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**The Politics of Cutback Management: A Case Study of  
Interorganizational Relations and Influence Structures During a Local  
Government Retrenchment Process**

MPIfG Discussion Paper, No. 96/2

**Provided in Cooperation with:**

Max Planck Institute for the Study of Societies (MPIfG), Cologne

*Suggested Citation:* Uusikylä, Petri (1996) : The Politics of Cutback Management: A Case Study of Interorganizational Relations and Influence Structures During a Local Government Retrenchment Process, MPIfG Discussion Paper, No. 96/2, Max-Planck-Institut für Gesellschaftsforschung, Köln

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**The Politics of Cutback Management:  
A Case Study of Interorganizational  
Relations and Influence Structures During a  
Local Government Retrenchment Process**

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**96/2**

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MPIFG Discussion Paper 96 / 2  
ISSN 0944-2073  
January 1996

PLA-7/9602

DN:108351

**Abstract**

This paper focuses on the political processes initiated by a sudden fiscal crisis in a community. It outlines the basic features of cutback policy-making and discusses the problems that political agents face when forced to make hard decisions. A case study on Rivertown budgetary politics is presented to illustrate how unspecified cutbacks sparked off a number of counter-implementation activities among the service agencies. In this process, interest groups and other external actors played an important role. They also served as brokers between the service agencies and executive bodies. This paper introduces a leverage model containing six alternative indirect channels through which the agencies can influence policy-making. It is assumed that the most efficient way for service agencies to influence political decision-makers is to gain leverage by co-opting a third party who can constrain the behavior of the political agents. This model is then tested empirically by analyzing the inter-organizational networks and the final cutback decisions. The empirical results show that an agency's network position, combined with its institutional protection mechanisms, is an important factor explaining its success in a battle over scarce resources.

**Zusammenfassung**

In diesem Papier werden politische Prozesse erörtert, die durch die plötzliche Finanzkrise einer Stadtgemeinde ausgelöst wurden. Dabei werden die Grundmerkmale einer finanziellen Sparpolitik hervorgehoben und die Probleme diskutiert, denen politische Akteure ausgesetzt sind, die harte Entscheidungen fällen müssen. Mit der Haushaltspolitik von Rivertown wird eine Fallstudie präsentiert, die illustriert, wie unspezifizierte finanzpolitische Einschnitte eine Reihe von Gegen-Implementationsaktivitäten unter den jeweiligen Dienstleistungsbehörden hervorbringen. Hierbei spielten Interessengruppen und andere externe Akteure eine wichtige Rolle, die u.a. auch als Vermittler zwischen den Behörden und der Verwaltungsexekutive fungierten. In dem Papier wird ein Einflußmodell entwickelt, in dem die betroffenen Behörden über sechs alternative Einflußkanäle verfügen, um auf die betreffenden Politiken einzuwirken. Es wird davon ausgegangen, daß die effizienteste Einflußstrategie von Dienstleistungsbehörden darin besteht, eine dritte Partei zu kooptieren, die das Verhalten der relevanten politischen Akteure einschränken kann. Mittels einer Analyse interorganisatorischer Netzwerke und der endgültigen finanzpolitischen Entscheidungen wird das Modell empirisch getestet. Die Ergebnisse zeigen, daß die Netzwerkposition einer Dienstleistungsbehörde, kombiniert mit ihren institutionellen Schutzmechanismen, ein wichtiger Erklärungsfaktor für den Erfolg im Kampf um knappe Ressourcen darstellt.

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\* The empirical results of this study are based on the project "From Welfare State to Competition State" carried out at the Department of Political Science, University of Helsinki during 1992–1993. This paper was written at the Max-Planck-Institute für Gesellschaftsforschung in Cologne during May–August 1994. I wish to thank the directors of the institute – Renate Mayntz and Fritz Scharpf – for giving me the opportunity to visit the institute and present the results of my study in the in-house seminar. I also very much appreciate the useful comments of Mathias Mohr, Reiner Grundmann, Uwe Schimank and Hans-Georg Wolf on the earlier draft of this paper, but above all I am grateful to Roland Czada, Jürgen Feick, Volker Schneider and Raymund Werle who have spent many hours discussing specific points of the paper and given their constructive comments that have helped me to rewrite and restructure the preliminary drafts of the paper. Many thanks also to Lothar Krempel who facilitated Figure 4 on page 22.



## 1. Introduction

We have learned from the literature of cutback management that economic scarcity and fiscal stress tend to alter the conditions of political decision-making and cause difficulties during the process of implementing of these tough decisions (Hood/Dunsire 1991; Brunsson 1989; Levine 1979). Recent studies have also demonstrated that cutback decision-making is likely to raise the level of conflict in a community, increase the external interest group activity and other informal modes of action in the budgetary process (Levine et al. 1981; Hardy 1990).

Implementation failures of the retrenchment policies are often the results of the ambiguous goals and opportunistic action on the part of political actors. The limitations on the awareness of cutback alternatives on the precision of information about consequences and on the clarity and consistency of goals were typical of in the numerous case studies carried out in Sweden in recent years (Brunsson 1989; Jönsson 1988; Rombach 1986). Studies focusing mainly on local-level politics found that cutback decision processes were characterized by talk and that decisions finally receive a relatively weak performance at the level of action. The studies also indicated that cutback decision-making often resembles the garbage-can model with vague and ambiguous goals and accorded only a post factum systematic and 'rational' description (Olsen 1982, 82).

To understand these problems and the profound causes behind them, one should not only study formal decision-processes but also politico-administrative processes beyond the boundaries of administrative organizations. As Bendor and Moe (1985, 755) put it: "Agencies operate in continual exchange with an institutionally structured environment of politicians and interest groups, and it is insight into this system of interactions that holds the key to this issue." There are numerous theoretical as well as empirical studies in the field of policy network literature that have elaborated on these preliminary findings of bureaucratic politics and extended our understanding about the role of social relations and political exchange on public policy-making (Laumann/Knoke 1987; Knoke/Pappi 1991; Schneider 1992).

This paper presents an empirical analysis of cutback politics at the local government level. By applying a network analytical perspective and quantitative sociometric methods, we are able to capture the complex interaction processes between decision-making bodies, service agencies and interest groups that partly

determine cutback outcomes<sup>1</sup>. By combining the institutional protection mechanisms together with the ability of organizations to mobilize political support we are able to construct protection clusters that indicate the vulnerability of an agency.

The first part of the paper introduces the case study, describes the causes that swung a relatively wealthy and stable city into economic crisis, and analyses the changes in local politics caused by the sudden recession. The second part discusses the theoretical problems related to the process of targeting politically sensitive cutback decisions. The main research questions are formulated in this part. The third section presents a model of indirect leverage that offers a useful heuristic tool for the analysis of relations between service agencies, interest groups and decision-making bodies. The fourth part consists in an empirical study of the informal communication networks based around the process of targeting the overall cutbacks within the social and health sector. The fifth and final part provides a short conclusion and theoretical interpretation of the empirical analysis.

## **2. The politics of hard times**

It is well known from the earlier budgetary literature that cutback policies tend to increase conflict in a community, increase the external interest group activities and cause problems of implementing the tough decisions that have to be taken. In concrete terms, cutback policies involve hard decisions about which staff will be released, what programs will be scaled down or terminated and which clients will be asked to make sacrifices.

There are four main aspects that make cutback decision-making and management an extremely hard task in any public organization (Levine 1979, 180). First, it is a well-known behavioral postulate that change is most easily accomplished when the people affected have something to gain. Cutback decisions lack these incentives and therefore cooperation and consensus-building are harder to reach. Secondly, public organizations are confronted with legislative and professional norms, bureaucratic routines and collective bargaining agreements which all constrain the ability of decision-makers to target cuts. Third, organizational contraction produces serious morale problems and thus it is difficult to increase produc-

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1 There are, of course, many other determinants (such as the previous years' budgets, binding legislation and changes in the demand of services produced) that have impact on budgetary outcomes.

tivity to make up cutbacks. Fourth, cutbacks reduce the satisfaction of working and managing the change because almost everyone is forced into a position of having to do with less.

