

Organizational decline and innovation in public organizations:

A contextual framework of cutback management

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Abstract

In times of organizational decline, innovation is seen by many as crucial in order to uphold and improve public service delivery and ‘do more with less’. However, innovation in times of decline is not a given. The cutback management literature currently lacks a theoretical frame that accounts for the relationship between cutback management strategies and innovation in the face of decline. This article provides a theoretically grounded framework that formulates theoretical propositions regarding the relationships between cutback management strategies, organizational innovation and organizational context. First, the literature on cutback management strategies is reviewed and abstracted into a typology of proportional vs. targeted strategies and open vs. closed strategies. This typology is connected to the literature on organizational response in order to develop propositions concerning the effect of cutback management strategies on innovation. The article posits that targeted and open strategies may contribute to innovation, whereas proportional and closed strategies are likely to result in decreased innovation. Second, propositions are developed concerning the contextual circumstances in which the different cutback management strategies are likely to be adopted. This contextual framework discusses contextual factors related to the nature of decline, environmental factors, and organizational factors.

INTRODUCTION

As a result of economic recession and policies of austerity, organizational decline has become a long-term reality for public organizations (Bozeman 2010). Organizational decline is defined as “a substantial, absolute decrease in an organization's resource base over a specified period of time” (Cameron, Whetten and Kim 1987: 224). In times of organizational decline, innovation is seen by many as crucial in order to uphold and improve public service delivery: “we need to raise our ambitions by seeking to create more and better public solutions for the same or less money, and innovation might be the tool for achieving exactly this” (Torfing and Triantafillou 2016, 2). Practically, innovation is thus seen as a means of ‘doing more with less’, which is evident in calls to implement ‘innovative responses to decline’ and making ‘smart cuts’. However, innovation in times of decline is not a given. Theoretically, the relationship between decline and innovation is ambivalent. On the one hand, a decrease in resources is said to be positively related to innovation: *necessity is the mother of invention*. On the other hand, organizational decline is claimed to be negatively related to innovation: *necessity is the mother of rigidity* (Mone et al. 1998). As both positions are supported by empirical evidence and justified by prominent theories of organization and management (cf. Mone et al. 1998; McKinley et al. 2014; Kelman 2006), the ambivalent relationship between organizational decline and innovation constitutes one of the central puzzles in the generic management sciences, as well as one of the most pressing practical public management problems.

This article explicitly treats organizational decline as a substantial decrease in financial resources, rather than a reduction in performance, profitability or organizational size. In the public management literature, research on the organizational responses to financial decline is typically referred to as cutback management: “managing organizational change toward lower

levels of resource consumption and organizational activity” (Levine, 1979: 180). Despite two prominent eras of cutback management research – the first in the late 1970s through the 1980s and the second in the wake of the recession following 2008 – the cutback management literature has major theoretical shortcomings (cf. Pollitt 2015). First, Pollitt (2015) observes that the cutback management literature currently lacks a theoretical framework that accounts for how public organizations are affected by decline. Public management researchers focus on cutback management strategies, but such theories have remained unconnected to theories of organizational response (e.g. Audia and Greve 2006; Greve 2003a). Whereas generic management researchers have assessed how organizational responses shape innovation in the face of decline, theorization about the effects of different cutback management strategies on innovation has largely remained uncharted territory.

A second theoretical shortcoming of cutback management research is that there is little systematic insight into how decline is managed on the level of individual organizations. Conceptual and empirical cutback management studies have yielded many different strategies through which public organizations respond to decline, but limited conceptual work has been conducted that summarizes and integrates prior research (cf. Cepiku et al. 2016; Raudla et al. 2015). A related issue is that prior cutback management research contains little explicit attention for the role of context. Empirical studies show that the cutback management strategies in response to decline show much variation between public organizations (e.g. Overmans and Timm-Arnold 2015; Cepiku et al. 2016), but research that connects the use of different cutback management strategies to contextual factors has remained limited in scope and unconnected to theoretical work on the effects of context on public management (e.g. O’Toole and Meier 2014).

This article aims to provide a theoretically grounded framework that provides theoretical propositions regarding the relationships between cutback management strategies, organizational innovation and context. The first aim of this article is to provide a conceptual integration of different cutback management strategies. The resulting typology of cutback management strategies is grounded in theories of organizational response in order to formulate theoretical propositions regarding the relationships between cutback management strategies and innovation. The second aim of the article is to formulate a contextual framework of cutback management by linking these cutback management strategies to contextual factors that explain their adoption. This article thus places public managers center stage: their cutback management strategies determine organizational innovation in the context of decline, and their adoption of different cutback management strategies can be explained on the basis of contextual factors.

In order to achieve these aims, this article consists of three sections. In the next section, the literature on cutback management strategies is reviewed and abstracted into a typology of proportional vs. targeted strategies and open vs. closed strategies. The article posits that targeted and open strategies may contribute to innovation, whereas proportional and closed strategies are likely to result in decreased innovation in the face of decline. In the subsequent section of the article, propositions are developed concerning the contextual circumstances in which public managers are likely to use these different cutback management strategies. This framework discusses contextual factors related to the nature of decline, environmental factors, and organizational factors. The final section consists of a discussion of the theoretical underpinnings of the article's propositions, and a research agenda to guide empirical research into decline and innovation in the public sector.

CUTBACK MANAGEMENT STRATEGIES: RIGIDITY OR INVENTION?

Innovation in the public sector

Innovation can be understood as the generation and subsequent implementation or adoption of an idea, practice or service that is new to the organization (Walker 2007), and is a prominent area of attention for public management research and practice (De Vries, Bekkers and Tummers 2016). Innovation can stem from both the generation of new ideas and practices – generally referred to as creativity (Anderson et al. 2014) – and the adoption of innovations from other organizations. In a public sector context, and in contrast to the private sector, innovation is typically not seen as a desirable outcome in its own right, but as a means of maintaining or improving public value (Bekkers, Edelenbos and Steijn 2011). From an organizational theory perspective, innovation is seen as one of the mechanisms through which organizational adaptation comes about: “innovation is a means of creating change to ensure adaptation” (Damanpour and Gopalakrishnan 1999: 57). Innovation is thus a central mechanism that underlies organizational adaptation in the face of changing environments.

