

FORUM II

Managing Jewish Communal Agencies in Difficult Times: Cutting and Coping

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This article addresses critical issues and principles of cutback management. It is based on the experience of the New York UJA-Federation in coping with the harsh funding realities faced by its agencies.

Managing in times of economic distress is one of the greatest challenges in a career. As one looks at North American economic cycles, it is clear that this challenge is faced at least once in each professional's lifetime and often more so. The 1990s will test our ability to meet this challenge.

Yet, today's environment is different than the past. For the first time in a very long time, the human service system faces an extended period of *continuing* cuts in real resources, with little or no likelihood of replacement. The term "continuing" is a critical one. It means that the reductions this year will not be restored and very likely will be followed by additional cuts. At the same time, inflation, if unaccounted for, will continue slowly to erode our capacity to provide services effectively.

At the same time, long-term cuts in government dollars are also a reality. If some of the proposals under discussion such as a balanced budget constitutional amendment come to fruition, many if not most of our service agencies will be affected dramatically.

Retrenchment has a flavor and a set of qualities that are different from those of a stable or growing environment. These differences cannot and should not be masked by the use of feel-good terminology, such

as "downsizing," "rightsizing," or "doing more with less." We do ourselves a great disservice when we use such euphemisms. They are not accurate. More cannot be done with less. Only less can be done with less, and it is better to face this fact and interpret it to leadership and to the community than to argue the contrary.

Neither does retrenchment provide for win-win situations. In the short term, it is inherently zero sum at best. The basic rules of effective conflict management however, should apply, including a focus on problems, rather than people, and on the future, rather than the past. Avoiding such tactics as blaming, submission, avoidance, and dominance is key. Asking the right questions about the nature of the agency's problem, the future trends, and the business it is in or should be in are critical. What needs do we meet? What are the strategic choices available to us? Should we resist cuts and shrinkage, smooth the decline, or try to do both? How much control do we have over our future? How can we effectively address the issues of service, program cuts, and jobs? How do we keep these issues separate?

Those of us who entered Jewish communal service through the helping professions have made a commitment to support growth by helping more people in more ways. The first issue therefore to be confronted when managing cutbacks is the emotional issue. We must recognize that, as professionals who are compassionate, emotions may cloud our ability to look at facts honestly and to acknowledge the need to retrench.

The emotional phases that administrators

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of social and health programs go through when coming to terms with the decision to retrench are analogous to Elizabeth Kubler-Ross's (1974) five phases of reaction to death: denial, anger, bargaining, depression, and ultimately acceptance and reflection.

MAKING DIFFICULT CHOICES

Two basic principles underlie cutback management. First, cutting is best driven by the agency's mission statement, strategic plan, and vision for the future. Second, one must view trouble as opportunity. Once the emotional issues are dealt with, there is an incredible opportunity to reposition the agency to enhance its capacity to meet its mission after it emerges from a cost-cutting mode.

During times of recession and cutbacks, inadequate resources are a reality that managers confront. Consequently, it becomes the manager's responsibility to choose the least-worst alternative from among many dreadful ones. We must make choices consciously and professionally and, unfortunately, choose the least-worst option.

However, the information needed to make choices may not exist. Often, existing management systems are inadequate for the task at hand. Information on program effectiveness and efficiency may not be available or may be incomplete. Many of our institutions and agencies are not nearly as information-driven as they need to be at the moment that difficult choices must be made. The money and time for generating the needed information may also not be adequate. This discrepancy between what exists and what is needed argues for some risk-taking. Intuition or anecdotal evidence may need to serve as the guide to decision making. Hard times teach us an important lesson—to institute internal control and systems during periods of stability and growth.

These times also argue for the establishment of early warning systems. In New York, UJA-Federation has established a

ranking system that applies balance sheet ratios to all 130 agencies in its system. Often, these data are consonant with gut feelings about which agencies will make it and which will not. Over the last several years, nine agencies have disappeared from our system, some as a result of consolidations or mergers and others because of closings. In one case, an agency lost the overwhelming bulk of its financial support from UJA-Federation because the leadership concluded that it had met its mission successfully and that it would be inappropriate to use the community's precious resources to fund a different mission of interest to the agency's leadership. Perpetuating the "March of Dimes" syndrome, which refers to the organization's search for a new mission after it has met its original purpose, is unacceptable in difficult times.

