

Analysis of Cutback Management Strategy in Financial Sustainability in the Public Sector in Indonesia



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ABSTRACT: There are many literature reviews that write about the causes and expected consequences of an environmental, social, and economic crisis. It should be remembered that the role of the public sector is critical to overcoming crises, to promoting sustainable development and to managing the balance between supply and demand for public services.

This qualitative research takes a case study approach to public agencies under the Ministry of Finance, namely the Directorate General of Customs and Excise. This study aims to explain financial sustainability in public bodies during the COVID-19 pandemic, and explain cutback management strategies indicated through refocusing carried out by government agencies during the COVID-19 pandemic, as well as explain the relationship between cutback management and financial sustainability which is significantly directly related to the COVID-19 pandemic.

The results of the analysis show that there are differences in the financial sustainability of Customs and Excise during the pandemic, namely in terms of state revenues, it certainly changes (decreases) in terms of tax revenues, import duties, and excise. Then identified indicators of cutback strategies at Customs and Excise, and there is a conceptual link between financial sustainability, the COVID-19 pandemic and cutback management strategies.

KEYWORDS: Cutback Management, Financial Sustainability, Refocusing, Covid-19, Directorate General of Customs and Excise

1.1. INTRODUCTION

Sustainable finance refers to the availability of financing for investment taking into account environmental, social and governance factors, which are components of green finance that aim to support economic growth.

There are many literature reviews that write about the causes and expected consequences of an environmental, social, and economic crisis. It should be remembered that the role of the public sector is very important to overcome crises, to promote sustainable development and to manage the balance between supply and demand for public services (Cepiku and Savignon, 2011).

Public services in the public sector are aggressively viewed by policy makers as as important as the commercial sector in the context of broader economic and social development (Broadbent and Guthrie, 2008). The World Bank, argued that a well-functioning public sector that delivers quality public services according to citizens' preferences and fosters private market-led growth while managing fiscal resources carefully, is considered essential to its poverty alleviation mission.

In Indonesia, the financial crisis was exacerbated by the outbreak of the COVID-19 pandemic in early 2020, which was marked by the issuance of a Presidential Instruction (INPRES) concerning Refocusing of Activities, Budget Reallocation, and Procurement of Goods and Services in the Context of Accelerating Handling of Corona Virus Disease 2019 (Covid-19).), which budgets and activities related to handling the pandemic should be used. Then the Ministry of Finance through Regulation of the Minister of Finance Number 38/PMK.02/2020 concerning the Implementation of State Financial Policies for Handling the 2019 Corona Virus Disease (COVID-19) Pandemic and/or Facing Threats That Endanger the National Economy and/or Financial System Stability, is carried out to meet the needs of handling the COVID-19 pandemic and economic recovery.

This condition is exacerbated by the number of public sector companies that almost went bankrupt. The financial crisis has forced many public sector organizations to implement reductions (Kickert, 2012 in Schmidt, et al, 2017). The reduction strategy or what is also called the cut-back strategy has made several European and American countries successful in increasing service costs while still taking the public into account. Cutback management or reduction management generally discusses the processes and strategies used by policy makers when an organization faces a situation of resource scarcity. One of the main causes of resource scarcity is what is called, environmental entropy (Levine, 1978 in Ibrahim, 2017).

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The BPS statistical report released in February 2021 recorded that Indonesia's economy in 2020 fell by 2.07 percent (c-to-c). In this COVID-19 pandemic situation, Indonesia is not the only country experiencing a recession. Abatement management experts have shown that local and state governments use various reduction management policies to cover their budget deficits during recessions (Ibrahim, 2017).

The bad news is that the current fiscal crisis will last for quite a while. This means public bodies will have time to implement continuous organizational improvements. Fiscal pressures that lasted for almost two years or perhaps more proved to be giving public bodies in particular to create new ways of doing business in the areas of budgeting, prioritization for services and better targeting of resources.