Research has examined different types of innovation. A distinction is commonly made between service, process and ancillary innovations (Damanpour 1987; Walker 2007; Damanpour, Walker and Avellaneda 2009). Service innovations concern innovations in the output (service or good) that the organization produces. Service innovations are thus commonly seen as equivalent to product innovations, and are defined as “the introduction of new services to existing or new clients and offer of existing services to new clients” (Damanpour et al. 2009, 654). Service innovations have an external focus, since their introduction results in different output for clients, and are driven by clients’ demand for new services (Damanpour and Gopalakrishnan, 2001).

Process innovations are internally focused in the sense that they aim to increase the efficiency and effectiveness of the organizational processes through which services are delivered (Damanpour et al. 2009). A further distinction is commonly made between technological process innovations and administrative (or managerial) process innovations. Technological process innovations concern changes in the technical system of the organization in order to reduce delivery time and lower production costs. In public organizations, such technological innovations are often concerned with the use of information technology. Administrative process innovations aim to change the organization's social system, such as the organizational structure, management practices, reward systems and managerial skills in order to increase internal effectiveness and efficiency.

A third type of innovation is referred to as ancillary innovation (Damanpour 1987; Walker 2007). Ancillary or collaborative innovations are different from service and process innovations, because their implementation is partly dependent upon the efforts of external actors such as service users or partner organizations. Damanpour (1987, 678) refers to ancillary innovations as "organization-environment boundary innovations". Ancillary innovations are not only externally focused, but also jointly externally developed. Their implementation is therefore not fully controllable by management.

The differences between innovation types are relevant, because they have different requirements and different aims. Service and ancillary innovations aim to improve external effectiveness and require connections with clients in order to tap resources and identify their needs and demands. Process innovations aim to improve internal efficiency and effectiveness and require technological and managerial skills and competences rather than connections with external actors. While it is important to acknowledge the multidimensionality of public sector innovation by distinguishing different types, it is also relevant to theorize about organizational

innovation as a general, comprehensive concept rather than different types. Innovations of different types often overlap, for instance a new service that is developed in collaboration with clients, and the occurrence of innovation types can be dependent on each other. The delivery of new online services is for instance dependent on internal technological process innovations.

Theories on organizational response to decline

Several theories can be used to understand the relationship between organizational decline and innovation. Prior research has been grouped into two competing camps: the rigidity camp and the invention camp (cf. Mone et al. 1998; Kelman 2006). Both camps posit that the occurrence of innovation in a situation of decline is not fixed, but that this depends on the way managers respond to decline. The central thesis of the first camp is that *necessity is the mother of rigidity*, and asserts a negative prediction of the relationship between decline and innovation (Staw et al. 1981; Mone et al. 1998; Greve 2003a). The theory treats organizational decline as a threat and stipulates that “there may be a general tendency for individuals, groups, and organizations to behave rigidly in threatening situations” (Staw et al. 1981: 502). According to the theory, rigidity comes about through two processes: a restriction of information processing and a constriction of control. A restriction of information means that managers equate the threat to past experiences, refer to already existing solutions and thereby reinforce existing, pre-occurring courses of action. In addition, by increasing centralization, formalization and standardization, decline is expected to bring constriction of control through a so-called “mechanistic shift” which highlights efficiency: doing the same things cheaper (Staw et al. 1981: 516). March (1991) has labeled such a response as the exploitation of old certainties. The rigidity camp thus states that managers tend to respond to

resource constraints with an *internal* orientation and an *efficiency* focus (cf. George et al. 2006). Because internally and efficiency-oriented responses result in little new perspectives, alternatives and ideas, they are expected to thwart organizational innovation in the face of decline.

The second camp, in contrast, argues that *necessity is the mother of invention*, and states that managers tend to respond to decline in ways that facilitate innovation. The position of the invention camp can be accounted for through the behavioral theory of the firm (Cyert and March 1963) and prospect theory (Kahneman and Tversky 1979). The behavioral theory of the firm highlights that organizations interact with their environment through feedback processes in which managers use performance information in order to direct search and decision-making (Greve 2003b, 14). The theory posits that deficiencies such as organizational decline may prompt managers to facilitate adaptation. Prospect theory states that managers make decisions based on reference points (loss or gain), and expects that the willingness to take risks is not symmetric across the domain of losses and the domain of gains. “(...) risk aversion in the positive domain is accompanied by risk seeking in the negative domain” (Kahneman and Tversky 1979: 268). Rainey, Ronquillo and Avallaneda (2010: 358) summarize the core of prospect theory as “when faced with loss, people tend to accept risk to avoid the loss, but when in pursuit of gains, people tend to be risk-averse.” A risk-taking response entails a response that is *externally-oriented* with a wide search width (George et al. 2006; Laursen and Salter 2006) and aimed at the *exploration of new possibilities* rather than the exploitation of old certainties (March 1991). Outward and explorative responses are expected to facilitate organizational innovation in the face of decline.

The above discussion is summarized in table 1. Although relatively scarce, both the rigidity camp and the invention camp are supported by empirical evidence. In their study of

prospect theory applications in management research, Holmes et al. (2011, 1090) state that “research on the antecedents of firm risk-taking behaviors generally suggests that gain frames give rise to risk-averse behavior and loss frames give rise to risk-seeking behavior at the firm level.” In an empirical examination of employee attitudes during public procurement reform in the US federal government, Kelman (2006, 893) observes both mechanisms of rigidity and invention, but concludes that the invention thesis “may have won the battle but lost the war”. Similar to the study by Kelman, empirical evidence in both public and private organizations appears to more strongly support rigidity rather than invention in the face of decline (e.g. Audia and Greve 2006; Amabile and Conti 1999; Mellahi and Wilkinson 2010; Cameron et al 1987).

