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THE ZERO BASED BUDGET: A PANACEA FOR CHALLENGE OF CORRUPTION IN THE PUBLIC SECTOR

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Abstract
Traditional budgeting process normally starts with last year's budget. The new budget is merely a change of last year's figures (upwards or downwards) zero Based Budgeting (ZBB) in contrast, is founded on the concept that the need is to consider relative values, rather than comparative cost. This is a process based on organizational goals and the objectives are converting the company activities into decision package and allocating resources based on priorities/cost by the management. The ZBB gives insight to management in that area. What do our overhead department produce, what should they produce and what the cost is. We know that our transparency is zero, the management team of the country should apply the used of zero based budgeting as this will reduce fraud in the system.

Key Words: Comparative Cost, Transparency, Zero Based Budgeting, Fraud

Introduction

From time to time, catchy words and phrases are arise to describe new budgeting techniques catchy or variations of old ones. An example is zero-based budgeting, which arose as a response to the problems of controlling discretionary costs and which refers to the practices of having a manager justify his department's activities from the ground up as though they were being initiated for the first time. Traditionally, proposed budgets have been justified on an incremental basis. That is, managers have tended to prepare new budgets in terms of changes from last year's budget and results. **In contrast, zero-based**

budgeting gets back to the bedrock questions such as why does this activity or department exist and what are or should be its goals or objectives?

Zero-based budgeting has been receiving increased attention in non-profit organizations:

> ''Zero-based budgeting is especially adapted to discretionary cost areas in which service and support are the primary outputs. It is this characteristic that has attracted the interest of government officials, as most expenditures of government can be classified as discretionary in nature.''

Experience to Date

Zero-based budgeting has been adopted by at least twelve state governments. The general idea is for low-level managers to construct alternative budget for each activity. These alternatives are combined into so-called decision packages.

One alternative says what would occur if the activity were simply eliminated. Another alternative explains how the agency would adapt to a budget cut. Other alternatives indicate what will be achieved with the existing budget and with extra money if supplied .

Charles Travis, the Texas governor's budget chief, has commented on the advantages of zero-based budgeting: ''The system itself doesn't save money. What it doe is to provide better information for the decision makers''. The Georgia study cited the same advantage plus two others:

1) More careful planning before the budget itself is prepared and
2) Increased involvement of lower-level personnel in the state's budgetary process.

The biggest disadvantage is the cost of zero-based budget preparation in terms of time and effort. For example, a proposed study of one portion of the Federal elementary and Secondary Education Act will last seven years and cost $7 million during the first year alone. Thus, in some organizations the costs may exceed any expected benefits.

Is complete zero-base budgeting on an annual basis feasible way to plan? Many critics think that such a traumatic, costly analysis desirable every five or six years, but not every year. Accordingly, some states (including Colorado and Florida) have passed ''sunset laws'' that provide a termination date for each state regulatory ageney. As the date approaches, a performance review is conducted to determine whether the agency's life should be extended.

Zero-Based Revenue

Many experienced administrators in non-profit organizations believe that managers should be concerned about revenue as well as costs. As a dean commented, ''responsibility for expenses only, and not for revenue and expenses, leads to different behaviour.''

Herbeth stein, former chairman of the council of Economic Advisers, is skeptical of zero-based budgeting:

There is a missing link in the zero-based budgeting idea, and that is failure to apply it to the revenue side of the budget........ First, it means that the test which existing program does not have to meet the test of being worth the expenditure of some of the money that is automatically flowing into the Treasury. Second, it means that if existing programs fail to pass the test, new programs will be adopted because the money is there.[14]

Program Budgeting

Program budgeting is an outgrowth of a concept known as Planning, Programming, and Budgeting (PPB), which was experimented with extensively in the U.S. Federal government during the 1960s. The Secretary of defense and other high officers used PPB to analyze military activities in strategic terms . programs (such as defending the continental United States or obtaining a first-strike capability) were framed to enable the comparison of alternatives based on explicit criteria and assumptions and incorporating expected costs and benefits. A highlight of the approach was the focus on explicit, long range program decisions, in contrast to the previous procedure of annually deciding how much the overall appropriation should be allocated to the Army, Navy and Air force. PPB was implemented successfully in the Defense Department because

1. Outputs were definable and measurable (e.g. the probabilities of the U.S weapon's penetrating enemy defences).
2. Top management support for PPB was heavy and visible; and
3. Competent PPB staff was available to top management.

PPB is more a state of mind than a system. It has become widely used, particularly at state and local government al levels, where it is often called program budgeting rather than PPB . its central characteristics were described by a former Director of the Budget:

As the first step, PPB calls for a careful specification and analysis of basic program objectives........ What are they really trying to accomplish? The objective of our intercity highway program, for example, is not to build highways. Highways are useful only as they serve a higher objective, namely transporting people and goods.

