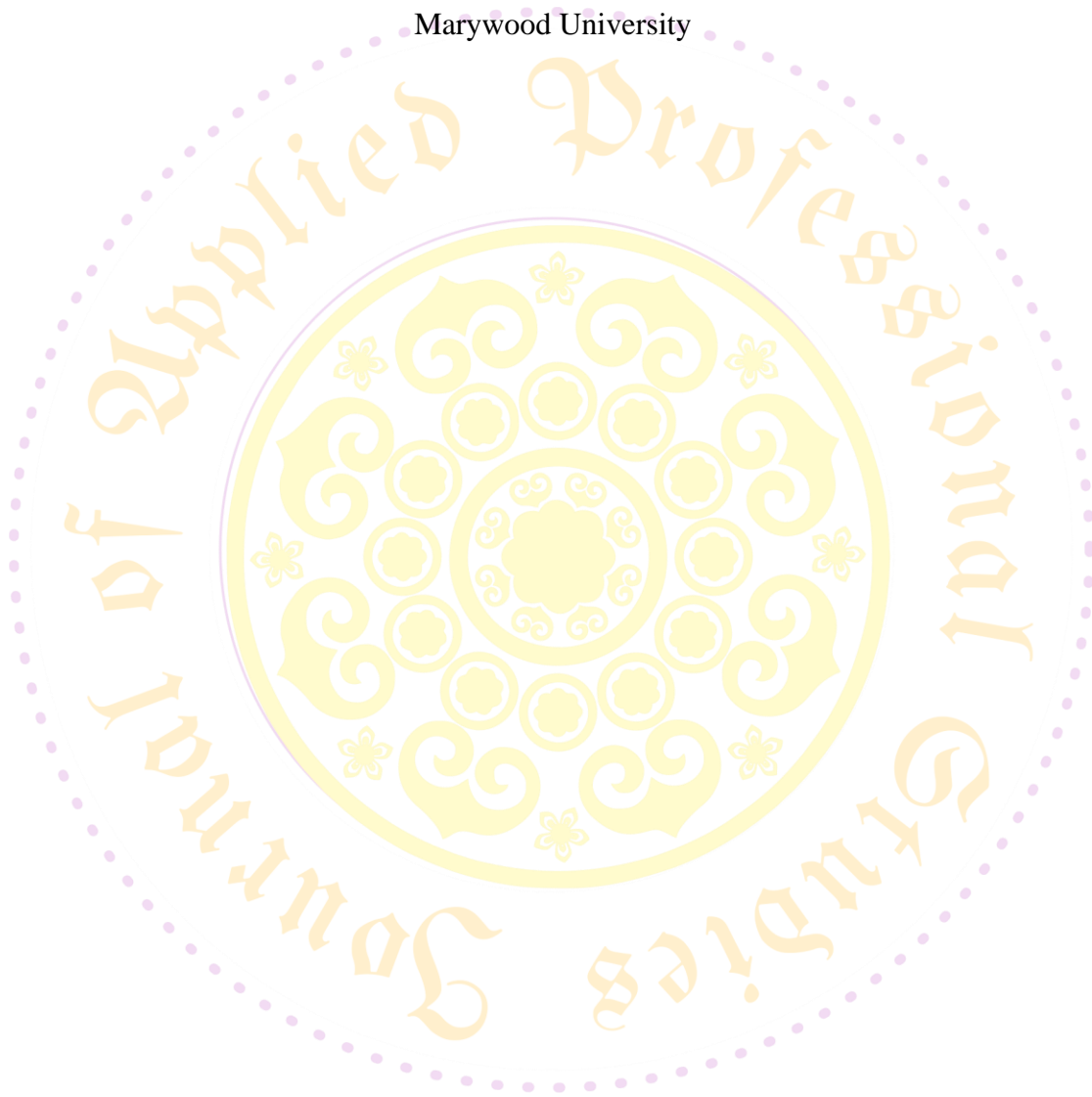


# Implementation and Effectiveness of Performance Based Budgeting

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### Abstract

Performance Based Budgeting is a popular budgeting method to manage public expenditure. Performance budgeting method aims to improve the performance for the desired outcomes. Various performance indicators help strengthen the budgeting processes. These indicators such as prioritization, transparency, accountability, efficiency and efficacy look promising to drive the outcomes. Therefore, organizations are drawn to use performance budgeting to elevate the standard of functioning through appropriate budget allocation.