Partly due to this factor organizational changes required to cope with these troubles often turn out to be a failure. Cutback decision-making is more likely characterized by talk, and final decisions receive a relatively weak performance at the level of action (Brunsson 1989; Rombach 1986).

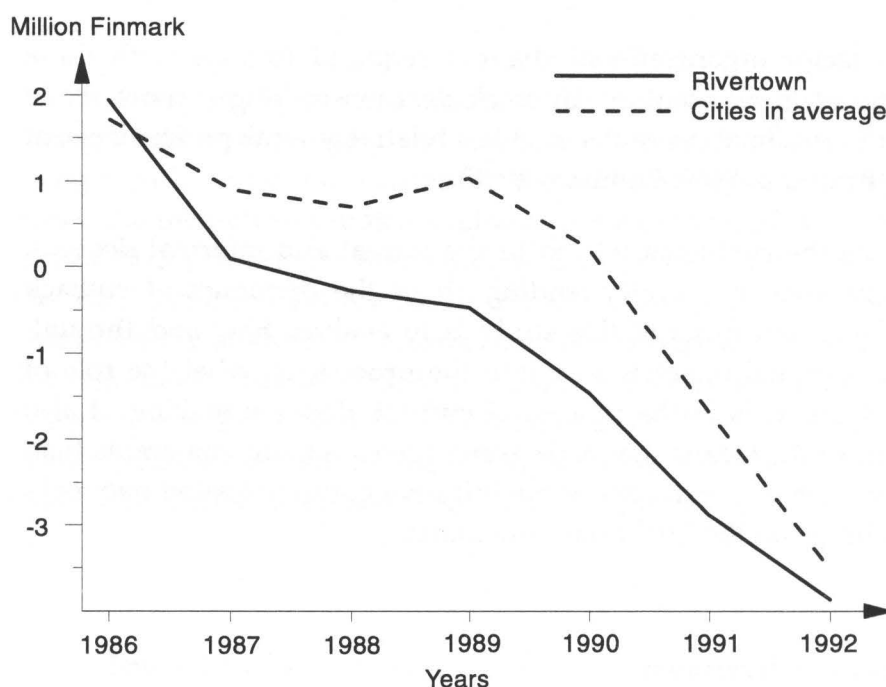
By studying in detail the problems related to the formal and informal decision processes we can broaden our understanding about the dynamics of cutback decision-making. The main focus of this study is to analyze how and through which channels the external interests feed into the process, ie. what the role of interest groups and clients is in the process of cutback decision-making. It also aims to specify some of the factors that make some agencies more vulnerable than others and finally examines the impact of the informal communication networks and institutional settings on the final policy outcomes.

## **2.1 Dark clouds over Rivertown**

Rivertown (a pseudonym) is a city of 155 000 inhabitants in southern Finland. From 1982 to 1986 the city experienced a period of continuous growth in revenue. The municipal tax rate was relatively low but nevertheless the revenues received from the taxes grew every year. This was partly due to the population growth and partly due to a rise in the general income level of the inhabitants. The public debt of Rivertown was lower than in Finnish cities in general. Largely as a result of the economic growth, budgets were typically allocated in an incremental fashion: that is, a stable pattern of agreements was worked out among departments, interest groups and elected political officials to allocate the stable annual increments to existing programs and departments. Slack resources were used in many sectors for hiring more personnel (which was in fact mainly done to acquire more central government grants), launching new programs and expanding the old ones.

The social and health sector (SHS) was the one expanding the most. The annual growth in the SHS was approximately 10–15 per cent. By 1990 the share of the SHS-sector in the city's operating budget was already more than 50 %. Rivertown was known to have welfare services that advanced the national standards in Finland.

Figure 1 The development of financial solidity in Rivertown and Finnish cities in average 1986–1992



In the beginning of the 1990s the economic situation in most Finnish municipalities took a turn for the worse. Mostly because of growing unemployment rates and numerous bankruptcies, Rivertown's tax base started to decline very quickly. At the same time the net borrowing rate started to grow. These factors together quickly weakened the overall solidity of the town. As Figure 1 shows the growth period in Rivertown had become slightly weaker already by the mid-1980s and started to decline faster after that. By comparing Rivertown's solidity index<sup>2</sup> with the average index of the Finnish cities, we can notice that the decline period in Rivertown had begun a few years earlier than in Finnish cities on average. Rivertown already had a negative rate of solidity in 1989 when other cities were still

- 2 The solidity index is one of the most common indices applied to characterize the financial standing of the municipalities in Finland. The advantage of the index – compared with single expenditure or revenue investigation – is that it gives a more comprehensive representation of the real financial situation of the municipality, including also the capital assets and funds as well as long term liabilities. The index is computed according to the following equation:

$$\text{Solidity} = \frac{(\text{Provisions} + \text{Capital assets} + \text{Funds}) - \text{Long term liabilities}}{\text{Annual amount of tax revenues}}$$

doing fairly well. This is not so much because of low revenues but rather due to the high spending rates and low savings rate prevailing in Rivertown. The real problems, however, did not begin until 1990 when the tax revenues started to decline fast and borrowing increase rapidly. In 1990 the solidity rate was - 1.46 and by the end of the next year it had fallen to - 2.88. It was at this stage that the cutback option was placed on the political agenda in Rivertown.

## **2.2 Political response to the fiscal crisis**

During the 1991 budget negotiations all the political groups in the city council and the city government were reluctant to make any hasty decisions to solve the fiscal crisis. The left-wing parties especially (Social Democrats and the Left Alliance) strongly opposed any cutback scheme that might reduce the social and health services or affect the working conditions of the municipal workers.

The politicians had in principle four alternatives for balancing the budget. They could: 1) raise local taxes, 2) increase borrowing, 3) curb the spending or 4) apply these strategies jointly. During the 1991 budgetary process the city council decided to increase short-term borrowing and prevent the further growth of expenditure by requiring all the sectoral agencies to cut their outgoings by 2 % from the previous year.

By applying the method of equally distributed across-the-board cuts instead of targeted cuts the city council wanted to avoid open conflict in the community and also raise the political transaction-costs for the interest groups of involving themselves in the process. A cutback plan was implemented within various sectors by neutral means as well. In practice it meant a hiring freeze for service agencies, freezing some new development projects and raising the efficiency of the units. The service departments did not approve many of these demands but did not, as yet take any further 'political' action to protect their budgets.

The reactions of the labor unions, voluntary organizations and clients reflected more the fears and worries about the future of the services in general than any actual campaign in support of particular existing programs. The cutback proposal launched a passionate discussion in the local newspapers about the future role of local services. Though the voice (Hirschman 1970) was raised, loyalty still remained the major reaction by the majority of the actors. Although the decision-making phase caused only minor resistance in the community, the implementation of the required 2 % retrenchment among the agencies did not produce the expected results. The first quarter of the budgetary year showed no signs of declining expenditure but rather a stable growth in most sectors. This time the city

government was obliged to introduce a second cutback directive in the form of a supplementary budget. All the departments were required to give a new list of targeted cutback proposals. This time the concrete service programs were at risk.

### **2.3 Paralyzed democracy and political crisis**

The budget planning for 1992 took place simultaneously with the 1991 supplementary budget. At the same time revenue forecasts for the coming year showed a drastic deficit with decreasing tax revenues. The city council still remained reluctant to introduce targeted cuts and were not willing to raise taxes either. The year 1992 was an election year.

After long negotiations in the city council, the politicians agreed to support the targeted cuts program but still did not want to give any substantial guidelines on targeting the cutbacks. Instead departments were asked to come up with their own cutback proposals. This implied that the political decision-makers did not want to risk their political reputation by getting involved with cutback decisions that did not receive strong support in the community. This maneuver, strongly guided by the strategy of blame avoidance (Weaver 1986), shifted the responsibility for the budget from the political arena to the administrative process.