2.2. LITERATURE REVIEW

2.2.1. The Origin of Cut-back Management

In a series of books and articles published in the 1970s, Charles Levine embarked on a modern study of reduction management and budgeting. Levine (1978) in Schmidt, et al (2017) argues, "We know very little about the decline of public organizations and reduction management".

In an effort to address these shortfalls, Levine analyzes both the causes and responses to fiscal pressures and downturns. He articulated four main causes: political vulnerability, organizational atrophy, problem depletion, and environmental atrophy. Political vulnerability and organizational atrophy are imagined as internal forces that threaten to force organizations to restructure or eliminate services or programs. Problem depletion and environmental atrophy are external threats to the health of the organization.

In general, one can distinguish three streams of theoretical literature relating to reduction management (Cepiku and Savignon, 2012): (1) reduction management from a public administration perspective, starting with Levine's 1978 work and focusing on chunk content; (2) contemporary public administration literature on austerity management, with attention to strategies for managing abatement (e.g. Bozeman 2010; Pandey 2010; Pollitt 2010; Kickert and Randma-Liiv 2015; Raudla et al. 2015) and (3) generic literature on setbacks organizations (eg Whetten 1980; Weitzel and Jonsson 1989). In the article Schmidt, Groeneveld & Van de Walle (2017) the most basic definition, one can distinguish between targeted cuts and proportional cuts. Targeted deductions are cuts that specifically cut specific departments or programs, whereas proportional deductions are distributed equally among different departments or budget lines. Pollitt (2010) (in Schmidt, Groeneveld & Van de Walle, 2017) adds another strategy that aims to save efficiency.

2.2.2. Cutback Management In Public Sector Organizations

Cutback management is currently carried out by adopting five factors that help 'to identify specific characteristics associated with change processes and implementation in organizations in a public context' (Schmidt, Groeneveld & Van de Walle, 2017): context, content, process, results, and leadership. . The first four factors were originally identified by Pettigrew, Woodman, and Cameron (2001) and leadership was added by Kuipers et al. (2014).

Context, usually presented in relation to the background of the case being investigated, can cover various aspects such as time, political-administrative environment or institutional settings. In addition, there are various ways in which context can play an important role in shaping the process and content of the cutback itself, as well as influencing leadership.

Content or content change refers to what is changed, including strategies, systems, and structures of public organizations (Kuipers et al. 2014 in Schmidt, Groeneveld & Van de Walle, 2017), and why change is needed. The content of change was an important topic in abatement management research in the 1980s (Scorsone and Plerhoples 2010 in Schmidt, Groeneveld & Van de Walle, 2017)). The content of changes often refers to aspects related to public personnel. Given that personnel expenses usually represent a large portion of the budget. Managers often look to personnel policies in search of cuts. Examples of cuts that have an impact on personnel and related policies are workforce reductions, salary freezes, recruitment moratoriums and the application of leave.

Processes and outcomes of change are inherently interrelated and therefore discussed at once. Where the change process describes the 'interventions and processes involved in implementing the change', then the outcome will indicate the results of the change implementation which can be 'intentional or unintentional and positive or negative'.

Leadership or leadership can be distinguished from the type of leadership needed to change an organization depending on what strategies are needed to implement reductions, as well as the content of the change. Glassberg (1978) in Schmidt, Groeneveld & Van de Walle (2017) argues that while organizations with relatively flexible tasks will choose targeted cuts, organizations dominated by predetermined task plans such as organizations under ministries will be more likely to use easy cuts. such as cutting the volume of budget output.

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2.2.3. Downsizing Strategies

The cutting model presented presents three strategies in varying the likelihood of staying in or out of a crisis. According to Bravo (2017) this classification is also used in research conducted by Greenhalgh, Lawrence, and Sutton (1998), and by Budros (2002).

- Retrenchment or cost reduction: a strategy based on increasing productivity and eliminating redundant work (Freeman & Cameron, 1993 in Bravo, 2017).
- Downscaling or scale reduction: maintaining the field of activity while cutting organizational and physical resources, reducing output to adapt to demand (Kotler, 1986; Whitney, 1996 in Bravo, 2017).
- Downscoping or Refocusing or restructuring the organization's portfolio, which involves reducing the field of activity by reducing the vertical and horizontal differentiation of the value chain.