Across the national and international context, performance budgeting has been implemented and the analysis supported by the empirical literature helps understand the effectiveness of this budgeting method. The analysis includes the studies consistent with the emerging themes from the literature review from the different countries in mostly governmental settings and some in the higher education systems. The results indicate the effective implementation of performance budgeting in some settings and some countries while it helps understand the gaps in others places. A robust performance budgeting method can yield positive results that are helpful in improving the budgetary decisions. Performance budgeting offers structure and it requires commitment for effectiveness. The various sectors that have implemented the performance budgeting identify the importance of accountability in managing expenditure for the best interest of the organization and the stakeholders. The examination of the empirical literature helps understand the concepts of performance budgeting, its implementation, its effectiveness and the limitations.

*Keywords:* Performance Based Budgeting, prioritization, efficiency, efficacy, transparency, accountability, budget cycle, expenditure, input, output, strategic planning, stakeholder, interest groups, incentives, leadership, implementation, effectiveness.

### Introduction

Performance Based Budgeting is a budgeting method for effective and efficient budgeting processes. Performance budgeting consists of various important aspects and approaches and it allows opportunities to measure these various aspects. The information from these measurements become key in management and resource allocation. In theory, implementing performance budgeting seems to help organizations reach higher standards of functioning. Therefore, it appears that organizations both in public sector and private sector will incline towards adopting this budgeting method.

This budgeting method claims to differ from traditional budgeting methods and has been in existence since the eighties in several countries. The United States is one of the pioneering countries to implement performance budgeting and other countries followed suit. Is the performance budgeting as effective as it seems? How significant is this budgeting method? Where has performance budgeting been implemented and for how long? In order to gain the

understanding about some of these key points, it is imperative first to understand what Performance Based Budgeting is and where explore where this budgeting method has been implemented. It is then necessary to understand the information about the results from the implementation of performance budgeting and its effectiveness.

This paper examines the pertinent information about what Performance Based Budgeting is, implementation of this budgeting methods in various sectors and its effectiveness. After a careful analysis from national and international empirical evidence based about the implementation and effectiveness of Performance Based Budgeting, conclusions are drawn along with the recommendations. The data from case studies to other scientific studies in government sectors and higher education are used in analysis.

### **Literature Review**

Budget and budgeting are integral parts of any public and private sector. Budgeting is about accounting and financial management. Budgets are prepared in anticipation of the expenditure in future; therefore, forecasting is necessary before constructing a budget. Budget's function is to identify and indicate tasks before implementing them. According to the Budget Directorate (2014) in Surianti and Dalimunthe (2015), budgets help organizations to “limit spending commensurate with reception, maintain balance and prevent excessive spending above the limits” (p.200).

Managing expenditure effectively and efficiently is important for which various budgeting methods can be used. Performance Based Budgeting is a budgeting method that complements effective and efficient budgeting processes. Performance is key in the success or failure of programs and organizations; therefore, measuring and managing the performance to influence the outcomes can be an important factor. Applying the notion of measuring and managing performance for budgeting signifies performance budgeting. The conclusions from the measurement are helpful in incorporating the necessary changes for successful outcomes in the future.

According to the International Monetary Fund, conceptualization of Performance Based Budgeting in the United States began in the 1950's after budget reforms. The year 1950/51 is the fiscal year in the United States that first highlighted the effects of performance budgeting. Some literature indicates that in the eighties, the pioneering countries of performance budgeting were the United States, New Zealand, Australia, Holland, Great Britain and Switzerland. Subsequently, France and Germany used performance budgeting and after the 2000, Russia was another country that also implemented this budgeting method (Manta, 2020).

Performance Based budgeting uses performance information for budgeting processes. It helps improve expenditure, prioritization, effectiveness, efficiency, transparency and accountability in budgeting. Robinson (2013) as cited in Allen et.al. defines performance budgeting as, “public sector funding mechanisms which use formal performance information to link funding to results (outputs and/or outcomes), with the aim of improving performance” (p. 238).