After the first budgetary round was over, it was noticeable that all except two of the nine departments came up with small increases instead of decreases. The strategic maximizing behavior of the agencies was an inevitable result of weak political support and strong interest-group resistance to the cutback policies. The lack of political support for the retrenchment process also gave an unintended signal that the opportunistic behavior by the agencies would not be punished. Many of the agency managers simply felt that some of the cutback demands presented by budget officials and some members of the city government were simply used as a threat to prevent further expansion.

The Rivertown budget office as well as the city government carrying the economic responsibility of the community did not accept, however, any of the budget proposals submitted by the agencies. The budgetary process turned into a deadlock situation in which departments were not willing to make any voluntary cutbacks, the political agents had no incentive to decide on cutback targets and the budget office did not have enough technical information to reformulate the budget proposals.



2.4 Asking for help

At this point the city government decided to establish a special crisis committee, called the economic advisory board (EAB). The five members of this board were the representatives of the local political (i.e. city government) and business elite with long experience in the financial management of municipalities. By shifting the budgetary planning away from the democratic arena to the informal and non-transparent crisis committee, the city government wanted to eliminate the informal bargaining over cutback targets and accelerate the budgetary decision-making. This can be interpreted as a process of information-cost manipulation by the city government. Information manipulation can be seen as a particular strategy of political transaction-cost manipulation (Twight 1994, 194).

After two weeks of deliberation the committee delivered its proposal for cutbacks. This time all the departments had been cut heavily. Table 1 shows the preliminary proposals of the departments and the final cutback percentage after the EAB's proposal. The maximum cutback percentage was 16.2 for the fire department and the minimum 4.8 for the sport department. The percentage of cuts for the largest departments (school department and SHS) was below average, thus making them in nominal terms the biggest losers.

According to the cutback outcomes, the smallest departments operating in a rather stable environment seemed to be the most vulnerable during the cutback process. Four of the most severely cut agencies were relatively small units accord-

Table 1 The cutback outcomes for different service sectors in Rivertown 1992

	Cutback 1991	Proposal for 1992	Cutback 1992	Size of Department
Fire dept.	- 2.8	10.9	- 16.2	medium
City planning off.	- 3.8	- 1.3	- 16.1	small
Construction dept.	- 7.6	7.8	- 15.3	small
Environmental dept.	- 0.6	10.1	- 14.4	medium
Technical dept.*	- 4.0	- 25.8	- 14.3	big
Housing dept.	- 2.1	5.5	- 9.8	small
School dept.	- 1.5	5.6	- 9.0	big
Soc. & health dept.	3.0	14.5	- 7.1	big
Sport dept.	0.0	14.2	- 4.8	medium

\* Organizational changes.

ing to the size of their operational budgets<sup>3</sup>. Some of them (such as the City Planning Office and the Construction Department) also produced services that were relatively easy to monitor because their efficiency and effectiveness could be measured in concrete terms, unlike the services provided by the School Department or the Department of Social and Health Care.

One should also notice the cumulative effect of cutback selection. The departments cut most severely were the ones also cut during the previous budgetary round (see table 1). One important factor of course is the reputation of the organization. The cutback outcomes in the table also show that the organizations with strong professional groups, like the School Department and Social and Health Department, once combined with a large public support are most likely to receive only minor cutbacks. The relatively moderate losses of the Sport Department were mainly due to the large public support and large amounts of capital investment in the budget (sport halls, swimming halls, play grounds etc.) that are hard to cut. The city council saw no other alternative than to accept the cutback proposal introduced by the EAB. The proposal was passed by the council as such without any considerable changes to it.

### 3. From talk to action

It is relatively easy to talk about cutbacks but quite another thing to find concrete targets to execute fiscal plans. Finding proper criteria to target a cutback decision among public service organizations in a rational way is an extremely difficult task since their budgets usually depend on appropriations instead of sales. Public organizations often deliver services that have no direct or easily measurable monetary value as well as being created to compensate market failures.

Perhaps the simplest way to avoid politically costly operations of cutback targeting is to apply the across-the-board method. This means that every organization or service program is obliged to make an equal amount of cutbacks, usually a fixed percentage of the previous year's budget. This method was also applied to Rivertown during the budget round of 1991. Across-the-board cuts may be already indicated before a budget is formulated. Because of the technical nature and relatively minor changes to the budgetary base this operation has sometimes

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3 According to Glassberg (1978) budget decreases of 15–20 % can be considered as a substantial cut that in many cases may have severe effects on the operations of the organizations.



been labelled as a decremental strategy of retrenchment decision-making (Tarschys 1984). Even if the across-the-board cuts can be quickly determined and implemented, and are generally fair because the amount of sufferance is the same percentage for all, they still represent a lack of priorities. They also treat agencies unequally because of the unevenly distributed slack resources among different service agencies. Also, cutbacks exercised without taking into account the dynamics of the programs may only be sowing the seeds of future problems (Premchand 1993, 73). A continued utilization of the across-the-board method is also likely to create organizational inertia and sometimes even paralyze the operational ability of service agencies (Levine 1979, 180).

If decision-makers wish to avoid these problems, they should reach an understanding on at least some of the general principles or criteria according to which the cutbacks are targeted. Dunsire and Hood (1989, 22) specify some alternative criteria for targeting the cutbacks. According to their proposal, priority setting and targeting of cutbacks can be effected by

- departments
- programs
- geographical areas
- expenditure categories.

Despite this technical assistance these categories are still not much of a help to the decision-makers who have to find the cutback criteria that optimize the requirements of efficiency and equity while at the same time maintaining the past and future development of different administrative units and programs under concern. Instead of elaborating on these criteria, we shall now briefly discuss the factors that make some agencies more vulnerable and easier to cut than others. This discussion shifts the focus more on the problems of organizational politics, the main concern of this paper.

### 3.1 Institutional and political protection mechanisms

In general, the buffering capacity of an organization, i.e. the organization's ability to protect its budget from cutbacks, is mainly dependent on two factors: the *institutional protection structures* of an organization and the *bargaining power* that it has in a budgetary game. Even if these two factors are not totally distinguishable, they serve as a useful heuristic tool for understanding the process of cutback decision-making.

Institutional protection structures refer to the fact that some organizations are more vulnerable to the political demand to reduce expenditure than others. Beck-

Jørgensen (1987, 192–193) distinguishes three different types of vulnerability: identificational vulnerability, allocational vulnerability and operational vulnerability.

By *identificational vulnerability* he refers to the degree of visibility of certain activities, which is a critical factor when possible targets for retrenchment are being looked for. *Allocational vulnerability* is an essential criterion when an organization has been spotted as a potential target of budget cuts. It answers the question: "What factors contribute to the ability of an organization to avert cutback demands?" These factors can be, for example, composition of the budget, visibility of impact, current and hypothetical demand and the degree of professionalization. *Operational vulnerability* refers to the final retrenchment phase, assuming that a given public organization's funds have been effectively cut. It refers to the fact that cuts affect organizations differently according to their size, differentiation of their tasks and structure, and level of technology or buffer capability (ibid., 196–199).

These structural aspects of vulnerability play an important role when the process of retrenchment decision-making is analyzed. They need, however, to be complemented with an analysis of the dynamic political process of cutback policy-making. The political component refers to the ability to manage conflict and generate commitment and political support during the process of budgetary decision-making (Wamsley / Zald 1976).

The political nature of organizations is a field of organizational analysis which has attracted several scholars of organization theory (Thompson 1967; Zald 1970; Pfeffer / Salancik 1978) since the political image of a business firm was published by March and Simon (1958). The political theory of organizations stresses the strife and conflict dimension often neglected in the interorganizational analysis. Pfeffer (1981) has developed Emerson's foundations in the field of social exchange theories and applied his idea of the asymmetric power-dependence relations in the organizational context. The resource-dependence perspective argues that in order to survive organizations require resources, and that in order to acquire resources organizations are forced to interact with their environments (Aldrich / Pfeffer 1976). The essential forms of resources, especially finance, information, and authority, are controlled by other formal organizations that constitute the focal environment of an organization. In any situation in which one unit of the organization depends on another unit for needed resources, equipment, or personnel, the controlling unit has the power.

