, crisis-induced)
- →
- **Two families of crisis and non-crisis cutback approaches**
- **Apparent divergence with overall results: provided by the importance of the New Steering Model reforms in Germany – higher decentralization, independent of fiscal pressure**

H5 – not entirely verified; compared to FR & GER, a technocratic thrust for performance implementation and accountability, but with little attention to performance measurement – apparent compliance to Legge Brunetta

In greater detail:

- Italian partisans of « accommodation » approaches practice decentralization in a « laissez-faire » way, with little accountability sent down the line, and a neglect of management control tools
- Italia and French LGs implementing « rational-comprehensive » & « technocratic-financial » follow a « non-crisis » organizational improvement model
- →
- Reactions of LG's may be less governed by crisis-induced reactions to fiscal strain, and more by solutions provided by regulatory (legal) and isomorphic pressures in their institutional environments (France & Italy – most centralized countries in the sample)

Results

Managerial reactions to cutbacks

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Results

H6 (political ideology links) – not verified (except some weak significance in Italy)

H7 – Right on power games, not much on the rest.

Majority parties inhibit decentralization, but not with more performance measurement (France and Italy), although they trigger more management control tools in Germany

H8: coalition governments favor a non-crisis model of organizational adaptation, avoiding conflict-inducing strategies, but favour transparency more through performance measurement.

Concluding remarks

Contributions to theory

- The intent to propose a broader theory of public organizations' reactions to cutback imperatives
- Due to country comparisons, we propose that cutback reactions are not as straightforward as proposed by the literature – they are open games in which mingle internal needs of systemic coherence, critical adjustments to environmental stress, and external regulatory and isomorphic influences.

Limits

- Variables for performance measurement and management tools are mainly linked to efficiency-related performances
- External validity is limited to LGs of the continental tradition of public administration