Then according to Thomas, E. C., Pierce, J. B., & Tomes, W. E. (2002), specific strategies used to reduce organizational expenses include:

- Reducing staffing levels by reducing, freezing hiring, removing positions, layoffs, furloughs, early retirement, or purchasing programs.
- Reducing the scope of certain programs.
- Stopping or eliminating the entire program gradually.
- Increase additional income from new sources.
- Selling assets.
- Privatize or transfer responsibility for certain programs to other agencies.
- Postpone certain activities until later (building maintenance, renovation, construction of new facilities, research).
- Improve quality, efficiency and effectiveness (process mapping and reengineering).
- Employ low-cost labor (part-time workers, temporary workers, volunteers).
- Using a labor-saving approach (increasing use of technology and automation).
- Provide incentives for resource conservation and performance improvement.
- Tightening on selected budget items.

Meanwhile, Cameron (1994) organizes downsizing strategies into three categories, namely workforce reduction, job redesign, and systemic change. Each approach has its pros and cons and important long-term consequences for the organization.

2.2.4. Public Sector Finance Sustainability

Public financial sustainability is defined as an organization's consistency in producing positive results that not only cover costs but also accelerate organizational growth. The aftermath of the subprime crisis has revealed the fact that companies with financial sustainability are least affected by the financial crisis (Gofman, 2017 in Al-Dirawi & Dahash, 2018).

The reason why financial sustainability is so important is its impact on the financial system as a whole on sustainable development. Sustainable development is defined as growth that meets the demands of the current population without interfering with the tendency of future generations to meet their own demands (Hák et al., 2018 in Al-Dirawi & Dahash, 2018). Sustainability development provides an ethical understanding of the three dimensions of sustainability and encourages organizations to work towards a balance between the economic, environmental and social sectors. Sustainability development, following the Rio Summit conference, became the framework for a new approach that integrates environmental and social concerns in the company's operations and works towards a triple bottom line (Elkington, 1998).

In the concept of sustainable development, the business world is no longer only faced with responsibilities that are based on the single bottom line (SBL) or the value of the company in terms of economic conditions. But it is more based on the triple bottom line (TBL), namely the synergy of three elements which include economic, social, and environmental or better known as 3P (Profit, People and Planet).

Sustainable development contributes to the organization's sustainability; managers' ability to define the key issues they should focus on; environmental, social and economic performance, and provide common social goals for companies and governments to work towards sustainability performance (Wilson, 2003).

3.1. RESEARCH METHOD

This study uses a qualitative research method with a case study approach. As an approach, key case study research makes it possible to investigate a particular event, situation, or social condition and to provide insight into the process that explains how a particular event or situation occurred (Hodgetts & Stolte, 2012 in Prihatsanti, et al, 2018).

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This study will use random probability sampling in sampling. So the participants or informants of this research are functional officials managing the APBN or expenditure treasurers, implementing facilities and permits, as well as procurement officials from the North Sumatra DJBC Regional Office who understand financial conditions. Then the data is processed using NVivo 11 plus in data analysis. According to Miles, Huberman, and Saldana (2014) the stages of data analysis in NVivo consist of data input, coding, exploration, and visualization.