The most prominent sociological attempts to identify the exchange networks and effects of imperfect access are those of Coleman (1990) and Marsden (1983). The Coleman model starts from a basic linear system of action under perfect market

assumption. According to Coleman the purposive actors have certain interests in the outcome of events in the world, the amount of interest depending on the utility differences that different outcomes of the events have for them. Actors also have a different amount of control over the events and behave according to the principle of maximizing their control over those events of interest to them (Coleman 1986). The exchange process itself takes place when the actors are exchanging proportions of control over different events in the decision-making process.

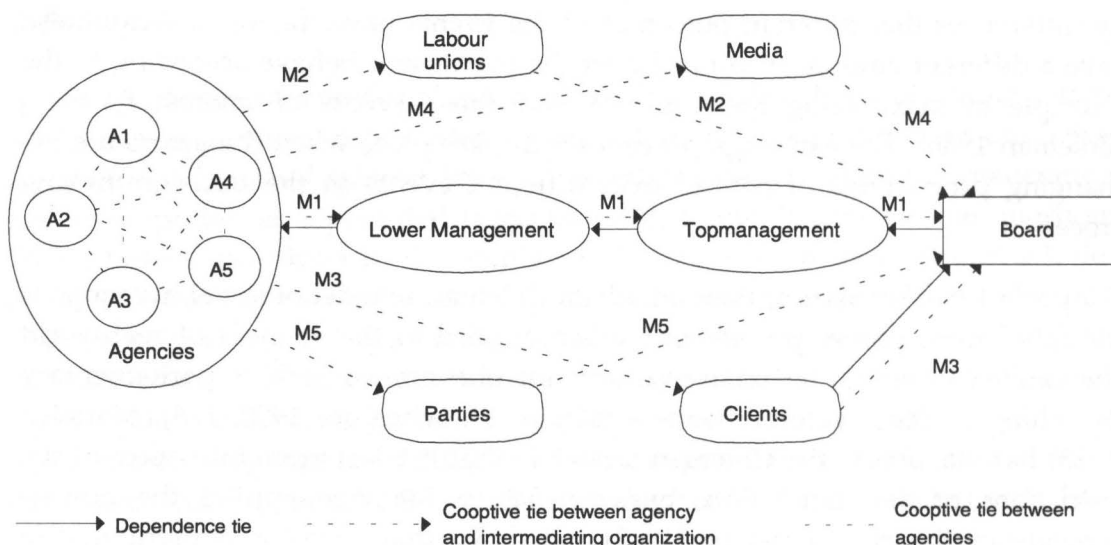
The perfect market assumption, on which Coleman's model of social exchange is strongly based, proves problematic when applied to the analysis of real-world phenomena (if we do not take into account phenomena such as parliamentary log-rolling or other vote-exchange situations cf. Schneider 1990, 176). Marsden (1983) has elaborated the Coleman model so that it takes more into account the restrictions of the transactions between actors. Marsden applies the power-dependency theory of Emerson (1962) and shows that power is redistributed in favor of those actors who occupy a central position in the exchange network.

### 3.2 Indirect leverage models

Because the single service agencies in a budgetary process are in many ways embedded in the hierarchical power structures of a formal organizational setting, their capacity for bargaining with political decision-making bodies is fairly limited. Thus, their ability to reduce their dependency on the agents enjoining institutional decision-making power is almost nonexistent. It is reasonable to assume that it is also relatively difficult for a single service agency to directly increase the agent's dependency on it. This is due to the limited ability of a service agency to provide useful resources for the political decision-makers. Therefore, we assume that the most effective way of influencing decision-making bodies is to gain leverage by using a third party who can constrain the behavior of the political agents. We can therefore modify certain two-step leverage models used for analyzing strategic behavior of private business firms (Gargiulo 1993; Burt 1992; Kotter 1985).

The indirect leverage models presented in Figure 2 proceed from the strategic behavior of different agencies operating in the arena. Agencies can bargain over cutbacks alone or build coalitions with other agencies. The collective bargaining model assumes that there is at least some horizontal interaction between the agencies during the process of bargaining over the budget appropriations. This is likely to be the case in stable environments with modest cutbacks. However, when the cutbacks are severe and the organizational survival is more dependent

Figure 2 The indirect leverage models of inter-organizational bargaining



on the bargaining position of each organization, the zero-sum element of the process is more in evidence and thus collaboration among service agencies is not very likely to occur.

In the indirect leverage model, agencies can use five paths for gaining leverage over political decision-makers. The first one is called the *hierarchical channel* (M1). This means that a path from the agency to the political decision body (departmental board in our case) goes through its superiors in the administrative hierarchy. This is the rational bureaucratic model in which the organizational politics and the involvement of the external actors do not play an important role. Service agencies can, however, contact the political decision-makers via external actors of the budgetary process. Channel number two is called the *labor union channel* (M2). In this model labor unions represent the interests of the organizations in the political arena, where agencies themselves do not have access. A third possible way of trying to influence decision-makers<sup>4</sup> is to use the clients of the

4 Influence is said to occur "when one actor intentionally transmits information to another that alters the latter's actions from what would have occurred without that information . . . Influence (therefore) is a relational dimension of power because a communication channel must exist between influencer and influencee" (Knoke 1990, 3). In the present empirical study the existence of the communication channel between a service agency or an interest group and decision-makers is considered according to its definition as a power resource for the organization.

agency as the intermediating actors. This channel is called the *clientile channel*. Agencies can also try to get public support for their demands by gaining access to the media (the *media channel*). The last model presented in the Figure is the *party channel*, where agencies contact the representatives of political parties in order to make the party machinery persuade its members to support the tasks of the agency.

Hierarchical bargaining is likely to occur in a stable and non-conflictual environment. Single service agencies negotiate with their controlling agencies (low-level management and top-level management) over the possibilities of implementing cutback alternatives on the agenda. The involvement of the labor unions in the process usually implies a higher level of conflict in a community. In cases like this cutback alternatives usually include potential lay-offs for the public officials or administrative reform that is likely to alter the working conditions. As a result of decentralized power in the welfare sector of many Scandinavian countries, labor involvement on policy-making is relatively strong at the local level, too. But this does not just seem to be the case merely in the Scandinavian countries, but elsewhere as well (cf. Spero / Capozzola 1973).

Client-organization relationships are a very intricate and complex matter. Most of the organizational studies concerning this relation have been heavily focused on client-professional relationships such as those between doctors and patients or between staff and inmates in prisons (Adler 1976; Edwards 1975; Waitzkin / Stoekle 1972). It was, however, Michael Lipsky's study on street-level bureaucracy (Lipsky 1980) that finally demonstrated the central role that grass-root bureaucrats serve in implementing government policies. It also put a great emphasis on the bureaucracy-client interface in the implementation process. Clients, too, can be seen as a major coalition partner to individual service agencies in their battle over common resources. The early budgetary studies of Wildavsky (1964) have stressed the importance of the support of clientele groups for public agencies during the process of budgeting. Also Gary Brewer (1978, 340) emphasizes explicitly the role of the clients in the processes of resisting cutbacks:

Entrenched interests, such as clientele groups, bureaus, and others who have a stake in the status quo, all stand ready to form coalitions in opposition to the termination decision. Because this opposition is quickly and readily identifiable, it tends to be better organized, knows better what its own interests are, and has some basis for a moral appeal to the uninterested public's sense of equity for the continuance of existing dependency relationship.