The second step is to analyze the output of a given program in term of the objectives.........The third step is to measure the total cost of the program, not just for one year, but over at least several years ahead.... not on the basis of the first year costs alone......The fourth and crucial step is to analyze alternatives...... It is competition among alternatives which is crucial...........Fifth step is establishing PPB as an integral part of the budgetary decisions. The programming concept is the crucial link that relates planning to budgeting, converting planning from paper exercise to an important part of the decision process.

In the process the budget is split into activity level, upon which individual decisions does not authorize, as usual, an opaque total package. First all, a check is made on whether the required results can be achieved with a lower level of activity, or whether the activities can be carried out more cheaply. ZBB is above all ideal for the analysis of the overhead budget of such departments as finance, accounting, personnel, purchasing, administration, marketing, research and development and other technical offices. The process is less worthwhile for direct production costs. In the service sector ZBB can, in principle, be applied to the preparation and agreement of the total budget.

ZBB arose at the end of the 1960s in Texas Instruments, the American electronics manufacturer. In 1970 Peter A. Pyhrr , one of the leading ZBB designers in Texas Instruments published the approach for the first time in the Harvard Business Review. Jimmy carter, in 1971 Governor of Georgia, read the article and had Pyhrr introduce ZBB into his administration. Since that date many America companies, public authorities and other organizations have introduced the technique. Pyhrr and other experts have written books about ZBB, and the United State of America (USA) even has a periodical called the Zero Based Digest. The technique has been in public view ever since Carter, as President, ordered that it should be introduced to all federal organizations and authorities.

Apart from improved cost control and better allocation of resources, Zero Based Budgeting has the following important advantages: (1) It gives insight to management in the area 'What do our overhead department produce, what should they produce, and what they cost?' (2) it leads unavoidably to the question 'What is our strategy, and what do we want to achieve?' (3) it forces all the company's managers to think clearly about purpose of their work and their interdependence with other departments.

ZBB demands management attention at all times- but hides within itself the danger of a 'paper war'. Some important points, therefore, are (1) don't try to do everything at once; (2)don't make the decision packages too small; (3) do keep descriptions short and sharp (only one page of text for each decision package); (4) do orient the procedure to the individual demands of the company; (5) do educate the management of the company intensively in the techniques of ZBB, using practical working examples.

ZBB can only work effectively in the public sector if budget decision are made on the basis of decision packages oriented towards targets, and not in the usual manner on the basis of cost types. Several US authorities are already using a ZBB variant: the 'sunset' process. In this, public programmes are questioned thoroughly, usually after three to seven years. The appropriateness of the programme must then be completely re-justified. The sunset process avoids the heavy time and cost demands of an annual ZBB analysis.

The stress on our whole management team during implementation of Zero Based Budgeting was only comparable to that during oil crisis. But we managed it and are now using our resources much more effectively; so reports the managing director of the Bremen company, H. Saacke (with 950 workers and a turnover & of (20 million), which produces oil and gas burners in seven European countries, including the UK. This company spent altogether 2,500 hours on the development of 70 decision units, each with approximately three levels of allocation and each with two alternatives. Why? 'After 25 years of strong growth, we had become a large industrial organization with many unanswered of organization and policy with respect to our activities; says Heinrich Saake. Because time was running short, management consultants A.T. Kearney were called in to advise the firm. Preliminary discussions between the management and Kearney showed that ZBB would be ideal to achieve the desired end-result of reduced overhead costs and re-called of resources quickly.

There was an important pre-condition: because of Saacke's participant style of management, the whole management team had to be convinced that ZBB was the appropriate approach and could be tailored to the special requirements of the company. Therefore, at the beginning of 1978 the ZBB system was discussed for two days with all departments and at all levels of the company's management. On the following day the management agreed to go ahead with ZBB analysis. A project team was built up, consisting of two consultants and three members of the client's side: the latter, for remainder of the project, were engaged full-time. The project leadership of the ZBB team was taken over by the director of personnel. The duties of the group were to assure the orderly conduct of the project on behalf of the company's management.

Close cooperation was necessary

Close cooperation between the consultants and company staff was absolutely necessary, in order to mould together the broad experience of the consultants with the special knowledge of the long-serving members of the client firm. Thus, a team was build up, and the progress of the assignment was minuted weekly. In the first week, all business activities were divided into decision units. Decision units can be existing organizational units (departments, sections, etc): specific functions: and related activities. Many questions to be answer ed. For example, how many decision unit should be chosen? How should they be defined? How are they to be structured? Should we concentrate on present or future activities?

We decided to base our work on the existing organization, and to answer the above questions for each area jointly with the departmental manager, according to the following criteria: (1) Each decision unit must be greater than one man-year and smaller than 10-man years. (2) Each decision unit must be independent of the next decision unit. (3) there should be no overlapping targets and goals for these units.