4.1. DISCUSSION

4.1.1. Financial Sustainability of the Directorate General of Customs and Excise during the Covid-19 Pandemic

The economic concept at Customs which leads to the program and function of the Customs organization itself, namely the exemption of incentives, the provision of convenience facilities to develop businesses for micro, small and medium enterprises through the national economic recovery program formed during the COVID-19 pandemic, regarding the optimizing state revenues (revenue collectors) before, after or during the COVID-19 pandemic conditions which with conditions of social restrictions and economic activities certainly hinder or reduce tax revenues, then provide trading facilities for service users (trade facilitators). Economic sustainability is clarified by the establishment of fiscal sustainability programs with policy directions for strengthening entrepreneurship, micro, small and medium enterprises and cooperatives, providing fiscal and procedural incentives to restore economic performance affected by COVID-19, sound and sustainable fiscal management is a fiscal policy that consolidation expansion, provision of taxation fiscal incentives to increase investment and exports as well as the development of certain sectors. Then there is the program to accelerate national economic recovery, where the industrial sector plays a role as much as 20% of economic growth, and 70% of imported goods are industrial raw materials. As a form of handling and recovering from the Covid-19 pandemic, Customs and Excise has an active role in maintaining the supply of industrial raw materials, with various fiscal and procedural incentives as well as facilitating the import of medical devices and medical equipment raw materials for the prevention of the Covid-19 pandemic.

The environmental concept in Customs and Excise also leads to a program, namely a program to support the creation of new and renewable energy, by providing fiscal incentives to the industry. According to Hafiz Nugroho (July 19, 2021) the North Sumatra Regional Customs and Excise Office has not yet provided incentives for new and renewable energy. It's just the granting of incentives for the oil and gas sector. Exemption of incentives in the form of exemption from import duties, such as state-owned oil and gas company Pertamina which requires oil and gas mining equipment through imports. The decision on the approval of the incentive exemption is made by the head of the regional office, which contains an estimate of the nominal and what goods will be granted the incentive exemption.

Meanwhile, the social concept of Customs and Excise leads to the provision of service facilities which have become the functions and objectives of the organization. So that it can be said that the Directorate General of Customs and Excise as a public body carries out service functions in accordance with the functions of public sector organizations. The conditions to be achieved in an agile, effective, and efficient bureaucracy and public service by paying attention to optimal organization and human resources, reliable and integrated information systems, value-added internal control and supervision, optimal implementation of special tasks. Then the Minister of Finance Regulation Number 188/PMK.01/2016 also clarifies the duties of Customs and Excise, namely facilitating trade and industry, providing services to users of customs and excise services.

4.1.2. Cutback Management Strategy of the Directorate General of Customs and Excise during the Covid-19 Pandemic

The Directorate General of Customs and Excise, which is a vertical agency, responded to the regulation of the minister of finance, and cut or reduced the spending budget in early 2020. According to Wahyu Syahputra (14 July 2021) the budget reduction in 2020 was carried out at the beginning of the pandemic (beginning of the year), Customs and Excise refocusing for the ministry of finance in total (Echelon I Customs) reduced or cut by 500 billion, the initial ceiling (budget allocation) of 3.3 trillion was reduced by 500 billion to be shared or refocused on handling the pandemic in this case adding to the Ministry's budget Health. The North Sumatra DJBC regional office alone has almost 750 million reduced or cut. Meanwhile, for 2021, at the beginning of February, the customs ceiling has been refocused by approximately 300 million which has been reduced or cut.

This shows that budget cuts within the Directorate General of Customs and Excise have been reallocated to ministries or institutions related to the technical handling of COVID-19, such as the Ministry of Health, Ministry of Education and Culture, Ministry of Defense, Indonesian National Police, Ministry of Foreign Affairs, and K/K. Other L (for additional equipment and others related to covid-19 response). Then the North Sumatra Regional Office of Customs and Excise cuts its budget by only 10% of the total initial ceiling of 7.2 (seven point two) billion. Meanwhile, for the middle of 2021, the budget has been reduced or cut by 300 (three hundred) million, and will be reduced again but it is not yet known how much.

Cutback management within the Directorate General of Customs and Excise is carried out with a retrenchment strategy

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or cost reduction, which is a strategy based on increasing productivity and eliminating redundant work. Then the downscaling strategy or scale of reduction, namely by maintaining activities and programs in fiscal sustainability while cutting and reducing output to adapt to the conditions of the covid-19 pandemic.