Table 1: Organizational responses and innovation in the context of decline

	<i>Necessity is the mother of rigidity</i>	<i>Necessity is the mother of invention</i>
<i>Decline as a(n)</i>	Threat	Opportunity
<i>Theory</i>	Threat-rigidity theory	Prospect theory
<i>Content of organizational response</i>	Exploitation of old certainties	Exploration of new possibilities
<i>Direction of organizational response</i>	Internally directed	Externally directed
<i>Predicted effect on innovation</i>	Negative	Positive

It has been argued that innovation in the face of decline is not a given, but rather depends on the way managers respond to decline (cf. Latham and Braun 2010: 275; Mone et al. 1998). In

the public management literature, responses to decline are typically referred to as cutback management: the management of organizational change toward lower levels of resource consumption and organizational activity (Levine 1979: 180). The literature on cutback management has yielded a large range of strategies through which public managers can address decline (see for instance Schmidt et al. 2017; Cepiku et al. 2016; Raudla et al. 2015; Overmans and Noordegraaf 2014; Scorsone and Plerhoples 2010). In the next two subsections, these strategies are abstracted into a typology of cutback management strategies, which explicitly connects these strategies to the types of organizational response that are depicted in table 1. In the remainder of this section, it is argued that cutback management strategies can be distinguished along two dimensions. The first dimension (proportional vs. targeted strategies) concerns the allocation of resource cuts across the organization. This dimension concerns the content of the organizational response (an exploitative, efficiency focus vs. an explorative, adaptation focus). The second dimension (closed vs. open strategies) concerns the degree to which non-managerial and external actors (such as lower level managers, employees and external stakeholders such as businesses, citizens and societal actors) are involved in the decision-making and implementation process. This dimension concerns the direction of the organizational response (internally directed vs. externally directed). For each of the dimensions of the cutback management strategies, propositions regarding its relationship with innovation are formulated, as well as its relationship with the different innovation types.

Proportional versus targeted strategies: What, when and where to cut?

The literature on cutback management has resulted in a large number of cutback management strategies. Most of these strategies concern so-called internal response strategies, which

concern the organizational choices of who or what to cut in order to meet the reduced budget (Jick and Murray 1982). Such strategies thus concern the approach that is taken in order to determine the allocation of cutbacks. The most prominent typology is the distinction between proportional and targeted strategies (cf. Pollitt 2010; Raudla et al. 2015; Cepiku et al. 2016; Schmidt et al. 2017). Although it has been labelled using different terms, the choice between proportional and targeted cuts has been argued to be the most fundamental decision that underlies cutback management (Raudla et al. 2015).

Proportional strategies are also referred to as across-the-board cuts (Raudla et al. 2015), decrementalism (Levine 1984), equal misery approach (Jick and Murray 1982) and sharing the pain (Levine 1978). Proportional cuts entail that a cutback measure – such as a five per cent budget reduction or a hiring freeze – applies equally to all departments within an organization. Within this approach, all subunits and individuals within an organization thus have an equal chance of being affected by cutbacks. A proportional cutback management strategy emphasizes balancing the budget in the short term. Proportional cuts can result from non-decision or passivity by managers, but can also be a strategy that is rationally adopted. As is summarized by Raudla et al. (2015), a proportional cutback strategy has the advantage of minimizing decision-making costs and reducing conflict, since a proportional approach enables decision-makers to appeal to values of equality.

At the other end of the continuum are targeted cuts. Targeted cuts are ‘selective’ or ‘strategic’ in the sense that they aim to allocate resources based on a certain criterion (Cepiku et al. 2016). For instance, a targeted strategy may aim to emphasize the outcomes or performance of the organization in the long term (Levine 1978). However, an alternative rationale for targeted resource allocation may be organizational survival by preserving those elements of the organization that are most valued politically. A targeted strategy can also

emphasize symbolic reasons for resource allocation. For instance, Jick and Murray (1982) emphasize how managers can decide to overlook departments that contribute to the reputation or legitimacy of the organization. Another criterion could be to target cuts on departments that are most powerless to resist cuts. Whatever the decision criteria, targeted cuts enable managers to exercise a degree of influence over the allocation of resource cuts, as well as their organizational consequences.

Other authors have provided alternative typologies of cutback management, but these can typically be abstracted into the distinction between proportional and targeted cuts. For instance, Hood and Lodge (2012) provide a typology of cutback strategies that consists of the directing state, the hollow state, communitarian state and the coping state. As Cepiku et al. (2016) argue, the directing, hollow and communitarian state can be seen as targeted approaches along the lines of respectively the hierarchy, market and networks, whereas the coping state is a proportional, across-the-board approach. Similarly, Jick and Murray (1982) contrast across-the-board cuts with different types of targeted strategies, such as allocating cuts to different departments based on their value added, their legitimacy and support among external stakeholders, or their power to resist cuts.

Proportional cuts adhere to the managerial responses described in threat-rigidity theory. As is explained by Levine (1984: 251), proportional cuts mean dealing with financial constraints by absorbing slack and stretching resources without reducing the number or diversity of tasks. Such a response is exemplary of exploitation rather than exploration (March 1991). By stretching resources across existing tasks, proportional strategies emphasize methods of adaptation that confirm to existing organizational routines and scripts, rather than alternative courses of action. In essence, a proportional strategy emphasizes a continuation of organization activity, but in a more efficient manner. Proportional strategies therefore do not

contain the diversity of information that is required to foster organizational innovation. In addition, Levine argues that proportional strategies may negatively affect innovation by eroding human capital. “Unless a more strategic approach to long-term fiscal stress is adopted, the tendency of public officials to choose decremental responses without due consideration for their cumulative effects on human resources likely will produce agencies that are not only smaller and cheaper, but also weaker, less vital, and, as a consequence, less able to cope with public problems (Levine 1984: 262-263).” Proportional cutback strategies are therefore expected to be less likely to result in innovation than targeted strategies.

In addition to general levels of organizational innovation, targeted and proportional cutback management strategies can also be related to specific innovation types. Based on a study of innovation types in English local authorities, Walker (2007) concludes that different environmental and organizational configurations underlie different innovation types. Based on his study, it is proposed here that process innovations fit the efficiency-orientation of proportional cutback management strategies. Proportional cuts can thus give rise to innovation, but those innovations are most likely to be technological process and administrative process innovations. In contrast, service innovations and ancillary innovations are more explorative in the sense that they are about providing new outputs and tapping new external connections and resources. Service and ancillary innovations are therefore more likely to come about as a result of targeted cutback management strategies. The following propositions are formulated:

Proposition 1a: Targeted cutback management strategies are more positively related to innovation than proportional cutback management strategies.