Performance budgeting requires clear indicators and targets that are measurable, which eventually helps in allocating resources for the desired outcomes. Monitoring, evaluating and reporting are

also integral parts of performance budgeting that help in understanding about the performance. A good understanding of performance results is needed for strategic and operational budgeting. This type of budget method allows a culture that is open to ongoing learning and improving. It also allows transparency by sharing information related to results from measurements and resource allocation and utilization, which helps enhance the budgeting process. A robust performance indicator is an important tool in performance budgeting and periodic review of performance evaluation is a good practice that helps generate the required information for performance budgeting (Linkedin, n.d.).

According to the World Bank, managing the results properly is integral to improve the performance. Therefore, strategic planning is necessary to identify what is important to measure and to legitimize those determining factors. Identifying the missions and goals of the government or organization is also important that contributes in performance. The principles of measuring and managing performance are also identified by the authors (Surianti and Dalimunthe, 2015).

According to the World Bank, performance budgeting helps the organizations to increase the efficiency of producing outputs. It also aids in the efficacy of outputs to achieve the outcomes. Transparency in the performance budgeting permits public trust and confidence because it offers a clear picture of the public fund. Accountability in the performance budgeting enables the public to have the information needed to ensure proper use of funds by the organizations. Efficiency in performance budgeting offers accuracy about the performance indicators. Results from performance indicators authorize policies based on the evidence and offer information about the connection between budgets and outcomes that will be helpful for future policies and programs (Manta, 2020).

According to Joyce and Sieg (2000) cited in Friyani and Hernando (2019), performance budgets are “a continuum that involves the availability and use of performance information at each of the various stages of the budget process – budget preparation, budget approval, budget execution, and audit evaluation” (p. 216). Effective performance budgeting consists of key aspects necessary for program management. It identifies the relationship between the value of money and results. Examining the evaluation of input sources and outcome measures is important to determine the effectiveness and efficiency of program implementation.

According to Bouckaert and Halligan (2008) in DeMeulenaere et.al. (2013), the Performance Based Budgeting must include indicators such as measurement, incorporation, and performance information to effectively manage performance. For the data collection, these steps are considered as a rational sequence to follow in the system for targeted results. Collecting data about the performance is for measurement. Data consisting of the procedures with directions for organizational discourse, culture, and memory are important to be incorporated for improvement. Finally, the performance information helps design policies for resources allocation, competence and accountability.

VanLandingham, et.al. (2005) in Surianti and Dalimunthe (2015) outlines the purpose of the performance budgeting into six steps. The first is defining mission and goals for improving accountability. The second is about evaluating performance for decisions related to planning and budgeting. The third is about shifting focus from input measures to increasing budget flexibility

for desired outcomes. The fourth is improving coordination for better flow of information to eliminate duplication of programs. The fifth is involving citizens in governance to get them more interested in outcomes than the process. The sixth and the last step is about developing incentives for the units to be more effective and efficient in performance.

Contemporary times and circumstances have made ways for budget reforms in introducing Performance Based Budgeting. Some government programs such as the Government Performance & Results Act (GPRA), the Service Efforts and Accomplishments (SEA) of the Governmental Accounting Standards Board (GASB, 1994), and the various other local and state government performance measurement programs consist of the data collection and outcomes reporting. The authors emphasize how these outcomes are the results, accomplishments and impacts of government programs. As has been identified in other literature, the authors also discuss the prominence of performance accountability in seeking to promote transparency and communication. For transparency, governments must allow the information for public knowledge. They should be as open and visible as possible to their stake-holders. For communication, governments should provide information in a language that stakeholders can understand so that they are better positioned to hold the government accountable. Transparency and communication are inseparable from the concept of performance accountability (Khan & Hildreth, 2002).