We needed a week to complete the first overview of all the decision units. For each decision unit, one person was made responsible for the production of targets, concepts and a unified definition. The finance department provided the current budgetary details, such as numbers of personnel, costs and level of investment.

The second week presented a problem, since the departmental managers had to describe the responsibilities and goals of their decision units in such a way that a specialist without knowledge of the company could see exactly why the company needed this unit. Everyone knew only what their own jobs were- but not why and to what end they were performed. We frequently heard the same question: What are the real objectives of the company? The team interrupted its work at this stage and supported the company management in the written description of quantified company goals (which products in which markets and which regions with which capacities). The management, of course, had the present strategic aims in mind before. But it had been shown quite independently in this project that still more could be done to define them. From the corporate objectives we derived departmental objectives. An objectives pyramid was constructed.

In the third week, we sought to develop alternative approached by brainstorming. On the basis of the goals that had been to them, the departmental manager describe the responsibilities and objective of their decision and agreed them with the ZBB team. We asked: "Can you achieve this objective by other means than those which you are using at the moment? The answers were mixed: 'No i don't think so'.....'I don't know any other way'.... Yes, but then i need at least another $50,000 in investment'. We began a brainstorming session –one of each department, and going on late into the night. The only rule followed was that everything was thinkable, and anything's was allowed- expected over-hasty criticism. The staff came t o a starting conclusion: much could be done in another way –and in many cases more economically. The team noted down the ideas and formulated the alternatives.

The fourth week was spent on defining various levels of activity. It is no easy matter to conceive of achieving a lower level of activity, with reduced quality of output. In most cases, the demand is for better quality not worse. However, the instructions were: 'imagine that things were going so badly for the company that you were only allocated 605 of the budget that you have hitherto had. How would you organize your work, and what level of activity could you then maintain? To what extent would you then be forced to change original departmental objectives?

At this point, the first signs of frustration began to appear'. 'They don't know what they are asking for'.....'But you can't do that to us'.... Say how you want us to do it, and we will do it that way. The team needed a lot of time in order to overcome this problem. The management of the company must work actively alongside the team and take an active part in the discussions for them to bear fruit.

The next discussion point was: If you had more resources available, or more staff, what level of activity would then be achievable? The answers came immediately. The nabir was passed, and a new brainstorming session began, since alternative approaches were now sought in the new levels of activities. This time, progress was quicker-in most cases one or two alternatives for each level of activity for each decision unit are found at this stage.

In week five, departmental managers decided the priorities. The previously formulated decision package were critically appraised by the ZBB team and checked for plausibility. Formulations had to be changed and services. Decisions packages for new activities had to be provided until such time as general agreement existed that the decision packages had themselves reached a level of achievement that was ideal as the basis for the decision-making process that had to follow.

The key problem of priorities

The department managers were confronted for the first time with the problems of priorities: 'Which of the decision packages before you do your regard as the most important with respect to the objectives of your department? Which is the next most important? And which is to have assigned to it the lowest priority? 'In this evaluation the decision package at the lowest (cheapest) level of activity inside a decision unit received the highest priority. Many decision packages at lowest level of activity compete for first place; for example, the simplest from of financial bookkeeping with the simplest form of purchasing. Which has priority? It is not possible to have both.

Psychological barriers were thrown up; What should be booked if we don't buy? No purchasing, no production, no bookkeeping. Another period of frustration stated. The management . of the company wanted to see all the decision packages. The ZBB team resolved the problem in this way. All activities that were absolutely essential for the functioning of the company were brought together without priority to the management of the company. Why create animosity if, in the end, it all has to be done, anyway? Above the level of this minimum activity, there was no let-up: there was no way of avoiding a list of the decision packages arranged in order priority, based on cost-benefit analysis. The departmental managers produced a list with priorities for their packages based on absolutely essential staff, cost and investments.

The sixth week saw divisional directors producing a list ranked by priorities. The divisional directors were extensively involved in the production of the decision packages. They were, therefore, familiar with them. Nevertheless, the co-departmental managers into lists of priorities gave the divisional directors many difficulties. Which is the most important? Activity level 2 of the data processing department (50,000), or the activity level of the central typing pool (25,000), or the activity level of the cost office (8,000)?

'Now I know what Hans does'

The decision packages were not yet sufficiently developed or formulated. A team, with responsibility for assigning priorities, was made up of departmental and divisional priorities, was made up of departmental and divisional managers and set to work on objectives and activity levels. Alternatives, consequences, advantages and disadvantages, in ranking the activities concerned. The most important by-product of this intensive work on the objectives for the departmental managers was a better insight into other areas of responsibility. As one departmental manager said, 'Now at last i know what Hans does with his six people. I always thought that they just looked after the incoming orders. I certainly didn't know that they look after the specification of orders and after-sales service as well'.