When confronted with the specter of diminished support, agencies have limited choices: cut costs or raise more money—from government, private sources, or the users themselves. Creating a for-profit venture may be considered as well, although it is certainly not going to provide a quick fix. Unfortunately, for some agencies, these choices may not suffice, and the need to retrench is inevitable.

DECIDING HOW TO IMPLEMENT CUTS

When retrenchment can no longer be avoided, the agency must make important decisions about how it will implement cuts. Will it institute deep cuts that may change fundamentally the agency's structure? Or will it make small cuts on a repeated basis that wither away at the agency's programs and services?

Usually, the tendency in the human services field is to pursue the withering away approach, even though it generally proves less effective and delays needed decisions. Many agencies will not even consider the deep gouge approach because it has enormous organizational and service implications and requires decisions to be made on the basis of projections and uncertainty, rather

than on complete data. The deep gouge approach is politically difficult in any organization. It is particularly so for human service organizations since it involves cutting services before there is an inescapable need to do so. Why follow it? The primary reason is that, from the standpoint of long-term agency effectiveness, it is often the strategy that makes the most sense. First, not making large cuts initially represents a lost opportunity if budget reductions are repeated year after year or even month after month. Incremental cuts made year after year steadily diminish the agency's capacity to allocate funds creatively to new or important areas. Taking a deep bite into nonmandated dollars can provide the dollars for front-end investments for new directions, including spending money to raise money.

The second reason for considering initial large cuts is that the repetition of cutback procedures year after year inevitably saps the agency's ability to provide any service at an acceptable level of quality. For any entity, from a small group to an entire nation, it is far more difficult to cope with slow erosion than it is to come to grips with a large visible problem. When reductions occur repeatedly in this manner, a great disservice is done to our agencies, our staffs, our lay leadership, and, most of all, our clients. Most battles are won when advancing. Virtually all wars are won by the way we retreat. To be ready for the next opportunity in battle requires an organized retreat. It is the same for agencies that operate during recession.

Another important strategic choice for the agency is whether to target cuts or impose ones across the board. Too many of us wish to take the easy way out and, in the name of equity, institute an across-the-board cut. This approach makes it easier to maintain morale and is far easier on management since it eliminates the need for difficult choices. It is often promoted under the doctrine of fairness, but it is not fair. Every organization does some things better than others and some things

that are more important than others. The fair approach is to cut disproportionately into those services that are less efficient, less effective, and least needed. Targeted cuts reflect not only decisions and priorities based on criteria related to the agency's mission but also explicit and defensible values. This approach is the only way to maintain excellence in the delivery of core services most important to the agency and service users. Do not be equitable in your cutting, but rather cut with integrity.

A formal process of ranking programs and services can help the agency identify which areas to cut. This process forces the organization to recognize that some services are more essential than others. Ranking also has the salutary effect of exposing sacred cows. Retrenchment presents an opportunity to get rid of weak or ineffective programs that have continued to exist for reasons other than their inherent value.

With 70% of most human service agency budgets directed toward personnel expenses, cutting inevitably involves retrenchment of staff. Nothing a manager can do is more painful than terminating a competent colleague. Yet, getting past the emotional upheaval that action creates in us is part of our critical responsibility.

Determining whether cuts should be directed at program or administration is another important issue. Agencies need an infrastructure to support program operations. At some point, it just does not make sense to reduce administrative support any further. Similarly, deferring maintenance in favor of saving jobs is not necessarily the correct choice. To defer maintenance is very possibly to destroy a valuable asset. For example, a Jewish Community Center in the New York area decided not to spend \$125,000 to correct a ventilation problem in its pool area. That decision was thought to be based upon all of the right reasons, including staff being more important than buildings. Yet, ultimately that decision cost the agency \$1 million, the expense of the needed repairs following a steel failure caused by the lack of ventilation. Because

the long-term costs of deferred maintenance are so great, in the long run more staff are hurt by maintenance deferral than by dealing with such needs directly and initially.

DEVELOPING NEW CONFIGURATIONS OF SERVICE

Particularly during times of cutbacks, agencies should question whether their current structures are appropriate to the task or whether new configurations can help them perform their jobs better. In New York, the vocational services for New Americans of two agencies—F.E.G.S., the vocational/rehabilitation agency, and NYANA, the resettlement agency—are being integrated. When one compares the pre- and postplacement rates and costs, the benefit to the community is seen immediately. Often, institutional egos prevent cooperation and increased efficiency. A recession is a time when institutional egos must not stand in the way of optimal performance.