Performance budgeting if implemented consistently helps benefit the government to maintain their fiscal matters for a long time. For the successful development and implementation of the performance budgeting, the leaders have to foster the culture of learning and improving. The managers have to coordinate the programs well and the staff have to be trusting towards the organizational plans and systems. Measurement of performance is a challenging process; therefore, results from the measurements should be used as an information for improvement rather than using the information for punishing underperforming units (Lu and Willoughby, 2012).

Gilmour and Lewis, (2006) raises an important question in regard to the performance information resulting from the Performance Based Budgeting. Something to think about is if certain programs result in poor performance, should those programs receive a budget cut or should the budgets be increased so that the programs can perform better?

The fact that performance budgeting produces results about performance is attractive to socio-economic-political forces. The public and policy makers are attracted to the idea that they can receive information that arms them with the knowledge about what is needed and what decisions to make for programs and procedures. Much like other authors, the authors in this chapter also acknowledge the complexities of measuring performance budgeting and the suggestion is to focus on the end goals rather than focusing on completing tasks (Caldwell and Anderson, 2021).

The authors discuss the possibilities of policy makers choosing to use performance information more for accountability than for budgetary decisions. They acknowledge the complexities of the performance measurement and they emphasize the need to implement a broader framework for measurement. Due to the lack of expertise, the policy makers may choose to use informal information rather than the formal information and may not use the performance information adequately for decision making (DeMeulenaere et.al., 2013).

Performance Based Budgeting seems to be a popular budgeting instrument in the public sector. Although in the United States, implementation of performance budgeting has been limited, other countries around the world have used performance budgeting in their governments successfully and or are continuing to use this budget method. Australian public administration uses performance budgeting's accountability focusing on the effects of policies. Sweden uses it to improve the quality of public managers. Denmark and New Zealand also use performance management to improve accountability in the government systems. Since 1990, Chile integrated performance information into the budgetary process and has been using this information efficiently. Thailand started using performance budgeting in 2001. In the United States, the budget process was not significantly reformed although some improvements were made. In 1993, both the Government Performance and Results Act (GPRA) and the National Performance Review (NPR) introduced performance budgeting as an alternative. The GPRA targeted to increase effectiveness and efficiency of the government by converting the budgetary process from an input-oriented system into a results-oriented system (Manta, 2020).

Ho (2020) in DeMeulenaere et.al. (2013) cites that the performance budgeting in the United States has been adopted by only smaller cities and counties since the 1980s. Although it has been identified as an essential budgeting method, only 37% of smaller cities and 8% of smaller counties have included it in practice. Only 22% of smaller cities and 6% of smaller counties have used the performance information for policy and fiscal matters and only 30% of smaller cities and 5% of smaller counties have been measuring performance over time and reporting outcomes related to the target performance.

In France, Performance Based Budgeting is officially named as the activity-based budgeting and they have implemented it since 2020 in their public sector. Through this method of budgeting, the ministries in France aim is to decrease bureaucracy and cost, and increase higher quality of services. The idea of strategic planning through well-coordinated efforts between organizations and programs seems to be the goal (Ministry of France, 2024).

In the Netherland, their ministries use performance budgeting evaluation tools that are less intensive with low incentives because of the fear of exposing the unintended or inadequate functioning of the government. Incorporating a budget cycle is important as it allows a certain time frame for data collection after having implemented ideas and over a period of time to narrow the window of error. For example, in Canada, the budget cycle covers multiple years of five years. In addition, evaluations of performance budgeting in some countries as in the United Kingdom, Netherland and Canada indicate that they use a selective approach to measure the performance for more meaningful results that are reasonable and feasible (Shaw, 2016).

Budgeting cycle in any organization whether in a private sector or in a public sector is an important phase. Without proper allocation of funding, organizational structure and functioning can derail. The performance approach of the performance budgeting can offer information that can aid in budgeting processes for desired outcomes related to maximizing benefits and minimizing costs. The government sectors in Indonesia adopted performance budgeting requiring the units to present explicit information about performance indicators. Their idea behind the adoption of this budgeting method is that the government is responsible for managing public expenditure; therefore, they must

have performance indicators for improvement which will be in the best interest of the public. Performance budgeting can provide the structure needed to meet the benchmarks (Tjoke, 2020).