Proposition 1b: Targeted cutback management strategies are positively related to service innovation and ancillary innovation, and proportional cutback management strategies are positively related to (technological and administrative) process innovation.

Closed versus open strategies: Who to involve and how?

In the public management literature, cutback management strategies are mostly focused on the content of cutbacks. Although several authors have discussed the degree and manner in which stakeholders can be involved in the decision-making and implementation processes of cutback management, these aspects of cutback management have received far less systematic attention. Cepiku et al (2016: 229) briefly discuss the ‘nature’ of cuts: “participatory or not, whether citizens and/or employees are involved in austerity management decisions.” In this section, I conceptualize this ‘nature’ of cutback management as a continuum between closed and open strategies. Cutback management strategies are closed when the decision-making process only contains managerial actors, and is more open depending on the number and type of lower level organizational or external actors that are involved in decision-making and implementation processes.

Several authors have stressed opening up cutback management by involving employees in decision-making processes. For example, Bombyk and Chernesky (1986) distinguish between a strategy that relies on authority and hierarchy versus a strategy that involves more decision-making and sharing of power. Weatherly (1984), similarly, distinguishes between top-down approaches that rely on rationality versus bottom-up approaches that are more value driven. These strategies are exemplary of participatory change management and organization development approaches. Such approaches stress that employee participation is an important means of creating employee support or acceptance for

organizational change (Beer and Nohria 2000; Dunphy and Stace 1988), which is deemed to be crucial in cutback-related organizational change (Weitzel and Johnson 1989; Raudla et al. 2015). Additionally, opening up processes of organizational change to employees may result in a greater diversity of solutions and ideas. McTighe (1979) argues that that employee participation in determining the content of cutbacks can give them a greater sense of awareness of the organization's resource problems, and can also result in positive suggestions. Levine (1979) stresses that while managers may have a good birds-eye view of the organization, employees possess great knowledge of primary processes and the expectations of clients. Jick and Murray (1982) stress that the involvement of employees can be a necessary course of action from a political or power perspective, as managers may be forced to involve employees in order to gain support for their plans. At the same time, it has been argued that involving employees in the allocation of cuts can be difficult as 'turkeys are unlikely to vote for Thanksgiving' (Van der Voet and Vermeeren 2017; Levine 1979). Employee participation is deemed most appropriate when changes are likely to positively affect employees and when there is ample time for participatory processes (Armenakis et al. 1993; Dunphy and Stace 1988).

Explicit attention for external stakeholders in the decision-making process concerning budget cuts is much less prevalent in the cutback management literature. External stakeholders can be defined as "individuals or groups who have a major interest in an organization, such as unions, customers, suppliers and regulators" (Rainey 2014: 195). Different degrees of collaboration with external stakeholders can be found. In most of the early literature, the involvement of stakeholders takes the form of information and consultation. McTighe (1979) advises managers to be open about the decision-making process, and to keep key constituencies such as clients of the organization, political actors and the public informed about cutbacks in order to build support. Plant and White (1982) outline

two alliance building strategies. The first strategy is aimed at the technical and financial staff of the organization. The second is aimed at citizens in order to find out which programs have support. This information can then be used to inform managerial decision-making regarding cuts. The role of external stakeholders in this type of stakeholder involvement is rather passive, in the sense that they supply decision-makers with information, but have no formal role or influence in the decision-making process. Biller (1980) argues in favor of a more far-reaching, deliberative role for external stakeholders, through which stakeholders may influence decision-making. Based on analysis of 1,551 cities in the United States, Jimenez (2013) provides comprehensive and compelling evidence that citizen participation is widespread and consequential in processes of fiscal retrenchment. Citizen participation shapes the degree in which cities cut services and lay off staff, dependent on the number of participatory mechanisms that are employed and the degree in which two-way communication and active participation are facilitated (Jimenez 2013, 949). An even more far-reaching approach is co-production of public services. By enabling citizens to contribute to public service delivery rather than merely receiving services, co-production aims to supplement or substitute the resources that enable public organizations to deliver public services (Brandsen and Pestoff 2011).

Analogous to the literature on organizational search processes, which can vary in width and depth (Laursen and Salter 2006), the openness of cutback management strategies can thus vary in the degree to which a variety of (external) stakeholders is incorporated, as well as the manner in which stakeholders are involved. Open cutback management strategies are reflective of an externally directed organizational response, whereas closed cutback management strategies are indicative of an internally directed organizational response. The greater the width and depth of organizational search, the more an open cutback management strategy is likely to result in a greater variety of information and alternatives. It is therefore

expected that a greater degree of openness facilitates innovation in the face of decline. This line of reasoning is supported by the literature on open innovation (Chesbrough, Van Haverbeke and West 2006). The open innovation framework stresses that the innovative capacity of organizations is improved through the incorporation of external actors in its search processes. “Those organizations that invest in broader and deeper search may have a greater ability to adapt to change and therefore to innovate” (Laursen and Salter 2006: 134). Empirical evidence for the theory of open innovation has been provided in a private sector setting by Laursen and Salter (2006), who find that “firms who have open search strategies—those who search widely and deeply—tend to be more innovative” (Laursen and Salter 2006: 131). In the public sector, Hong (2015) shows that increased citizen participation in decision-making about budgeting increases the number of proposals that are accepted. Hong (2015: 580) thus states that “increasing the number of citizens participating in policy making may encourage ‘the wisdom of the crowds’.” Additionally, the involvement of employees may alleviate processes of human resource erosion and dysfunctions of decline described by Levine (1984) and Cameron et al. (1987). Employee participation in cutback-related change may mitigate negative effects on employee wellbeing by enhancing their perceived control over the situation (Brockner et al. 2004; Van der Voet and Vermeeren 2017) and involving employees in long-range planning signals to employees that they have a future in the organization (Levine 1984: 257). Closed cutback strategies are therefore expected to be less likely to result in innovation than open strategies.