Media politics is closely related to the clientele support theme. Organizations that gain access to the public media, either directly or via their clientele groups, can in this way enhance their bargaining positions by receiving more public support

(Borquez 1993). Sometimes it is wiser for single service organizations to gain media attention through their clients, a maneuver which maintains the loyal relation between an agency and its superiors in the administrative hierarchy. The party channel becomes effective in the politicization of the administration. In the politicized environment, agencies can contact their political partners and gain two-step leverage over political decision-making through the party machinery. This, of course, would generally be seen as an ultimately illegitimate action by an agency and is therefore likely to take place informally through confidential discussions.

3.3 Organizational protection clusters

All of these channels utilized alone or jointly enhance service agencies' indirect leverage power, while perhaps only the media model and party model are the ones most likely to cause internal conflict if observed by the superiors in the administrative hierarchy.

Figure 3 The typologie of organization according to their protection capacity

		<i>Bargaining power</i>	
		<i>strong</i>	<i>weak</i>
<i>Institutional protection</i>	<i>strong</i>	Impervious organizations	Turtle organizations
	<i>weak</i>	Political organizations	Vulnerable organizations



The institutional protection structures of organizational survival are now combined with the political bargaining models. This gives us four basic categories of organization according to their protection capacity: the impervious organizations, turtle organizations, political organizations and vulnerable organizations.

The first group of organizations is called the impervious organizations. These agencies are protected by strong institutional structures and, in addition to this, have a strong bargaining position on the political arena of budgetary decision-making. Institutional protection structures usually refer either to the programs accomplished by organizations or to the structure of the organizations themselves. A service program can be regarded as strongly protected if it either has strong public support in a community, is binding in legislative terms<sup>5</sup> or is related to the inter-governmental activities in such a way that one party cannot terminate the program unilaterally. Organizational protection usually refers to the composition of the budget as discussed earlier or to the professional status of the staff of an organization. Strong professional groups can gain leverage over the political decision-maker even without bargaining or applying indirect influence methods.

Bargaining power refers to the capacity of the organization to gain access to the political arena or use efficiently the indirect influence channels presented in the previous section. In both cases service agencies are privileged to submit their preferences to the political decision-makers. It can be argued that indirect influence is a more efficient technique because it reduces the transaction costs of an organization and simultaneously strengthens the organization's position by adding to it the weight of the intermediating organization.

The turtle organizations have a strong institutional shield for their programs but lack the bargaining power in a budgetary game. They move slowly but have an extremely strong carapace that protects them. When cutback targets are to be located, the most probable strategy for these organizations is to hide under their institutional protection and act in an invisible manner during the cutback decision-making.

Political organizations do not have that kind of institutional shelter and therefore can be vulnerable if they are not able to use their bargaining power or mobilize political support for their goals.

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5 In the legal sense the most binding programs are those that have a status of entitlement program. Entitlements are "legal obligations created through legislation that require the payment of benefits to any person or unit of government that meets the eligibility requirements established by the law" (Wildavsky 1988, 259).

The last group of organizations are the ones that lack both institutional protection and bargaining power and are most likely to be the losers of the game. I call these agencies vulnerable organizations. Usually the service units in this block are the ones already operating within very tight budgetary constraints. Cutting back further on these organizations is likely to create a vicious circle of cutbacks where the ones already suffering are likely to suffer more (Johanson / Mattila 1994).

In this organizational typology, institutional protection structures represent the more stable elements of protection that are likely to affect organizational survival over a longer period of time, whereas political resources are more prone to sudden changes and are likely to be affected by contingent elements that are often unpredictable. It is, however, not very likely that service agencies will directly contact political decision-makers responsible for targeting the cuts. This is due to the fact that in most of the cases agencies have to acquiesce the will of a department management. These dependencies are likely to make agencies mobilize their indirect leverage channels, through which agencies use various external actors as mediating partners in their attempts to exert influence.

#### **4. The politics of organizations**

The implementation of the Rivertown cutbacks was the occasion for some heated bargaining over the cutback targets. As mentioned earlier the cutbacks were partly considered illegitimate by the service agencies mainly due to the process of their formulation. The role of the crisis committee still remained prominent even after submitting its first cutback proposal. Authorized by the city government, the EAB started to formulate an administrative reform which aimed at fusing agencies together, reducing managerial levels in the central administration and paring down the total number of civil servants.

##### **4.1 Data and methods**

To understand fully the dynamics of the Rivertown cutback decision-making and the resistance activities of single service organizations, the informal negotiations and flow of political communication about the cutback targeting process will be described in more detail. The communication network data are based on a survey in which informants (usually executive directors, budget chiefs or chairmen) of significant organizations in the SHS reported the confidential discussions that



were aimed at influencing cutback targets important to them. The selection of these actors ( $n=124$ ) was based on expert interviews carried out during the pilot phase of the project. The total group of organizations includes all significant voluntary organizations operating in the SHS, political parties, administrative units (such as department management, district management etc.) and the labor unions and local media. Clients were added to the network from the reported contacts of the others. The contacts were valued from 1 to 3 according to the intensity of the communication in a dyadic relation. Finally the data was coded into the  $124 \times 124$  adjacency matrix. This matrix is used as the main database in the following discussion.

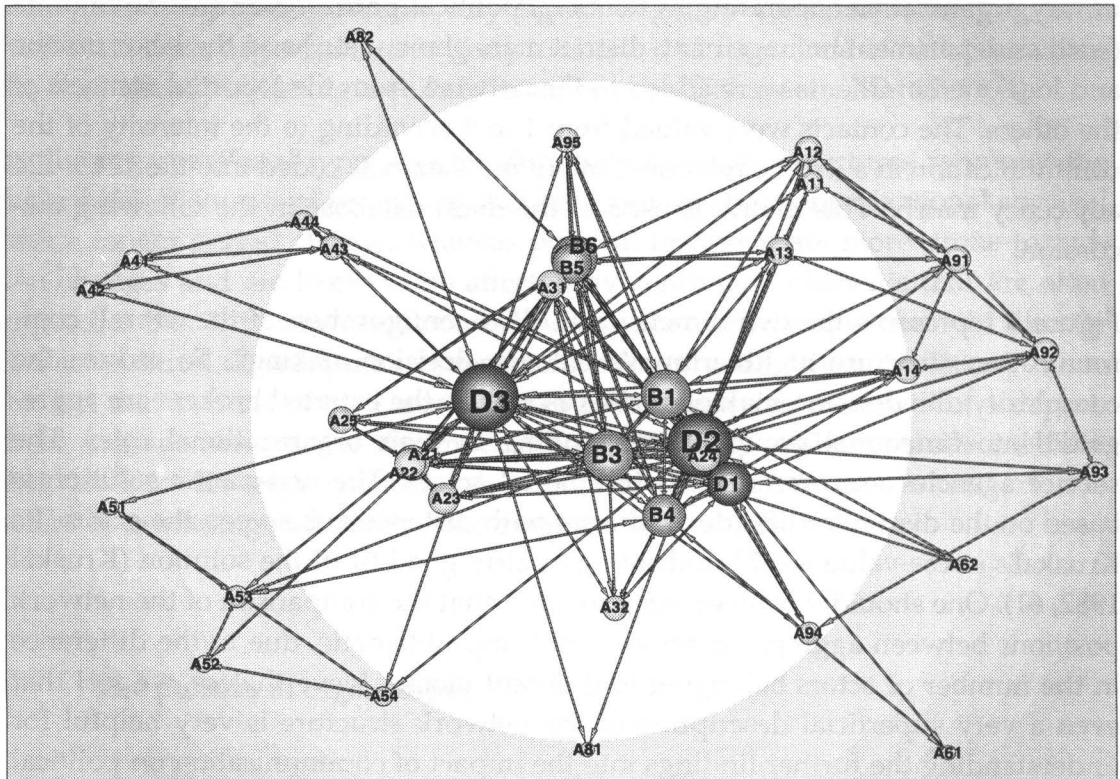
Figure 4 represents the two-dimensional MDS-configuration of the overall communication structure of Rivertown's cutback decision-making<sup>6</sup>. To reduce the complexity, the decision-making bodies as well as the external brokers are aggregated into functional groups corresponding to their organizational roles. The service agencies are presented as individual actors. The non-metric solution is based on the dissimilarities (derived from path distances<sup>7</sup>) between the actors. Its Kruskal's stress-value is .072, indicating a fairly good fit of the solution (Kruskal 1982, 61). One should, however, keep in mind that the comparison of the network positions between aggregated actors is not unproblematic, due to the difference in the number of actors belonging to different blocks. Nevertheless, we feel that even a very superficial description of the network structure is very helpful for understanding the further findings into the impact of communication on political decisions.