In China, it has only been ten years since the implementation of performance budgeting by some public Universities to account for the performance measures. They believe performance budgeting is a rational approach towards understanding the implications in the decision-making processes. Performance budgeting can improve expenditure efficiency. Evaluation reports from the performance budgeting is believed to help in having a clear direction towards the goals; it also helps in eliminating uncertainties (He and Ismail, 2023).

Performance budgeting allows flexibility in management. It has the record of improving productivity in sectors across the international context. This budgeting method offers components that the budget experts like such as structure and transparency. It has various models that allows the inclusion of changes, technology, newer administration approaches for management to improve productivity. In some sectors, implementation of performance budgeting has resulted in acknowledging the institutional problems by lowering the resistance to change (Erkutlu et.al., 2017).

The government sectors involve both the political and technical aspects. These aspects are influenced by the economic environment, public views, government branches, interest groups, the press and the politicians. Whether the economic environment is favorable or unfavorable, usually tax payers do not want to pay more money. Therefore, the government sector is constantly under pressure to improve performance. In the public sector, the government faces a lot of pressure about the public expenditure; therefore, particular attention has to be given to improving performance to produce quality services. Performance budgeting helps change the focus of the budget, management, and accountability from the traditional input-oriented approaches to output/results-oriented approaches (Surianti and Dalimunthe, 2015).

Ho (2010) in DeMeulenaere et.al. (2013) cites that there are several factors that contribute to the success of performance budgeting practice. The contributing factors are leadership support, organizational capacity, administrative capacity, stakeholder involvement in setting priorities and performance goals. Performance Based Budgeting also plays a vital role in maintaining a constant communication between budgeters and stakeholders. Administrative capacities include strategic planning, performance analysis, cost analysis, program budget analysis and communication with the public.

The performance budgeting offers the shift from the traditional bureaucratic way of functioning focused on the input. Instead, this budgeting method aligns with the contemporary time with the emphasis on improved organizational functioning, flexibility and accountability. Involving citizens in the governance and incentivizing the actors for improved performance also elevate the chances of the attraction towards this budgeting method (Surianti and Dalimunthe, 2015).

The disappointing performance of the public sectors seem to be the driving force to want to adopt the performance budgeting method in the hopes to shift the priorities and improve the performance standards. The underperformance of the public sectors is usually attributed to the lack of competitive market. The information from the performance measurement helps understand the

productivity that is useful in making budgetary decisions especially in the areas where spending cuts can be justified. Using the performance measurement gives a formal direction for the public expenditure management (Robinson and Brumby, 2005).

Performance budgeting has been referenced by different authors using different terms such as outcome budgeting and result oriented budgeting involving elements like zero based budgeting. Performance budgeting method is recognized for helping with distribution of resources based on the results from the precise measurement of the performances. Performance monitoring is an important tool of this budgeting method. This budgeting also allows decentralizing the methods and through a strategic planning, performance targets can be designed based on the needs of the units. Strategic planning should also include other important elements such as agreed upon goals and objectives and a committed leadership (Habiburrochman and Rizki, 2020).

Performance budgeting is expected to help manage public expenditure effectively, which ultimately optimizes the public welfare. Goal setting framework is essential to drive performances a certain way particularly in the context of the public sector. Like in other literatures, the authors reiterate that the significance of performance budgeting lies in improved performance due to the transparency and accountability factors. Both budget planning and budget reporting are important aspects for accountability. Due to the significant factors associated with the performance-based budgeting, the public sectors in Indonesia were in favor of adopting this budgeting method (Friyani and Hernando, 2019).

Performance budgeting involves elements that can be instrumental in policy decisions. The public sectors can use the structure, planning and measures to ensure productivity and accountability. These elements are attractive for organizations to adopt in the hopes of efficiency and effectiveness of performance and other outcomes. A structured framework of performance budgeting is key in achieving the desired outcomes. Evaluation and reporting are essential for accountability. Several research studies show the effectiveness of performance-based budgeting in public sectors while there are studies that show this budgeting method did not influence the performance accountability (Suriani, 2015).