Open and closed cutback management strategies can also be related to the different types of innovations. Open cutback management strategies are expected to result in a higher degree of service innovations and ancillary innovations, as open cutback management strategies infuse the organization with outside information and knowledge. Walker (2007, 609) concludes that “Information on new services that might be adopted by public agencies

comes from boundary spanning activities.” Similarly, ancillary innovation is dependent on outward-looking, boundary spanning activities. Process innovations, in contrast, are more dependent on internal technological and managerial skills and competences. When closed cutback management strategies give rise to innovation, those innovations are therefore most likely to be process innovations. The following propositions are formulated:

Proposition 2a: Open cutback management strategies are more positively related to innovation than closed cutback management strategies.

Proposition 2b: Open cutback management strategies are positively related to ancillary innovation and service innovation, and closed cutback management strategies are positively related to (technological and administrative) process innovation.

CONNECTING CONTEXT: ANTECEDENTS OF CUTBACK MANAGEMENT STRATEGIES

In the previous section, two typologies of cutback management were conceptualized and theoretical propositions were presented regarding their effects on innovation in the face of decline. The aim of this section is to develop a contextual framework of cutback management by connecting the use of these cutback management strategies to contextual variation. Context is arguably relevant in the study of cutback management, as substantial variation exists in local responses to decline (e.g. Levine et al. 1981; Overmans and Timm-Arnold 2015; Cepiku et al. 2016). As is outlined by Johns (2006), the role of context in the study of management and organization is multi-faceted. This article treats context as the situational opportunities

and constraints that affect the occurrence of organizational behavior as well as functional relationships between variables (Johns 2006: 386). In doing, so I draw on conceptual and empirical work from the generic management sciences that has identified contextual variables that affect managerial responses in the face of organizational decline (e.g. Mone et al. 1998; Greve 2003a; Latham and Braun 2010), as well as the public management literature on cutbacks (e.g. Cepiku et al. 2016; Overmans and Timm-Arnold 2015). The aim of this section is to provide a systematic overview of contextual factors that may explain managers' use of different cutback management strategies, and to provide theoretical propositions regarding these relationships. The contextual factors are organized into three categories: factors concerning the nature of decline, environmental factors, and organizational factors (cf. O'Toole and Meier 2014). Propositions are formulated for targeted and open cutback management strategies, and are expected to apply in opposite direction for proportional and closed strategies.

Nature of decline

For the purposes of our framework, it is first necessary to explicate that not all decline is equal. Managers can be confronted with decline that varies in terms of length and severity. Such aspects can be expressed in objective terms, but managers' perceptions are also likely to determine their response. Next to the severity and length of decline, I address the effect of managerial attributions regarding the cause of and solution to decline.

Severity and length of decline. The most often mentioned antecedents of the adoption of different cutback management strategies are arguably the severity and length of

organizational decline (e.g. Levine 1979; Jick and Murray 1982). Following Jick and Murray (1982), managers' perceptions regarding different types of 'cutback crises' can vary on two dimensions: severity level and time pressure. Similarly, the so-called administrative response model by Levine et al. (1981) proposes that public managers tend to initially respond to fiscal stress by implementing proportional cuts. This is referred to as the 'tooth fairy syndrome' by Levine (1979). Only as organizational decline endures or aggravates over time do managers respond with the implementation of targeted cuts. Levine (1984) adds to this that the resource-stretching that is inherent to proportional cuts can only work in the short term, and that sooner or later managers must switch to more selective cuts. In their literature review, Raudla et al. (2015) report that most organizations adopt a mix of both targeted and proportional cuts, but that the emphasis on targeted cuts increases as fiscal stress endures. In a study of Italian local governments, Cepiku et al. (2016: 240) conclude that "the deepening of fiscal stress is a necessary but insufficient condition" for the implementation of targeted strategies. According to these authors, the ability to implement targeted cuts is also dependent on the flexibility to do so. The following proposition is formulated:

Proposition 3: The severity and length of organizational decline are positively related to the use of a targeted cutback management strategy.

Cause of and solutions to decline. Several authors have argued that managerial attributions regarding the perceived cause of decline are important determinants of organizational response (cf. Chattopadhyay et al. 2001). Levine (1978) explains that organizational decline in the public sector can have political as well as technical causes. For instance, organizational decline can be brought on by organizational failures and lacking

performance due to mismanagement, as well reduced political support or problem depletion. Whether political or technical, these distinctions reveal that organizational decline can result from internal or external causes. Internal causes of decline may warrant an organizational response to counteract decline, whereas external attributions of the causes of decline may cause passivity or a less targeted response. In the generic management sciences, too, several authors claim that managerial perceptions regarding the cause of decline determine organizational response (Mone et al. 1998; Chattopadhyay et al. 2001; George et al. 2006; McKinley et al. 2014). Two perceived aspects of organizational decline are arguably central in shaping managerial responses (Mone et al. 1998). The first aspect concerns to what extent decline is deemed to be controllable and thus repairable, or uncontrollable in nature (McKinley et al. 2014). The second aspect concerns perceptions whether managers see decline as permanent, or whether it is seen as a temporary organizational state that will ultimately be resolved without managerial action (Mone et al. 1998), such as a temporary decrease in taxation revenue or political legitimacy. Organizational decline that managers perceive to be permanent and controllable necessitates a targeted response. In contrast, managers can suffice to implement proportional cuts when decline is seen as temporary and may be discouraged from a targeted organizational response when the impact of managerial action in counteracting decline is unclear (McKinley et al. 2014). The following proposition is formulated:

Proposition 4: The attributions that organizational decline is controllable and permanent are positively related to the use of a targeted cutback management strategy.

Environmental factors

Environmental factors that affect the adoption of different cutback management strategies can be derived from both rational and power perspectives on decision-making (Jick and Murray 1982). I therefore follow O'Toole and Meier (2014) in distinguishing between power dispersion, complexity, turbulence, munificence and social capital as relevant dimensions of the organization's external environment.

Dispersion of power. Public managers operate in an arena that is political in nature and they are subject to the primacy politics. Power dispersion is thus an essential dimension of their external environment, as public managers are expected to be responsive to political sovereigns (O'Toole and Meier 2014). For the purposes of this framework, I simply observe that decision-making power can be concentrated in public managers, or shared across a larger group of actors including politicians, clients, partners, interest organizations and citizens. When decision-making authority regarding cutbacks is concentrated in public managers, they may be able to impose their decisions on their environment. In contrast, a greater dispersion of power may lead to greater politicization of decision-making, resulting in an increased need for (political) compromise. When public managers are dependent on partners, clients and interest organizations, there is a greater need to engage such stakeholders to overcome dependencies (Levine et al. 1981). Public managers who are unsuccessful in such attempts will need to rely on cuts that are more across the board in order to unify divergent interests by placating powerful stakeholders.