A recession is also a time to identify network opportunities that result in shared services and supports. Agencies operating alone cannot possibly derive the competitive edge they can when they join together. In New York, a group program for the purchase of liability insurance, an agency-supported public policy advocacy program, and a planned giving fund-raising program have realized cost savings and greater efficiencies. We are now exploring new cooperative ventures in the areas of commodity purchasing and in employee health insurance where a preferred provider health insurance program is being developed for about 24,000 employees.

ALTERING THE RELATIONSHIP TO STAFF AND TO LAY LEADERS

During periods of cuts, managers must act counterintuitively to how they are used to working. Effectiveness depends upon using the exact opposite approaches to administration. Normally, a manager wants to be open and to involve staff in decision making. Yet, when serious retrenchment

decisions must be made, one must keep one's own counsel. Centralized decision making is preferable at such times.

Similarly, the relationship with lay leadership is altered during periods of scarcity. Most lay leaders share professionals' motivation in becoming involved in Jewish communal service. They too want to grow services and to give the community a sense of hope and of direction. Consequently, the psychological impact of retrenchment on trustees may result in aberrant behavior. Examining their reactions clinically, one may see identification with the aggressor. For example, the professional may say, "Here is my plan to cut 15%," and is told in response, "Why only 15%? Maybe we should cut more now." The blame-game is also common, the major premise being that the volunteer has been doing right and the professional doing wrong.

During a time of cutbacks, it is important to consider these important questions about one's lay leaders. What are their expectations? What is their knowledge base? How much information has been shared with them on an ongoing basis? Is only good news shared and bad news withheld? Does a shared vision and understanding of the agency exist?

Currently, the foundation of trust between lay leadership and professionals is probably the shakiest it has been for some time, given the fallout from the United Way debacle. An important challenge is to engage lay leadership appropriately so that issues of trust do not cloud the difficult tasks ahead.

ENGAGING IN EFFECTIVE PLANNING

Planning is valuable in good times but indispensable in bad. The nature of the retrenching environment is unforgiving. There are very few small mistakes.

Effective retreats are the result of considered, effective plans. Planning helps ensure that the right issues are dealt with so the agency is better situated after the cuts are made.

Yet, if planning is so indispensable in

times of scarcity, why do so many organizations not engage in planning? First, planning takes time, and there is really no planning unless the time investment is made. In reactive or crisis-oriented organizations, this means taking time from today's crisis to do planning. Planning will not resolve today's crisis; it can only resolve tomorrow's problems. Second, planning implies change, and most of us have some discomfort with change; we are comfortable with what we are doing today. Third, planning limits choices and forces management to set clear priorities. The planning process is largely unforgiving; it exposes sacred cows and ineffective projects and services. Fourth, norms of cynicism and pessimism make planning seem futile. Planning too is seen as an add-on, rather than as a way of life. Finally, there is a lack of confidence in the organization's rules and priorities. Many staff believe that today's priorities are going to be replaced by different ones tomorrow.

Planning in this environment is inherently conservative. First, it avoids reliance on best-case scenarios. Everyone knows that the likelihood of the best case happening is at best minimal. Planning also affords the agency the opportunity to look at broader community-wide issues to test assumptions about its linkage with other institutions. The recurring theme is the need to avoid the temptation to deny reality, delay decision making, and confuse "what is" with "what should be." These are the typical responses to an impending loss of resources.

Effective planning has several important dimensions—social and environmental, programmatic, organizational, political, and people. Certain key issues must be addressed in each area.

- *Social and environmental:* What does our agency's world look like? What is stable? What is changing? What actions of others will have an impact on the agency? What are the implications of these trends and changes? For example, issues of managed care are critical for

family service and mental health agencies to consider.