Kurniawan (2009) cites in Suriani (2015) about the performance-based budgeting that it “is a method of budgeting for management to associate each funding as outlined in the activities with outputs and expected results, including efficiency in the achievement of these outputs.” (p.9). Bastain (2006) cites in Suriani (2015) that “performance-based budgeting is basically an organization system of output oriented budgeting and closely linked to the vision, mission and strategic plan of the organization” (p.9).

While diverse definition of the performance based budgeting encompasses wide framework and flexibility, the methodological difficulties due to the complexities involved with the performance budgeting cannot be denied. This may impact the assessment of the performances ultimately affecting the policy decisions. The success of the performance budgeting cannot be attributed only to the technical aspects because budgetary decisions in the public sector is often influenced by the political environment, political culture and the economic environment (Robinson and Brumby, 2005).



The notion that the performance budgeting uses the linking approach only from the past performance for the current funding is a misconception because there is no such established rule; using information from the past is just an acceptable approach. Another misconception is that the performance budgeting is just associated with incentivizing for better performance. In some cases, performance budgeting is used for changes which are necessary to shift from the traditional budgeting methods (Robinson and Brumby, 2005).

Overall, there is enough literature to suggest the significance of performance budgeting especially in the public sectors in the international context. Several literatures identify the adoption of this budgeting method by countries in Europe, Asia, Canada and even in the United States. Implementation over a period of time about this budgeting method shows the government's commitment to improve productivity and accountability. The push and pull effects of performance budgeting is evidenced in the literature.

### **Analysis**

One of the obvious themes that performance budgeting is implemented more consistently in the international context is supported by this study. The comparative analysis using The Organization for Economic Cooperation and Development (OECD) survey to evaluate the performance budgeting in the federal level of the OECD countries show Belgium scoring the lowest in comparison to some other countries such as Norway, Italy and so forth (DeMeulenaere et.al., 2013).

Several literatures suggest that the performance information is helpful in designing policies and programs, but it does not necessarily influence budgeting. This narrative is supported by a quantitative analysis on the performance budgeting assessment in Belgium and in Italy, which shows a higher level of incorporation of performance information in budgeting and the implementation of the budget cycle; both of which were over 50%. On the other hand, the results show a lower rate of actually using the performance information in budgeting which was well below the fifty percent and was at the rate of 37%. Another important indicator was that the use of performance targets did not influence the budgetary decisions (DeMeulenaere et.al., 2013).

A collection of the systematic review from different studies on the Indonesian government's implementation of the performance budgeting do not yield a favorable result. Indonesian government's performance budgeting methods use the relationship between funding and outputs and then show the results related to achieving the targeted goals. Despite the literature showing the importance and the benefits of performance budgeting, in Indonesia, various studies show that the implementation of performance budgeting focuses on only fulfilling the formal and legal aspects and does not consider the other important aspects of Performance Based Budgeting. Performance budgeting is implemented using basic designs as opposed to robust methods. Research results also indicate that there are human resources issues in the Indonesian government particularly in local governments, which seems like a major issue. The failure of the performance budgeting in various government sectors in Indonesia points to the lack of adequate understanding about the budgeting method by those who implement it and those who participate (Surianti and Dalimunthe, 2015). This study supports the importance of education, training and commitment from leadership for successful performance budgeting.

Another study done in a University setting in Indonesia shows that the idealism of the performance budgeting is not achieved. Several mistakes are identified in the measurement, evaluation and reporting. Some causes that contribute to the problems are communication that is too comprehensive, a computerized application system, system designed for rewards and consequences and work ethics as Wydiantoro (2009) cites in Surianti and Dalimunthe (2015). The results from this study is consistent with the complexities of performance budgeting identified by several scholars and failure to have a comprehensive understanding will result in the undesired results from performance budgeting.

A qualitative method of study in Indonesia's immigration sector, shows the same results as in the case of higher education. The data was collected for this study using purposive sampling consisting of twelve respondents. Similar to the University setting about the implementation of performance budgeting, immigration office also does not achieve the positive experience of performance budgeting due to the mindset of the use of traditional budgeting methods; issues related to human resources were also identified as factors contributing to the implementation of performance budgeting (Gusti, et. al., 2016). Again, in this case, there seems to be a lack of adequate investment by the government to help people understand about performance budgeting that resulted in people being stuck with traditional budgeting methods.