Proposition 5a: A high degree of power dispersion is negatively related to the use of a targeted cutback management strategy.

Proposition 5b: A high degree of power dispersion is positively related to the use of an open cutback management strategy.

Complexity. Environmental complexity refers to the number of actors and factors in the environment that are relevant for decision-making, as well as the degree to which these actors and factors are heterogeneous (Duncan 1972; Mintzberg 1979). Managerial decision-making by a limited number of individuals (centralized decision-making) is impeded by complexity, as a wide range of variables needs to be considered. Complexity makes it difficult for public managers to categorize all possible responses to decline, and complicates overseeing the consequences of all possible decisions. This increases the likelihood that organizational members with specialized expertise or local knowledge are involved in decision-making. Such organizational members are likely to be located on lower hierarchical levels in the organization. Similar to power dispersion, a more dispersed environment increases the difficulty as well as the importance of external responses in order to collect information and reduce environmental complexity (O'Toole and Meier 2014). The following propositions are formulated:

Proposition 6a: A high degree of complexity is negatively related to the use of a targeted cutback management strategy.

Proposition 6b: A high degree of complexity is positively related to the use of an open cutback management strategy.

Munificence. Similar to complexity, munificence refers to a characteristic of the task environment of an organization. Munificence concerns the degree in which the resources on which the organization depends are available in the environment (O'Toole and Meier 2014). It is important to differentiate munificence, which refers to an environmental characteristic, from organizational decline, which is an organizational state. An organization can thus experience organizational decline while being embedded in a munificent environment, and vice versa. Cutbacks as an organizational response to decline are thus also analytically distinguishable from the degree of munificence of the organizational environment. In a munificent environment, many resources are readily accessible to the organization. For instance, this means that a munificent environment may offer managers a means of replacing lost revenue or obtain knowledge and ideas. O'Toole and Meier (2014) propose that, in a situation of environmental munificence, public managers are more likely to be externally oriented in their management activities as the marginal return from externally oriented management will be greater. I therefore formulate the following proposition:

Proposition 7: A high degree of munificence is positively related to the use of an open cutback management strategy.

Turbulence. Turbulence results from dynamism in the organizational environment, for instance dynamism in environmental complexity and munificence (Boyne and Meier 2009). Turbulence does not concern the amplitude or direction (increase/decrease) of such changes, but their predictability (cf. Van den Bekerom and Meier 2016). Cameron et al. (1987: 225) refer to turbulence as changes that are “nontrivial, rapid and discontinuous”. The unpredictability that is brought on by turbulence creates uncertainty and is disruptive to

processes of managerial decision-making (Boyne and Meier 2009; Andrews 2009). Turbulence decreases the analyzability of the situation, making managers less likely to rely on targeted cutback management strategies as it is difficult to oversee their consequences. Rapid and unpredictable shifts in financial resources may also decrease public managers' likeliness to incorporate internal and external stakeholders in decision-making and implementation processes, as turbulent shifts necessitate a swift organizational response (Zahariadis 2013). In addition, turbulence may make it difficult to identify the relevant stakeholders to incorporate.

Proposition 8a: A high degree of turbulence is negatively related to the use of a targeted cutback management strategy.

Proposition 8b: A high degree of turbulence is negatively related to the use of an open cutback management strategy.

Social capital. Social capital refers to the quality of relationships between an organization and the actors that comprise its external environment (cf. Putnam 2001; Nahapiet and Ghoshal 1998). When these relationships are characterized by trust and a history of collaboration, managers may be more likely to incorporate external stakeholders such as citizens and interest groups in decision-making processes (Van Meerkerk and Edelenbos 2014). Andrews and Brewer (2013) state that social capital is positively related to coproduction of public services and facilitates effective communication and greater acceptance of decision-making. Next to an outward orientation, it can thus be expected that social capital enables public managers to more easily implement targeted cutback management strategies. In their comparative case study of local governments, Cepiku et al.

(2016) find support for the proposition that greater trust between the municipality and the community leads to a more strategic cutback management approach, as there is less resistance. In addition to a greater degree of acceptance, it can be reasoned that information about possible alternatives is more readily available in an environment that is characterized by high social capital.

Proposition 9a: A high degree of social capital is positively related to the use of a targeted cutback management strategy.

Proposition 9b: A high degree of social capital is positively related to the use of an open cutback management strategy.

Organizational factors

Concerning organizational factors, I follow the contextual framework by O'Toole and Meier (2014) by discussing goal ambiguity, centralization and professionalism as factors that may impact the use of cutback management strategies. From the cutback management literature and the generic management literature on decline, I distill and add two other contextual variables: performance information use and organizational slack.

Goal ambiguity. Goal ambiguity refers to the degree in which organizational goals allow leeway for interpretation (Chun and Rainey 2005). Chun and Rainey (2005) explain that goal ambiguity can affect the degree in which the reasons for the existence of the organization can be clearly communicated, organizational activities can be directed, and performance can

be evaluated. Most importantly, goal ambiguity affects decision-making about organizational priorities. Multiplicity and complexity of goals as well as uncertainty about means-ends relationships can make it more difficult for managers to decide which organizational activities should be preferred over others, which may give rise to conflict. For this reason, goal ambiguity is expected to be negatively related to the use of targeted cutback management strategies (Levine 1984: 259).

Proposition 10: A high degree of goal ambiguity is negatively related to the use of a targeted cutback management strategy.

Centralization. A common allegation regarding public organizations is that their organizational structures are highly centralized (Boyne 2002). Several authors argue that centralization is a factor that may increase the likelihood for targeted responses to organizational decline. For instance, Mone et al. (1998) propose that a centralized structure may provide managers with the necessary leeway. Raudla et al. (2015) also argue that when decision-making is centralized in public managers, they are better able to impose targeted cuts. Centralization thus determines the flexibility that public managers have in resource allocation. Such flexibility may be reduced by formalized rules and juridical constraints that restrict human resource management (such as decisions about layoffs and demotion) and fiscal requirements to balance operating expenditures (Raudla et al. 2015). While centralization may increase the flexibility of formal higher-level decision-makers, it limits the opportunities for lower level organizational members and external stakeholders to participate in decision-making. It is therefore expected that centralization is negatively related to the use of open cutback management strategies.