- *Programmatic:* What are the strengths, weaknesses, and values of our services and programs? Do we have the budget to deliver services based on our mission/goals and emerging needs? Do we have the skills and management capacity? If not, on what basis will we set programmatic priorities or ration service?
- *Organizational:* Is our organization structured in a way that will enable us to make necessary changes? What is our organizational culture like, and how will it respond to change? Are lines of authority clearly defined? Do we really need all positions in place, e.g., do we need managers, managing managers as suggested by the works of Toffler (1990), Drucker (1974), and others? Today, fewer people can manage more people with the help of technology. Although many of us do not like electronic and voice mail, these advances allow the line worker to talk to the CEO as efficiently and effectively as can any layer of management. When this technology is applied appropriately, one can begin to reduce the organization's reliance on middle managers.
- *Political:* Which type of planning does the agency use? There really are two forms of planning: the technical/methodological and the sociopolitical form. The latter is at best an art form around which consensus is built instead of an approach that identifies the plan's goals and objectives and quantifies the resources needed to achieve them. Politics can be an enabler as well as constraint in this process.
- *Human:* What are the attitudes of leadership toward managers and line staff? How will conflict be handled? Is the organization ready to undertake difficult actions? The human issues are frequently the most difficult to deal with in planning cutbacks.

To facilitate a successful planning process, one should follow these basic guidelines.

- Keep it simple, flexible, and highly specific. Plans should be changeable over time, but unforgiving at any single point.
- Focus attention on the critical step of integrating strategy with operations. Again, the mission statement and the strategic plan should drive the cutbacks. Real changes should take place at the point of delivery of service. A plan that cannot be implemented operationally is useless.
- Remember that the process is as important as the product. The human dimension is as important as the mechanics. Ownership is more important than good diagrams and flow charts.
- Determine who is going to control the direction of the organization. Organizational and individual history are important.
- Be sensitive to conflict, resistance, and negative cultural norms. Deal with them openly; doing so will result in a healthier organization, stronger teams, and better plans. Conflict is an essential ingredient in organizational change.
- Use the plan as an organizational tool. Integrate the work of informal groups. Successful groups talk, solve problems, and fix things that are broken. Do not posture, nit-pick, debate, or delay. Most plans should have a time frame of 6 months to a year. Discussions should focus on goals and problems, not the past and people.
- Consider intuition and gut feelings, but wherever possible in the context of available information. Good planning integrates the two and recognizes the limitation of each.

A successful planning process has six steps:

1. Establish a small executive-level workgroup to develop the plan to plan. This group, made up of the executive director or president, board members, and top management and financial personnel, should define the agency's situation. Confidentiality is key at this juncture.
2. Assess the agency's current status. The executive-level workgroup should evaluate the agency's current financial position, cash flow, and monthly expenditures. Very often we forget that examining cash flow is as important as looking at balance sheets and income statements. More agencies go into extremis with what appear to be healthy balance sheets because they did not anticipate their cash flow properly. The workgroup should also examine the agency's mandate and what portion of the budget is movable among services, programs, and units. Based on these data, the workgroup should determine when it will become necessary to adopt a cutback strategy. An assessment of services is also needed, including whether services have deteriorated in any measurable way during the past several years or whether demand for services has remained stable, increased, or declined. An evaluation of the physical plant is important as well.
3. Define any threats to the agency from its environment and various stakeholder groups, including funding sources, community groups, public officials, service users, other agency management, and core agency staff. The sources of both intermediate- and long-term danger, as well as any potential loss of financial support or changes in perception toward the agency, should be identified. Clarifying the impact of a loss of key staff and demoralization of the remaining staff is important as well.
4. Identify the agency's strengths, including its services, human resources, physical plant, administration, relationships, etc. Any new opportunities should be identified as well.
5. Prepare a report summarizing all of the information gleaned during the assessments described above. This report should focus on the scope and direc-

tion of the agency's long-term efforts and should identify its retrenchment strategy(ies):

- resist loss of revenues
 - seek alternative funds
 - develop new sources of support
 - cut administrative costs and institute efficiencies
 - restructure services/programs and possibly staff
 - develop programs to protect the organization during and after cuts are made, including a range of support services for both continuing and terminating staff; good management remembers that there is a role to play for the survivors, as well as for those who are leaving; it recognizes that sometimes one must increase benefits and supports even during times of retrenchment
6. Assess whether the outcome will be commensurate with the magnitude of the problem.

CONCLUSION

Many of our agencies are now living through chronic retrenchment and are experiencing its debilitating effects. Yet, adequate planning, appropriate involvement of leadership, and continual reality testing

can help the organization assure program quality and management effectiveness while protecting its reputation for fairness and straight dealing.

Retrenchment is not a pleasant subject to write about. Unfortunately, it is today's reality. Our role as professionals is to take the lemons we've been handed and turn them into lemonade.

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