On the other hand, due to the government's commitment and consistency, another study using the path analysis on the implementation of the Performance Based Budgeting in Indonesia's government sectors in an Indonesian province of Gorontalo shows the positive effects of this budgeting method. The study points to the improved accountability of government agencies. Performance budgeting used tools such as performance contracts, rewards and punishments and other internal/external controls (Tjoke, 2020). The tools used in this study are consistent with the discussion in the literature about its benefits.

A subjective analysis of survey and case studies conducted in the United States during 1990 – 2000 shows a very low number of 7.5% of executive and legislative officials believe the effectiveness of performance measures in the budgeting processes. However, larger number of local officials, 60% of city managers believe performance budgeting brought moderate to substantial changes in the city budget allocations. Comparatively, local officials show positive response about the use of performance budgeting for budget appropriations than the state officials. The local officials report about the improved effectiveness and efficiency in the programs and services with the use of the performance measures (Robinson and Brumby, 2005). This study is consistent with the literature that shows that performance budgeting supports decentralizing approaches.

Another emerging theme in the literature that qualified people and those with direct association with performance budgeting show positive attitude towards learning and growing and consistent with this study from China. Some Universities have used performance budgeting approaches to understand the roles of staff capacity amidst the growing demands for management. The study consisting of 271 participants used an online survey and a purposive sampling reveals having qualified staff results in a positive relationship with the performance budgeting. An indirect effect of performance budgeting in Chinese Universities is identified in which the qualified staff are open to learning and improving; however, implementing performance budgeting does not necessarily have an impact on the Universities' functioning (He and Ismail, 2023).

In Turkey, a questionnaire was used to collect the data from 385 respondents in the public sector about performance budgeting. The results show the difference in perception between male and female participants. Comparatively, female participants agreed less that their perception about performance budgeting was insufficient. Another interesting difference was noted in terms of educational background of the participants. Comparatively, people with doctorate degree felt that the implementation of performance budgeting in Turkey's public sector was sufficient while those with undergraduate and master's degree felt that the implementation of performance budgeting was insufficient. Another key finding was the difference of opinion based on those responsible directly with performance budgeting versus those who had indirect responsibilities. Those with direct responsibilities showed more understanding about the importance of performance budgeting (Erkutlu et al., 2017). This study helps understand the importance of the variables behind the perceptions about performance budgeting. The information from this study is also consistent with the importance of providing training and education to people that several literatures pointed out.

A study using a purposive sampling among sixty people in a local government in the Jambi City of Indonesia show the determinants of the effectiveness of performance budgeting. The indicators of the effectiveness were attributed to education, training and a good understanding about the significance of performance budgeting (Friyani and Hernando, 2019). Therefore, this study signifies the importance of leadership's understanding and commitment towards the success of the performance budgeting.

Another study using a questionnaire with 100 respondents in the government sector of Wajo in Indonesia shows positive effects of performance budgeting. The results show better budget planning resulted in better outcomes. Therefore, conclusions were drawn that the strategic planning framework is essential for performance accountability (Surani, 2015).

### **Recommendations**

Literature and findings related to the implementation and effectiveness of the performance budgeting in the United States is limited. Therefore, more studies can look into the disconnect between the emerging contemporary concepts at the onset of the performance budgeting and the gaps in the implementation. Another area of the study can explore why despite pioneering the performance budgeting, the United States has veered away from it while other countries are continuing to use performance budgeting in various sectors.

Literature in performance budgeting can use clarity. There seems to be various frameworks such as output budgeting, casemix funding, performance measures, incentives for performance to name a few. These various concepts and framework within the performance budgeting are complex and are confusing when examining the concrete concepts used for analyzing about the performance budgeting. The literature can look into first specifying these concepts; then further the examination about the significance of each of these concepts within the performance budgeting. In addition, whether one indicator is better than the other can be helpful in developing a deeper understanding about the various models and framework in performance budgeting.