The Directorate General of Customs and Excise must make savings in terms of activities or projects that are hampered due to the pandemic or can be postponed to the following year. These savings are expenditures that are not related to covid-19 prevention can be postponed, capital expenditures for projects not related to covid-19 can be postponed or extended, activities/projects not related to covid-19 that have been contracted can be renegotiated with third parties. to postpone the work due to the impact of covid-19, then personnel expenditures will be postponed for the increase in tunkin and the appointment of civil servants, as well as delaying.

In the downscoping strategy or portfolio restructuring, be it assets, governance or programs, the Directorate General of Customs and Excise does not reduce the field of activity, only in the 2020-2024 strategic work plan, programs that are made more adaptable to pandemic conditions. Through the national economic recovery program by providing convenience facilities to develop businesses by expanding into international markets (exports) and exemption from tax incentives and import duties relating to the handling of COVID-19 in Indonesia. The current pandemic condition has affected the revenue sector due to the implementation of social restrictions and community economic activities. So in this case the Directorate General of Customs and Excise seeks to reduce or cut in terms of the budget to contribute to the handling of the pandemic, through a program to accelerate national economic recovery.

4.1.3. Cutback Management in Financial Sustainability at the Directorate General of Customs and Excise during the Covid-19 Pandemic

The relationship between financial sustainability and budget reduction is only 28.08%, because financial sustainability has become the vision of the Directorate General of Customs and Excise either before or during the 2020 budget cuts or reductions and the concept of program environment or activities at Customs has been implemented before a pandemic and budget reduction (refocusing). So that the condition of the COVID-19 pandemic is only related to economic, social concepts by 53.29% and to budget reductions or cuts by 61.1%.

Financial sustainability with organizational goals, but with the pandemic there are differences in terms of programs and operational activities at Customs which are motivated by budget cuts or reductions which are also motivated by the covid-19 pandemic.

5.1. CONCLUSION

This study is basically understanding the financial condition of a public organization during the COVID-19 pandemic and effective strategies for handling financial conditions in the midst of a pandemic. Based on the results of the analysis and discussion that has been carried out in the previous chapter, several conclusions can be drawn from this research, namely:

1. Financial Sustainability of the Directorate General of Customs and Excise during the Covid-19 Pandemic

There are differences in the financial sustainability of Customs and Excise during the pandemic, namely in terms of state revenues, it certainly changes (decreases) both in tax revenues, import duties, and excise. However, the Directorate General of Customs and Excise is still implementing financial sustainability during the pandemic through the programs listed in the Customs and Excise Strategic Plan for Fiscal Year 2020-2024 and maximizing agile, effective, and efficient public services. All programs in the 2020-2024 fiscal year which coincided with the pandemic must also be adapted to the pandemic conditions. In order to realize the management of fiscal sustainability, the economic, social and environmental concepts must still be implemented during the COVID-19 pandemic.

2. Cutback Management Strategy of the Directorate General of Customs and Excise during the Covid-19 Pandemic

There are budget cuts or reductions at Customs in early 2020 in accordance with the president's instructions through the ministry of finance. The cutback management indicator at Customs leads to retrenchment, downscaling, and downscoping. Retrenchment strategy or cost reduction, which is a strategy based on increasing productivity and eliminating redundant work. Then the downscaling strategy or scale of reduction, namely by maintaining activities and programs in fiscal sustainability while cutting and reducing output volume to adapt to the conditions of the covid-19 pandemic. Lastly, the downscoping strategy or portfolio restructuring, be it assets, governance or programs, the Directorate General of Customs and Excise did not reduce the field of activity, only in the 2020-2024 strategic work plan, programs that were made more adapted to pandemic conditions.

Meanwhile, Cutback Management in financial sustainability at the Directorate General of Customs and Excise during the COVID-19 pandemic has been explained in the discussion sub-chapter on the relationship between financial sustainability and a cutback of 28.08%. Meanwhile, the condition of the COVID-19 pandemic is only related to economic, social concepts by 53.29% and to

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budget reductions or cuts by 61.1%. This shows that the cutback strategy is an effective strategy to use during the handling of the covid-19 pandemic at Customs and the cutback strategy is also effective for financial sustainability at the Directorate General of Customs and Excise, especially during the current pandemic.

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