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Performance budgeting: Relating the end results with the input costs

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Abstract

The Performance Budgeting is looked upon as a budget based on functions, activities and projects and is linked to the budgetary system based on objective and classification of expenditure. This budgeting lays immediate stress on the achievement of specific goals over a period of time. It requires preparation of periodic performance reports. Such reports compare budget and actual data and show any existing differences. The implementation of performance budgeting requires a series of steps. Along with a number of advantages, this technique has certain limitations too.

Keywords: classification of activities, performance audit, performance budgeting, program budgeting, traditional budgeting

Introduction

Performance budgeting may be described as a budgetary system where the input costs are related to the performance i.e., the end results, the term 'performance budget' was originally used in the United States by the First Hoover Commission in 1949, when it recommended the adoption of a budget based upon functions, programs and activities. Its focus was to work cost measurement and managerial efficiency. Cost and production goals are established them compared to actual performance. The concept of performance budgeting relates to greater management efficiency specially in government work. This concept was used in World War II years and the concern was to increase efficiency and for this purpose, the scope of budgeting was extended to 'output' not merely the inputs. With a view to introducing a system's approach the concept of performance budgeting was developed and as such there was a shift from financial classification to 'cost' or 'objective' classification of government expenditure. Performance budgeting, is therefore, looked upon as a budget based on functions, activities and projects and is linked to the budgetary system based on objective and classification of expenditure.

The performance budgeting technique is the process of analyzing, identifying, simplifying and crystallizing specific performance objectives of a job to be achieved over a period in the framework of the organizational objective, the purpose and objectives of the job.

The technique is characterized by its specific direction towards the business objectives of the organization. Thus, performance budgeting lays immediate stress on the achievement of specific goals over a period of time. It requires preparation of periodic performance reports. Such reports compare budget and actual data and show existing differences.

Requisites of Performance Budget

A performance budget is one which:

- Presents the purposes and objects for which funds are sought and to bring out the programs and accomplishments in

Financial and physical terms

- The cost of activities proposed for achieving these objectives.
- Quantitative data measuring the accomplishments.
- Work performance under each activity.
- To enhance the accountability of the management and at the same time to provide an additional tool to management control of financial operation.
- To undertake performance audit more purposeful.

Performance Budgeting Versus Traditional Budgeting

Performance budgeting lays emphasis on broad classification of expenditure according to functions such as education, health, irrigation, social welfare etc. Each of the functions are then classified into programs subclassified into activities or projects. In traditional budgetary system, budget appropriations were made object-wise and clubbed together according to the class or nature of expenditure, such as pay and allowances, travelling allowances, transport, contingent expenses etc. and the emphasis is on controlling the actual expenditure incurred under each head with reference to the budget grants and no effort was made to evaluate the expenditure against the results obtained by spending the budgeted amounts.

Performance Budgeting Versus Program Budgeting

Table 1: Both the system differ as listed below:

	Performance Budgeting	Program Budgeting
1.	Retrospective	Prospective
2.	Concerned with process or work	Concerned with purpose of work
3.	Evaluative in the sense of measuring	Connotes planning
4.	Oriented towards methods to used to be achievements	Oriented towards the objective
5.	Relevant to the problems of lower and middle levels of management	Relevant to the problem of the top level

Steps in Implementation

The steps involved in implementation of performance budgeting are as follows:

Classification of Activities: The total government operations are classified into functions, programs and activities. Initially the total operations of the government are categorized into functions. Each of the functions are again divided into programs which are time-phased plan for which resources are to be allocated. Then each program again classified into activities. For example, educational program may be classified into schools, libraries, adult literacy programs etc. An activity is a subdivision of the program into workable entities to which the resources are applied.

Specification of Objectives: The objective of individual activities is clearly spelt out in quantitative and monetary terms as far as possible. These objective are matched against the long-term objectives of the government. For each activity, the objectives i.e., the purpose for which resources are intended to be spent is spelt out. Then annual, quarterly and monthly physical targets are to be determined for the whole. These targets are to be further broken down for each 'activity centre'.

Analysis of Activities: The long-term strategy and short-term tactics for achieving the desired objectives are considered. In addition, possible alternative activities are identified and costs and benefits of the alternative activities are worked out. After a detailed analysis, the activities are selected.

Establishing Control Norms: The system of control norms in the form of productivity ratio, performance ratio etc., are to be set against which actual performance are compared. Care should be taken to set the norms for non-finance measures.

Clear Lines of Authority and Responsibility: The roles of different implementing agencies in achieving the specified objectives are clearly demarcated and financial rules and accounting systems are modified to implement the defined activities more effectively.

Evaluation: A proper system for evaluating the implementation of activities is predetermined. Desired information system and reporting system relating to financial, physical and economic data are also installed to monitor the desired activities during execution. The projects should be subject to thorough evaluation even after their completion.

Purpose of Performance Budgeting

The main purpose of performance budgeting are:

- To review at every stage and every level of the organisation so as to measure progress towards the short-term and long-term objectives.
- To interrelate physical and financial aspects of every program, project or activity.
- To facilitate more effective performance audit.
- To assess the effects of the decision making of supervisor to the middle and top managers.
- To bring annual plans and budgets in line with the short and long-term plan objectives.
- To present a comprehensive operational document showing the complete planning fabric of the programming perspective, their objectives interwoven with the financial and physical aspects.

A performance budget presents estimate for expenditure and earning in terms of functions, programs, activities and projects.

Requirements for Introduction

For introducing performance budgeting, financial requirements are put up in relation to:

- Programs and outlay indicating the range of work to be done by each categorized agency.
- Object-wise classification showing objects of expenditure e.g. office establishment, etc., is usually shown in the conventional budgets.
- Sources of financing.

Conclusion

Performance budgeting was popularly used when U.S. Government gave it formal recognition. In India, however, during 1954 in Lok Sabha debates, the name of performance budgeting was first heard. Since then, performance budgets are prepared in Central Government Departments and public sector enterprise. The success or failure of performance budgeting depends on a well-established accounting system. The workers and employees of an organisation are not interested rather resist it for its introduction as they are to work hard and more. Performance budgeting is very helpful as well as useful in controlling and planning in those areas where there are scarce resources. It may be applied both in private sector and public sector undertakings. However, performance budgeting has certain limitations such as difficulty in classifying programs and activities, problems of evaluation of various schemes, etc. Moreover, the technique enables only quantitative evaluation scheme and sometimes the needed results cannot be measured.

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