Proposition 11a: A high degree of centralization is positively related to the use of a targeted cutback management strategy.

Proposition 11b: A high degree of centralization is negatively related to the use of an open cutback management strategy.

Professionalism. Many organizations execute tasks that require employees with considerable technical expertise. Those employees are typically referred to as professionals (Hall 1968). Professional occupations are characterized by a formal occupational structure – including formal education, membership of professional associations, formal codes of ethics and regulation of entrance to the profession – as well as attitudinal characteristics that set them apart from non-professional employees (Carr-Saunders and Wilson 1933). Such attitudes may include a high need for discretion and autonomy in their work, a sense of calling to the field, a need to contribute to society through the execution of their profession, and a belief in self-regulation (Hall 1968). Self-regulation entails “the belief that the person best qualified to judge the work of a professional is a fellow professional” (Hall 1968: 93). Professional work is thus categorized by a strong separation between insiders and outsiders (an ‘us vs. them mentality’). Such a mentality may decrease the degree to which organizational members are willing to cede decision-making authority to outsiders of the organization, making an open cutback management strategy less likely.

Proposition 12: A high degree of professionalism is negatively related to the use of an open cutback management strategy.

Performance information use. The ability to implement targeted cuts is dependent on information about the anticipated consequences of such cuts. Performance information is intended to track and measure strategic goals, targets, and achievements, and has been a central reform objective for public organizations in the past decades. As is argued by Moynihan and Pandey (2010), the availability of performance information does not equal the actual use of performance information by public managers. In the cutback management literature, it is generally acknowledged that the collection and use of strategic information through financial forecasting, cost accounting, strategic planning and employee evaluation cycles can inform decision-making regarding cutback management (Raudla et al. 2015; Jimenez 2014), despite observations that such information may not be readily available during episodes of organizational decline (Levine 1979). Based on an empirical study in Estonia, Raudla and Savi (2015) underline that limited information capacities, as well as time pressure and politicization of decision-making, restrict the role of performance information in determining the content of cuts.

Proposition 13: A high degree of performance information use is positively related to the use of a targeted cutback management strategy.

Slack resources. The degree of uncommitted resources in an organization is typically referred to as organizational slack (Bourgeois 1981). In the study of organizational decline, slack is generally seen as a crucial variable as it provides managers with additional leeway in resource allocation (Mone et al. 1998; Cameron et al. 1987). Some authors argue that

organizational slack provides managers with additional resources for innovation or investment that can be used to counteract decline (Mone et al. 1998). For instance, Audia and Greve (2006) and Greve (2003a) find that larger organizations are more likely to take risks in times of organizational decline when they are buffered by stocks of resources and are therefore in a safer position to take risks. Other authors take the point of view that organizational slack reduces the likelihood of strategic or selective managerial decision-making. For instance, Latham and Braun (2010) find that a high degree of organizational slack causes managers to reduce their innovation spending. Such a view is also supported by Levine (1979), who argues that organizational slack is likely to prevent or delay the use of targeted cutback management strategies. Levine observes that it is generally easier to implement cutbacks in inefficient organizations than in organizations that are efficient and well-managed. The competing expectations can possibly be disentangled by distinguishing between unabsorbed and absorbed slack (Nohria and Galuti 1996). Unabsorbed slack refers to uncommitted liquid resources in organizations, whereas absorbed slack refers to excess costs in organizations, for instance in the form of personnel or managerial capacity (Singh 1986). Unabsorbed slack is easy to recover and redeploy, while absorbed slack is more difficult to recover. As inefficiency creates slack, inefficient organizations can more easily rely on using unabsorbed slack by implementing proportional cuts. Efficient organizations that have little or no unabsorbed slack as flesh on the bones are more readily forced to implement targeted cuts. Absorbed slack in the form of management capacity (Meier and O'Toole 2002), in contrast, can provide organizations with increased capacity to seek out innovations by means of targeted cutback strategies (O'Toole and Meier 2010).

Proposition 14a: A high degree of unabsorbed slack is negatively related to the use of a targeted cutback management strategy.

Proposition 14b: A high degree of absorbed slack is positively related to the use of a targeted cutback management strategy.

DISCUSSION, CONCLUSION AND RESEARCH AGENDA

In a context of financial decline, both practitioners and researchers of public management have highlighted the need for increased innovation. The relationship between decline and innovation, however, is ambivalent. Despite its importance, the pathway toward innovation in a context of organizational decline is not straightforward. This article has taken the literature on cutback management as a point of departure. The key contribution of this article is that it explicitly posits public innovation as an outcome variable of cutback management strategies. Managerial responses to decline in the form of cutback management – which can vary in the extent to which they are targeted and the extent to which they are open – determine the resources and ideas an organization has at its disposal in the face of decline, and thereby its capacity to innovate. As the adoption of cutback management strategies is dependent on contextual circumstances, it is crucial to take into account the specific environmental and organizational context in which managers respond to decline. Cutback management strategies determine an organization's capacity to innovate in the face of decline, and these strategies are themselves dependent on the context in which the organization is embedded. For public organizations, innovation in the face of decline is thus neither a certainty nor an impossibility, but is dependent on management and contextual circumstances.

In developing the two typologies of cutback management strategies, this article has taken the literature on organizational decline and cutback management as a reference point. However, the cutback management strategies also resonate with the general literature on management strategy. For instance, the typologies of targeted vs. proportional cuts and open vs. closed cuts can be connected to the widely used typology of management strategies by Miles and Snow (1978; cf. Andrews, Boyne and Walker 2006). Their prospector type is similar to targeted and open strategies in the sense that prospecting organizations are externally oriented and aimed at exploring new opportunities. In contrast, the defender type's internal, efficiency focus reflects proportional and closed strategies. While the Miles and Snow typology discusses strategic types as configurations that achieve (or ought to achieve) full consistency between the content and direction of strategic action as well as organizational processes, structures and technology, the current framework examines the content and direction of cutback management strategies as analytically separate dimensions.