The office manager had to admit something similar. Quite frankly, i haven't been in the dispatch department for a long time. It was high time that i took some interest in it. Fixing the priorities was difficult in many respects, particularly when there was a question of balancing cost advantages with simultaneous investment demands. In order words, is a cost saving in the order specification department of 4,000, which would reduce lead time by five days, to be valued more highly than a weekly stock-take through new data capture equipment, with a price tag 11,000? This particular point was critical, since the budget line was to be drawn between these two packages. Evaluation of the consequences took place, and divisional management decided in the end in the favour of speedier product delivery.

In the sixth week completely new decision packages had to be produced. The board of directors introduced a package concerning corporate planning and market and competitor analysis. Two divisional directors were abroad at the start of the period and did not know what was going on in detail. So special training had to take place. Two departmental managers asked for their decision packages back in order to re-work them, because, they said, they had obtained new insights into their own departments.

Six decision packages were brought together, since the mutual interdependence was too large (maintaining a new activity level in purchasing depends on the level of work in the typing pool, for instance). Nevertheless, by mean of an all-necessarily so, since the company's management was demanding completion of the ZBB process. The managing director urged at this point: It is high time that we think again of our operational activities. Too much is not getting done.

At the beginning of the seventh week the ZBB team was nervous. The collation of all decision packages at the present level of activities tailed with the number of present staff in the overhead area nor the overall levels costs. Here too little, there too much. A new analysis took place. The mistake was found in packages that described inter-divisional projects (for example, the introduction of unified standards) and in a development project. Another data check took place. The collation of all costs and investments was repeated. How high was the total sum of the costs for all the decision packages? At last the correct number was reached: 7 million, with investment requirements of 400,000. It was, however, obvious to all participants that, in the production area alone, which was outside the scope of the ZBB analysis, the investment demands made exceeded the company's ability to finance them.

The final assessment of priorities for the 70 decision units, with on average three levels of activities (i.e. some 200 pre-sorted decision packages),

by the company management was one of the most difficult management tasks that we have had during the last 10 years. In carrying this out, we relied on the judgement of the divisional directors, and the top 60% of the packages were not analyzed. Nevertheless, i have read them, and learned a lot, and said Saacke's managing director, We have firmed up son the resources available for the fiscal year 1978-79 and completed out budgets.
The analysis of the decision packages was concentrated in the first place on the 10% of the packages above and beneath the dividing line and on the further definition of the priorities. Then decisions were taken on what had not been realized and what should be re-assessed later. Of the 210 decision packages, the company agreed to 44 from activity level 1:128 from the activity level 2:38 from activity level 3.

Examples are order control, administrative services, construction and goods received. These were put into the lowest level of activity, so that 120,000 could be made available for the highest level of activity in quality control, purchasing, market research, financial costing and corporate planning. In total, 11%of the staff in the overhead area had to accept a major change in their work, and 21% of the original budget was re-allocated to other decision and to strategically important departments.

'We'll do it every three to five years'

'ZBB has helped us take a major step along the way to comprehensive job descriptions', says Saacke's directors of personnel. We will now be able to progress much better with staff assessments. During the intensive co-operative work of the last six weeks i have got to know a lot of my colleagues much better. His managing director summarizes as follows: We could not manage to repeat the ZBB exercise every year, but we will certainly do it every three to five years. I am absolutely convinced that we are now more likely to achieve our corporate objectives. This is what Zero Base Budgeting does

Summary

The success of the management-control system can be affected both by its technical perfection and by nontechnical factors that influence management behaviour. Accounting records, budgets, standards, and reports are inanimate objects. By themselves, they are neither good nor bad. Whether they help or hinder strictly depends on how skillfully they are used by managers.

The trade-offs of the benefits and cost of information from the basic criterion for the systems design and appraisal. Motivation is the dominant consideration in pin-pointing the value or benefits of a management –control system. Above all, the system should promote goal congruence and incentives by explicitly identifying top-management objectives and then encouraging managers to act in harmony with these objectives. Among the questions that seem particularly important are:

i. Does the system specify goals and sub goals that encourage behaviour that blends with top-management goals?

ii. Are the goals as specified by top management accepted by managers as their personal goals.

iii. Is the accounting system tailored to the organizational structure to strengthen motivation?

iv. Does the system properly guide managers in the acquisition and utilization of resources by providing accurate, timely, relevant data?

Sub-questions deserving consideration would cover such commonly encountered difficulties as the overemphasis on sub-goal; the overemphasis on short-run performance; failure to pinpoint responsibility; cooperation versus competition; the lack of distinction between controllable and uncontrollable costs; limitations of records as motivation devices; inaccurate source documents; and faulty cost analysis.

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