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6 Given a matrix of proximities (dissimilarities in our case) non-metric multidimensional scaling (MDS) finds a set of points in  $k$ -dimensional space such that the Euclidian distances between these points correspond as closely as possible to the input proximities. Therefore the closer any two points in our two-dimensional space are the shorter the path distance is between them and thus the easier it is for them to reach each other. The non-metric MDS in Figure 4 was calculated by the Ucinet program, which uses the MINISSA algorithm. After the procedure MDS coordinates were exported to the Krackplot graphics program and combined with the original binary data matrix.

7 Before computing the path distances, the original data matrix was symmetrized using the minimum criteria (i.e.  $x_{ij}$  and  $x_{ji}$  were replaced by their minimum value) and then dichotomized. The minimum criterium of the symmetrization was chosen in order to improve the reliability of the communication data.

Figure 4 The communication network of Rivertown cutback policies

**Labels:****Agencies:**

- 1) Health care centers and hospitals (a11 to a14)
- 2) Day care centers (a21 to a25)
- 3) Homes and institutions for the elderly (a31 to a32)
- 4) Institutions for the disabled (a41 to a44)
- 5) A-clinics (a51 to a54)
- 6) Foster homes (a61 to a62)
- 7) Working centers for the disabled (a71)
- 8) Family counseling centers (a81 to a82)
- 9) Private service agencies (a91..a94)

**Brokers:**

- 1) Administration (D2 and D3)
- 2) Voluntary organizations (B1)
- 3) Labor unions (B2)
- 4) Political parties (B3)
- 5) Media agencies (B4)
- 6) Clients (B6)

**Board (D1)**

This MDS-plot was produced by the network visualization program developed by Lothar Krempel (see the internet source <http://www.mpi-fg-koeln.mpg.de/~lk/netvis.html>). The size of the nodes is proportional to the sum of both in- and outdegree of each node.

Figure 4 indicates a relatively centralized communication structure to the Rivertown cutback decision-making board. This network has two main centers: one located with the board of health and social affairs (D1), the political decision-making body and the top-level administration of this sector (D2). The second center can be found with the district administration (D3). A closer look at the struc-

ture of the network shows that the first core is mainly surrounded by the external brokers (B1 to B6) who are located as intermediary organizations between the service agencies and decision-making bodies, even though some agencies also have direct access to the sectoral top bureaucrats. The role of the top bureaucrats in the decision process is to propose cutback plans to the political body D1. Unlike the first core, the district management (D3), located outside of the previous core, has connections mainly to the individual service agencies and in addition has only very few ties to the external brokers. The administrative agencies are interconnected and also have ties to the political decision body. The centralized communication structure suggests that there is relatively little horizontal communication between single service agencies. Nevertheless, it can be seen from the Figure that those horizontal ties that actually exist mainly connect organizations belonging to the same functional service category. In all, this Figure seems to give some support to our hypothesis, according to which service agencies try to gain indirect leverage with the board by contacting the third party. Before turning to the role of different interest groups etc., we ought at this point to take a closer look into the data.

## 4.2 Testing the model

I shall now continue the data analysis by measuring the role of the various indirect leverage channels in the political communication network of Rivertown. This is achieved by combining different channels. In doing so, we get a more detailed picture of organizational politics in the collective bargaining process. Table 2 represents the correlations between seven ideal bargaining models and the observed data matrix<sup>8</sup>. Correlations are computed by comparing each 'theoretical model' with the observed data matrix (cf. Tutzauer 1993; Mattila 1994). Six theoretical matrices were created so that, for example, in the union model all the agencies are connected to the board solely through the labour unions and have no other direct or indirect connection whatsoever. In the party model political parties occupy this brokerage position. The basic assumption behind all the ideal models is that service agencies have contacts to their administrative superiors. This is due to the

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8 The numbers are QAP-correlations (*quadratic assignment procedure*) between Rivertown data and our theoretical models. The algorithm proceeds in two steps. First it computes Pearson's correlation coefficient between corresponding cells of the two data matrices. In the second step, it randomly permutes rows and columns (synchronously) of the observed matrix and recomputes the correlation. This procedure is carried out hundreds of times in order to compute the proportion of times that a random correlation is larger than or equal to the observed correlation calculated in step one. (Krackhardt 1987, 174; Borgatti et al. 1992).

Table 2 The combinations of various leverage models

	DIR	BUR	POL	VOL	CLI	LAB	MED
DIR	-.02						
BUR	-.02	.23					
POL	.12	-.01	-.01				
VOL	.32	.18	.12	.18			
CLI	.39	.46	.32	.46	.46		
LAB	.39	.56	.39	.53	.73	.56	
MED	-.02	-.01	-.02	.12	.32	.32	-.01

DIR = Direct channel  
 BUR = Bureaucracy channel  
 POL = Party channel  
 VOL = Voluntary channel

CLI = Clientile channel  
 LAB = Labor union channel  
 MED = Media channel

fact, that in the bottom-up budgetary process, administrative agents always negotiate with the representatives of the service agencies before introducing a budget proposal or a cutback plan. The combinations of two theoretical models are the results of the Boolean addition between two models. The resulting matrices were then correlated with the observed data matrix.

We can see that as single models (combined only with the bureaucratic model) the clientile and labor models seem to have the highest correlations with the Rivertown data. This implicates a relatively central brokerage position of these organizations in the SHS cutback process, whereas the media as well as the party channels seem to play only a minor role in service agencies' attempts to gain influence over cutback decisions. The central role of the labor organizations and the clientele groups can be seen in the combination of these two. The correlation coefficient between the joint labor-clientele model and the Rivertown network data is .73, which shows the corporatist-clientelist structure of the Rivertown cutback decision-making. The second highest correlation resulted from the labor-voluntary combination. This is quite natural because the voluntary organizations in a way represent the client interest as well. Other correlations outside the labor-clientele axis remain significantly low.

Table 2 only gave an overall picture of the structure of the political communication network in the SHS. It did not, however, say anything about how different service agencies use these leverage channels. In the Rivertown case, the differences of the indirect leverage power between various service agencies were,

however, quite remarkable. There was a number of agencies that could not gain any access to the political arena and, conversely, there were other agencies that could use various channels together in order to secure the maximal bargaining power. It is at this juncture that we can now turn our attention to the differences between single SHS organizations in the Rivertown survival network.

### 4.3 The clusters of equivalent agencies

In order to discover and analyze the contact channels between public service agencies and external brokers, the original data matrix has to be restructured. Thus, the original  $124 \times 124$  matrix will be transformed into a  $24 \times 84$  matrix in which all the service agencies are located on the rows and all the potential intermediating organizations on the columns. Following this procedure, all the intermediating organizations are blocked according to their functional role, so that all the labor unions are grouped into one block, all the voluntary organizations into another and so forth. This procedure results in a new  $24 \times 8$  affiliation matrix<sup>9</sup>, where the row vector represents organizations' contacts to the external brokers. We are now in a position to examine the number of actors that are affiliated with each pair of intermediating external brokers. To study the overlap of these contact channels one should perhaps compare the columns of this affiliation matrix. Two intermediating organizations that have similar ties to the agency A will have ones in the same rows. We therefore need to transform the affiliation back into a one-mode network matrix. This procedure results in a  $24 \times 24$  co-membership matrix, which is a symmetric and valued sociomatrix, indicating the number of influence channels jointly occupied by each pair of actors<sup>10</sup>. By submitting this matrix to the block model analysis, three basic blocks could be discerned in the utilization of alternative contact channels by the Rivertown service agencies.