This article has provided theoretical propositions for the relationships between innovation, typologies of targeted and open cutback management strategies and the environmental and organizational context of public organizations. A first recommendation for future research concerns the systematic empirical testing of these propositions by means of large-n research of public organizations facing decline. Future research can examine differences within organizational fields with relatively homogeneous organizations, such as municipalities, universities, primary and secondary schools, and hospitals. Such research designs would keep constant those variables related to the tasks of the organization, and examine variation on organizational and environmental context, the degree of decline, cutback management strategies, and innovation. Such studies can relate contextual differences to managerial responses to decline, and test how these responses ultimately determine innovation in the organization. Especially longitudinal research may inform research on the

adoption of cutback management strategies, since financial growth and decline follow cyclical patterns. Moreover, environmental and organization contexts are likely to be dynamic over time, which provides additional opportunities to study contextual variation. In order to increase variation on contextual variables, research could also compare organizations across national contexts. Differences in administrative regimes are likely to translate in differences in dispersion of power and organizational structures, and differences in the prevalence of public management reforms are likely to result in different degrees of performance information use, goal ambiguity and slack resources (e.g. Pollitt & Bouckaert 2004; Hammerschmid et al. 2017). So far, studies comparing cutback management in different organizations have been qualitative case comparisons within national contexts (e.g. Cepiku et al. 2016). Public management research can make greater use of existing variation in contextual factors and managerial responses in order to explain innovation during decline.

Improved theoretical understanding of the relationship between cutback management and innovation should coincide with improved measurement (Meier 2017). In the generic innovation management literature, innovation is typically measured using objective indicators such as the number of obtained patents or the revenue generated through new products and services. For public sector organizations, the applicability of such measures is obviously limited. In prior public management research, studies have examined managerial perceptions regarding the degree of organizational innovation (e.g. Walker 2007). In order to overcome the limitations of such perceptive measures, future researchers could obtain administrative information on the presence of specific types of innovations in public organizations, such as the use of big data or the implementation of digital services in municipal governments. The measurement of cutback management strategies can also benefit from an increased use of objective and administrative data. Several empirical studies discuss the distinction between targeted and proportional cutback management strategies, but the measurement of these

strategies is typically based on the perceptions of managers or the interpretation of the researchers. A step forward is the development of measures for targeted and proportional cutback management strategies based on objective budgetary information, for instance by examining to what extent budget decreases are equally implemented across departments or organizational tasks. The measurement of open cutback management strategies can build on existing measurements of search depth and search width (Laursen and Salter 2006), which refer to the quantity and frequency of interaction with external stakeholders.

A second recommendation for future research concerns more attention for the theoretical mechanisms that underlie organizational responses to decline. A central point of departure in the literature on cutback management is an instrumental or 'rational' perspective: making smart or efficient cuts in order to uphold organizational effectiveness and performance. Such perspectives dictate that public managers aim to make decisions that have optimal anticipated organizational consequences, such as increased innovation. Some of the contextual influences on managerial decision-making discussed in this article assume that public managers operate based on a *logic of consequences* (March 1994): managers are driven by their assessments of possible outcomes and select the most optimal course of action. The adoption of cutback management strategies is thus determined by environmental and organizational factors that determine the applicability and potency of different cutback management strategies. For instance, environmental turbulence can decrease public managers' ability to oversee their environment in a timely and accurate manner, and will thereby limit the likelihood to target cuts and involve external stakeholders. The availability of performance information and social capital, in contrast, may stimulate the use of open and targeted cuts as they increase the likelihood of positive outcomes of such strategies.

However, rational perspectives on cutback management do not do justice to the institutional environment in which public organizations typically operate. It can also be reasoned that, instead of a logic of consequences, public managers operate on a *logic of appropriateness* (March 1994). In this perspective, managers do not seek to realize optimal organizational outcomes in the face of decline, but their decisions are shaped by formal and informal rules that determine what is acceptable, legitimate and feasible. It can be expected that contextual variables such as dispersed power between politicians and managers, the diversity of external stakeholders, the ambiguous nature of goals, and the power of professionals on lower hierarchical levels highlight the need for political compromise and thus limit rational decision-making.

The competing logics that drive managerial action offer complementary explanations for the (lack of) innovation in the face of decline. The logic of consequences highlights that the ability for public managers to enhance innovation is limited by their capacity to oversee the complex, unpredictable and ambiguous task environment that they face during organizational decline. Future work can examine the heuristics and mechanisms that underlie managerial decision-making in the context of organizational decline, and how decisions are shaped by contextual influences. The behavioral perspective on public administration research holds promise for this line of work. For instance, Nielsen and Baekgaard (2013) studied how the availability of performance information influences politicians' attitudes toward spending and reform. Such research holds great promise to increase our understanding of the decision-making that ultimately determines the occurrence of innovation during organizational decline. The logic of appropriateness makes apparent that characteristics of the institutional environment and organizational context of public sector organizations – such as dispersed power, centralization and professionalism – require public managers to adhere to the rules that limit their capacity to adopt targeted and open cutback management strategies. Future

qualitative work can explore how public managers attempt to avoid, defy or manipulate institutional control (e.g. Oliver 1991), as well as their (proactive) strategic attempts to manage their environment through influence, coercion, negotiation and exchange (Lawrence 2008).

This article has argued that the ambivalent relationship between organizational decline and innovation constitutes one of the central puzzles in the generic management sciences, as well as one of the most pressing practical public management problems in times of financial decline. To date, the public management literatures on innovation management and cutback management have largely remained separated areas of interest. In order to explain the occurrence of innovation in times of organizational decline, public management research must address how managerial responses are shaped by the environmental and organizational context. The theoretical propositions outlined in this article provide public management researchers with the conceptual and theoretical tools to study this phenomenon. Two avenues for future research have been outlined: large-n comparative studies on the organizational level can test the propositions between innovation, cutback management strategies and contextual variation, while experimental and qualitative micro-work can uncover the mechanisms that underlie decision-making and managerial action in times of decline. The perspectives outlined in this article are intended to increase the ability of researchers of public management to explain, as well as the ability of practitioners of public management to create innovation in times of decline.

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