The literature also lacks information on the specific performance indicators within the performance budgeting framework. It will be interesting to find out if it is because the findings show that the

government sectors are unwilling to focus on performance indicators due to the fear of public knowledge about poor performances. Another area to explore is alternatives for government sectors to use performance measurements without having to ignore the poor performance indicators.

Although there seems to be more literature on the government sectors using performance budgeting, it will be worth looking into the comparative analysis between the performance budgeting implementation in government and private sectors. Due to the complexities of the performance budgeting framework, it appears that implementing this method takes time. Similarly, measuring the implementation of this method also takes time. Future research can focus on the effects of timeline in the effectiveness of this budgeting method. There is not enough literature to suggest the long-term or short-term effects of the performance budgeting; a study in this area perhaps may be beneficial for the budget experts and the organizational leaders to know for implementation purposes.

From the studies it appears that a strong government and a strong commitment from the leadership about performance budgeting are key in the success of performance budgeting. It will be worth exploring if the areas where government has a strong hold has more success with performance budgeting than in other places. Could the lack of much implementation of performance budgeting in the United States be attributed to the separation of power in our government?

The success of the performance budgeting is attributed to the education and training on the part of both the leaders and the participants. It is imperative that the policy makers commit to educating and training people about performance budgeting prior to implementing it to accurately measure the effectiveness. They must also be strategic in their ideas as it involves the feedback from the stakeholders.

Using rewards and punishments for improved performance is within the framework of the performance budgeting. While the rewards may have resulted in positive performance; it is unclear about the effects of punishments. This area must be discussed for clarification. The policy makers must ensure using punishments within the reasonable means that do not cause any significant harm to the individuals. The rewards and punishments should be used for professional growth rather than for punitive intentions.

## **Summary**

Performance Based budgeting is about managerial control that helps in directing performances in specific ways aiming for targeted goals. Performance budgeting allows the decision makers to use the performance data that aids in strategic decision making to allocate resources. This type of budgeting helps in better decision making and yields improved outcomes. This type of budgeting method is more common in public sectors in the international context. Most authors acknowledge the popular aspects of performance budgeting as prioritization, effectiveness, efficiency, transparency and accountability; therefore, government sectors tend to use this budgeting method to improve outcomes. The government sectors are more inclined to use this budgeting method due to the pressure from the socio-economic-political climate that consists of opinions from the taxpayers to politicians to the media. From the performance information, the public is empowered

to hold the public officials accountable. At the same time, there seems to be a discrepancy in how the governments use performance budgeting data depending upon the unpopular results and or criticisms that may affect the government's image. The governments may use selective measures to shield the unintended results.

It appears that performance budgeting has been more widely used in the government sectors internationally than in the United States. Performance budget's purpose of managerial control involves strategic planning. The strategic planning allows focusing on the preparation of plans and programs based on the goals and welfare of the people because the government is responsible for the allocation of resources. Performance budgeting's method of measuring the performance helps understand both the long-term and short-term effectiveness of funding and resources.

On the other hand, there are studies showing the implementation of performance budgeting in higher education settings. In Indonesia's one of the Universities, the study shows lack of effectiveness due to reasons such as lack of robust planning and instruments to measure the performance. Similarly, immigration office in Indonesia also experiences the same fate upon the implementation of the performance budgeting.

From the literature review, it is fair to say that Performance Based Budgeting involves an important instrument to measure performance that can aid in improved performance within the organizations in both the public and private sectors. Performance based budgeting, while considered to be robust consisting of important methods is not perfect and has limitations. It appears that performance budgeting consists of so many important aspects and approaches; therefore, measuring and managing performance can become complex.

The processes involved can be lengthy and time consuming and it also can be costly on the part of the organizations to implement the performance budgeting methods. If the objectives are unclear, it can produce unintended results, which will be counterintuitive in budgeting processes. Unintended results can be easily overlooked, which will undermine the measurement indicators. Performance budgeting can be viewed as lacking flexibility and innovation due to the focus on measuring performance based on rigid indicators and targets. It can undervalue qualitative outcomes due to the focus on quantifying the information. Finally, lack of accurate implementation of the measurement indicators can produce inaccurate results.

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