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9 This kind of two-mode network has also been called a „membership“ network (Breiger 1974), a „hypernetwork“ (McPherson 1982) or „involvement relation data“ (Freeman / White 1993).

10 In this matrix the values on the diagonal are meaningful because the diagonal entries count the total number of channels used by each actor.



Table 3 Organizational blocks in the SHS-network

	BLOCK I Agencies with no ties	BLOCK II Agencies with multiple ties	BLOCK III Agencies with sporadic ties
	4 2 3 1 1 2 1 8 3 1 9 9 3 8 2 0 5 7 4 1 0 6 7 4 2 5 6		
4 A61	.		
2 A41	.		
3 A42	.		
11 A51	.		
18 A71	.		
23 A54	.		
1 A31		. 2 2 2 2 1 2 2 2 1 1 1 1 1 1 1 1	1
19 A13		2 . 2 2 3 1 2 3 2 3 1 1 1 1 2 1 1 2	
9 A22		2 2 . 3 4 2 2 3 3 2 2 1 1 1 1 1 1	1
13 A24		2 2 3 . 3 2 2 3 3 2 2 1 1 1 1 2 1	1
8 A21		2 3 4 3 . 3 2 3 4 3 2 1 1 1 1 1 2	
12 A23		1 1 2 2 3 . 1 2 3 1 1	
20 A32		2 2 2 2 2 1 . 2 2 1 1 1 1 1 1 1	1
15 A12		2 3 3 3 3 2 2 . 3 3 2 1 1 1 2 1	1
17 A35		2 2 3 3 4 3 2 3 . 2 2 1 1 1 1 1	1
24 A14		1 3 2 2 3 1 1 3 2 . 2 1 1 1 2 1 1 2	
21 A82		1 1 2 2 2 1 1 2 2 2 . 1 1 1 1 1	1
10 A81		1 1 1 1 1 1 1 1 1 1 1 . 1 1 1 1	1
16 A52		1 1 1 1 1 1 1 1 1 1 1 1 . 1 1 1	1
7 A44		1 1 1 1 1 1 1 1 1 1 1 1 1 . 1 1	1
14 A11		1 2 1 1 1 1 2 1 2 1 1 1 1 . 1	1
22 A53		1 1 1 2 1 1 1 1 1 1 1 1 1 1 .	
5 A62		1 1 1	1
6 A43		1 2 1 1 2 1 1 1 2 1 1 1 1 1 1 1 .	

A11-A14 = Health care centers and hospitals

A21-A25 = Day care centers

A31-A32 = Homes and institutions for the elderly

A41-A44 = Institutions for the disabled

A51-A54 = A-clinics

A61-A62 = Foster homes

A71-A71 = Working center for the disabled

A81-A82 = Family counseling centers

Table 3 represents the results of the block model analysis<sup>11</sup> and indicates a relatively polarized structure of the organizational communication network. Two

11 The block modelling was performed by using the CONCOR algorithm. CONCOR (CONvergence of iterated CORrelations) is a correlation – based blocking technique, which calculates the correlations between all pairs of cases in the adjacency matrix. The result of this first step is a square case-by-case correlation matrix. The second step involves the use of a clustering procedure to group the cases into structurally equivalent ones (Scott 1991, 134).

organizations are structurally equivalent if they have identical ties to all the other points in the graph (Scott 1991, 143).<sup>12</sup>

Three basic blocks of organizations were found in the block modelling analysis. Block number one consists of agencies without any ties to the political arena. These agencies are the social work units operating with the alcoholics, orphan children and the mentally disabled. It seems that these units either do not want to have or cannot have external support from their interest groups. As far as the clients of these organizations are concerned, the latter reason seems more probable since the clients belong to marginal groups with relatively little political power and are themselves in need of protection and support. In all, this means that the service agencies belonging to this category have a relatively low buffering capacity on the political dimension (see Table 2). The only channel through which they can represent their interests is the administrative hierarchy. The situation is the worst for the clinics for the alcoholics and the sheltered workshops for the handicapped because they also lack the institutional protection. There is no binding legislation behind these services, and the staff of these units (mainly social workers) have a relatively low professional status. Therefore we consider them the most vulnerable agencies in the Rivertown cutback game.

The organizations in the second group have multiple channels to represent their interests in the political arena. The numbers inside the block represent the overlapping influence channels between different service agencies. For example organization A31 in the second block has two brokerage channels in common with the organization A13 in the same block but shares only one joint channel with A23 and so on. The block of units with the multiple overlapping channels consists mostly of the health care clinics and kindergartens as well as the homes for the elderly. These organizations produce typical middle-class services, which tend to enjoy considerable public support in the community. The clients of these particular agencies also have a relatively strong resource mobilization potential and a political appeal to politicians. As a result, these service agencies have also received relatively high media attention to their 'political requests'. The health care clinics and kindergartens could therefore be identified as impervious organizations in our case. The high institutional protection for the health care units is mainly due to the high level of technology and high capital investment found in their services combined with the large public support and high professional

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12 By identical is meant, not only that the ego networks contain the same intermediating organizations, but also that they also contain the same relationships between them in consequence (cf. Borgatti / Everett 1992, 6). Structurally equivalent actors in the strong sense are those whose points are separated by zero distance. This, however, is often too strict a criterion for the most of the real data. Therefore, we shall also discuss the actors' equivalent positions in a weak sense.

status of their staff. Kindergartens on the other hand receive their institutional protection from binding legislation<sup>13</sup> combined with large public support.

The third group consists of organizations with only one or two overlapping influence channels. Organizations belonging to this block represent partly the same service programs as the ones in the group with no links. The homes for the elderly as well as the family counseling centers fall into the category of political organizations which have relatively strong bargaining position but lack the institutional protection mechanisms. Both of the services in Finland belong to the category of partly additional programs, which means that the level of these services depends on the will and resources of municipalities to provide them. In practical terms, this also means that these agencies are obliged to appeal to politicians and members of the community in order to retain the existing level of their services. The institutions for the disabled and foster homes conversely have a relatively weak position in the survival network. These agencies have only sporadic links to the political decision-makers, though they do enjoy relatively strong institutional protection through the legislation and central government funded programs. Therefore these agencies can be categorized as turtle organizations in the Rivertown survival network<sup>14</sup>.

#### 4.4 The outcome of the process

After lengthy and hot-tempered debate the Rivertown Board of Health and Social Affairs came up with a list of concrete cutback targets. These cuts included some overall targets such as prohibition to expand the level of staff in both subsectors (that is in social services and health care), a plan to cut the labor costs of the part-time workers and another to cut the appropriation for the staff training. There were also specific targets such as the proposal to cut the additional payment of the home care services for the elderly and disabled, to cut the purchasing services for the alcoholics, to withdraw the grants for the voluntary organizations and to close down the part-time playground-attendant service program. The fiscal effects of these individual cutback targets varied from FIM 100 000 (closing some of

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13 There is an entitlement legislation in Finland that guarantees a day care service for every child under the age of three years. Every municipality is therefore compelled to provide services of this kind.

14 Institutions for the disabled are protected by an entitlement program while foster homes are financed mostly by central government grants and serve several municipalities at the same time.



Table 4      The outcomes of the SHS cutback decisions

Organizations	Financial outcome	Implementation ratio	Core vs. non-core targets	External support (mainly)
IMPERVIOUS		44		
Health care centers	– 3.4	50	Non-core	No
Day care centers	– 2.7	42	Non-core	Unions, clients, voluntary organizations
TURTLE		50		
Inst. for the disabled	– 4.3	50	Non-core	Voluntary organizations
Foster homes	– 2.5	50	Core	Voluntary organizations
POLITICAL		75		
Homes for the aged	+ 1.2	67	Non-core	Unions, parties
Family counselling	– 2.6	100	Non-core	No
VULNERABLE		100		
Clinics for the alcoholics	– 18.2	100	Core	No
Workshops for the handicapped	– 5.6	100	Core	No

the holiday recreation programs) to FIM 35 million (rationalizing the health care services by directing the patients to the municipal hospitals).

Table 4 represents the outcome of the SHS cutback policies. The first column of the table shows the cutbacks as a percentage targeted to different subsectors of the SHS. The figures are calculated by comparing the amount of money budgeted and spent by the agencies. The difference is only a rough estimate of the cutbacks because during the fiscal year there are several other determinants, such as unexpected changes in the demand of the services, changes in the relevant legislation, fiscal norms or state grant or macro-economic factors, which all lead automatically to the higher or lower spending rates. The financial results of the service agencies varied from + 1.2 for the programs for the elderly (indicating growth instead of cutbacks) to – 18.2 for the programs for alcoholics. The budgetary outcome give only partial support to our hypothesis that the agencies with relatively strong direct or indirect contacts to the decision-makers are subject to smaller cutbacks. What these rough Figures of budgetary results, however, seem to suggest is that the agencies belonging to the least protected cluster receive relatively higher cutbacks than other agencies. Knowing the limitations of the data one

should be careful, however, not to overstate the relation between the political communication structures and budgetary outcomes.

The second indicator for the organizations' protection capacity is the number of programs that were implemented after being targeted for cuts. This implementation ratio is the percentage of the cutback programs actually implemented after being targeted. Because most of the cuts were so-called program cuts (instead of organization specific), they had to be distributed over all the organizations affected. The third column indicates whether cuts were targeted to the core functions of the organizations or, instead, to those seen as non-core operations. The last column of the table shows whether an agency received crucial external support during the process of counter-implementation action. Table 4 indicates that the implementation ratio varied from 42 to 100 %. The overall result was that only half of the 23 cutback decisions were actually implemented. The decisions that were implemented were mostly broad targets or technical rearrangements.

Nevertheless, we found that all of the cutback decisions which focused on the vulnerable organizations or programs (such as the alcoholics' rehabilitation program, the recreation program for poor children and the rehabilitation programs for veterans) were actually implemented. The implementation ratio among the group of vulnerable organizations was 100 and among the organizations belonging to the group political organizations 75, which indicates that all or nearly all targets affecting these organizations were also implemented. This seems to give at least some support to our preliminary finding that the least protected organizations could not manage to protect their budgets during the interorganizational bargaining process. What these Figures, however, do not indicate is the number of programs that were never even targeted. This problem – related to the phenomenon known as non-decision-making power (Bachrach/Baratz 1962) – could also have given us some interesting insights into the collective bargaining processes over budgetary cutbacks. On the whole, the agencies with relatively little or no power resources have to either accept the losses or use some other strategies after being targeted<sup>15</sup>.

While most of the targets focused on marginal services were actually implemented, many of the large scale middle-class service programs (such as the day care programs or subsidized transportation program for children as well as the proposal to cut the additional part of the municipal home care allowance) and

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15 One of the most commonly used strategies employed by vulnerable organizations was to make their suffering visible by implementing the cutbacks in such a way that they paralyzed some of the operations. This action of organizational pathology was aimed to appeal to the clients or other groups affected by the termination of the services.

administrative targets (such as a prohibition to fill vacant posts, a plan to cut the labour costs of part-time workers or to replace personnel) remained untouched even if they were already targeted by the board and were not core functions of these organizations. This indicates a relatively strong political buffering capacity by the administrative agencies as well as the service agencies with strong political and institutional protection structures. The implementation ratio among the impervious organizations was 44 and among the turtle ones 50, indicating that only half or less than half of the targeted cutbacks were implemented in these categories.

If we extend the analysis and compare the strategies of political action between the two most invulnerable organizations, the health care agencies and day care centers, we find that the health care agencies acted more in an invisible manner during the cutback process, whereas the day care centers operated more openly in the political arena. Many of the health care agencies with relatively strong professional groups were able to influence the process in the early stage of the decision-making so that only half of the cutbacks planned were finally implemented<sup>16</sup>. Kindergartens also managed to turn down many cutback proposals (such as the plan of closing the part-time playground- attendant service or the plan for increasing the efficiency of the day care service by closing some small units) by relatively strong outside support from their clients and other external groups such as labor unions. Most of the cutbacks that were implemented in this group of organizations can be considered as non-core programs, that is programs that were not main service branches of the organizations<sup>17</sup>.

## 5. Conclusions

Budget processes are partly technical, coordinating decision-making and allocating resources on the basis of the previous year's budget. But they have a political side as well. As a matter of fact, budgeting is a particularly important arena of politics because most policy decisions can be considered meaningless unless they can be implemented through the budget process. The political battle over budgets is open to the environment. External actors such as clients and interest groups can gain influence over budgets even if they are not directly involved in the

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16 The health care cutbacks were merely technical rearrangements such as channeling patient flows, cutting the computer programs or curbing the investments.

17 For more about the concepts of core vs. non-core targets, see Premchand (1993, 74-77).

budgetary decision-making in the formal arena. The external actors influence not only the budget process but also the strategies of the public budgetary actors. The involvement of outside interests in budgeting is likely to create coalitions between interest groups and public agencies. This will occur especially if they both share common goals over the budget, aiming at expanding the service programs in periods of growth or protecting the existing programs during periods of decline. Thus public agencies cannot be regarded as obedient administrative units only implementing policy decisions; on the contrary, they become more or less directly involved in the political battle over the budget.

The empirical analysis of the cutback policies in Rivertown has shown that the process of cutback politics did not only centralize the power structure but also de facto shifted the decision-making authority from the democratic arena to the para-political decision-making body. While this was partly due to the inability of the political actors to execute hard and politically costly cutbacks, it can also be seen as a technique chosen to raise the political transaction costs of various interest groups active in the community in order to influence the budgetary decision-making. Even if the cutbacks were effectively decided by applying this method, this seemed at the expense of legitimacy of decisions. The lack of legitimacy in this case does not refer so much to the general satisfaction of the various groups in the community with policy making, but instead to the procedural legitimacy focusing upon how decisions are made rather than what a decision ultimately resulted in. The requirement of procedural legitimacy is met if actors accept decision outcomes as authoritative even if they disagree with the policy content (Hult / Walcott 1990, 66).

The process during which the aggregated cutbacks were targeted within different policy sectors mobilized resistance activities among the individual service agencies. At first glance, the cutback politics in the social and health sector gave a strong impression of a highly pluralist model of pressure politics without a clear pattern of political bargaining or coalition building. This seemed to support the results of earlier case studies in local government budgeting under economic scarcity, which had suggested that cutback politics could be characterized by vague and ambiguous goal setting and thus as resembling an irrational 'garbage-can model' rather than a rational decision-making process. However, by applying network analytical methods and a structuralist approach to study the process of cutback decision-making, it was possible to depict a clear structure of political communication between various public and private organizations that had an interest in the effects of cutbacks on the community. These communication channels opened up privileged access for service agencies, allowing them to influence political decision-makers and thus giving them a better position in the cutback

process. This position combined with strong institutional protection mechanisms can be seen as an important factor explaining the final cutback outcome.

The data concerning the relations between decision body, administrative agencies, service agencies and interest groups in the social and health sector showed that the service agencies tried to gain indirect leverage over decision-makers by contacting their clients or important interest groups in the community instead of contacting the decision-makers directly. Labor unions and clients in particular were frequently used as intermediating brokers in the social and health sector. Our data do not, however, say anything about the actual efficiency of these channels in the success or goal achievement of the service agencies. Nevertheless, the final policy outcomes (cutbacks and the implementation ratio) seem to suggest that at least those agencies that had neither strong institutional protection nor direct or indirect access to the political arena during the decision-making and implementation were the biggest losers in terms of being subjected to relatively higher cutbacks than other agencies.

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