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Priority-Based-Budgeting: A Debacle in a Mono – Cultural Economy

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Abstract

Objectives: The contention of this paper is to highlight the difficulties in implementation of priority-based-budgeting in a mono-cultural economies of the third world countries. To device a means by which the budgetary system could be applied meaningfully and advantageously, linking the conventional/traditional methodology to the neo-supra system. To highlight outstanding advantages of priority-based-budgeting, when cautiously applied and strictly adhered by its norms. It is a neolithic advent of budgeting implementation.

Method/Approach: Priority-based-budgeting is a non-conventional budgetary implementation, hence, its data collection is marred by myopic tendency of the budget segment of the concerned organization. Data procurement has been a stumbling block due to unfamiliarity of the system to the public sector as well as private segment of the economy. A structured questionnaire was adopted to harness the concept of priority-based-budgeting as a focus to the respondents. Online discussions were carried out on a lesser scale particularly with the closely affiliated individuals in some subsections of the government and organizations as a whole. Many key-stakeholders in private institutions were highly fascinated with the concept and were wiling to furnish their available information regarding the progress of the investigation.

Findings: A conventional budgetary system is a tailor made adaptability due to its recurring methodology, recycling its application with little or no adjustments. A non-convention budgetary implementation (priority-based-budgeting), is a Neolithic budgetary implementation which does not take into consideration the previous trend of activity. A method of budgeting

whereby all activities are re-evaluated each time a budget is set. Discrete levels of each activity is valued and a combination is chosen to match funds available. It is ac challenging approach.

Originality/Value: The meritorious advantage of priority-based-budgeting is its challenging approach. It is a decision oriented approach, rather than accounting oriented approach. Decision packages are ranked in order of priority which are designed to reflect the organizational preferential objectives.

Keywords: Conventional, non-conventional, re-valued, discrete-levels, decision-packages, challenging-approach, accounting-oriented, decision-oriented, unfamiliarity, neolithic, neo-supra-system.

Introduction: Priority-Based-Budgeting reverses the working process of conventional budgetary implementation. A conventional budgetary implementation starts with previous year's expenditure level as a base and then discussion is focused to determine the **Cuts** and **Additions.** In priority-based-budgeting, no reference is made to previous level of expenditure. A convincing case is made for each decision unit to justify the budget allocation for that unit during the budget period. Each decision unit is subject to thorough analysis to determine the relative priorities between different items included in the budget.

Paleolithic Review: Priority-based-budgeting is not a new technique of budgetary planning and decision making approach, but it is a challenging technique. The concept of priority-based-budgeting has been known to business world for quite number of years, but gained world-wide eminence after Peter Pyhr used it in **Texas Instrument Inc,** a U.S based computer and electronic manufacturing company.

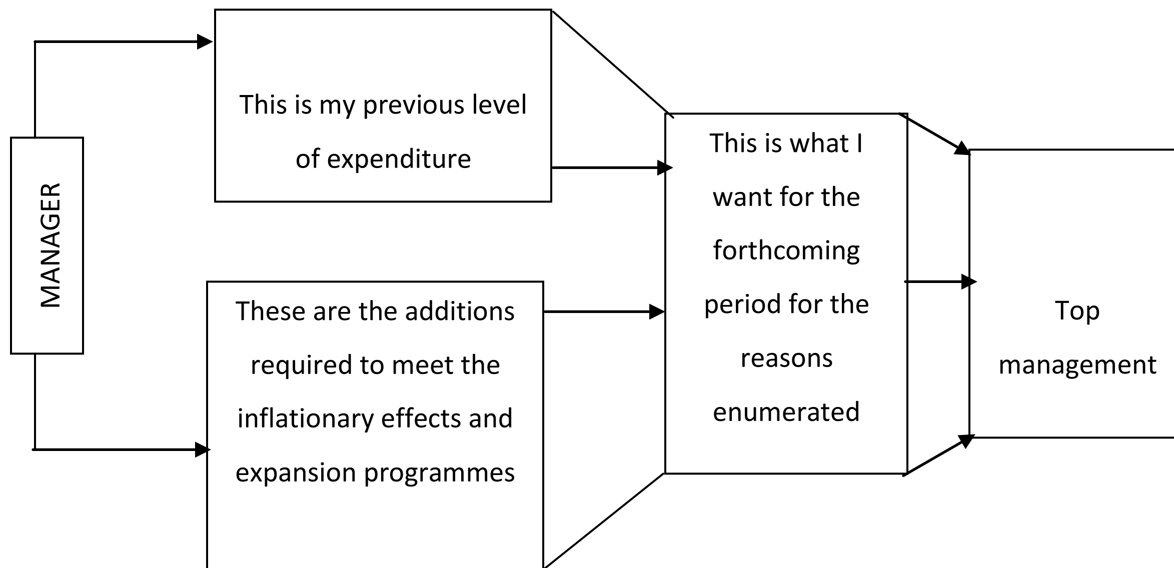
The president of United States, Jimmy Carter, also reposed a good deal of interest in its concept. The technique was successfully applied in the state budget of **Georgia.** The technique got off to a good start all over the world after passing a test of **infancy** in United States of America.

Adaptability: Priority-Based-Budgeting is a technique by which a manager of each decision unit is to justify his entire budget request in complete detail with a zero-base. The manager of the decision unit has to isolate each item of his budget expenditure in order to analyze it in a separate decision packages, which are ranked in order of priority.

Priority-Based-Budgeting is completely indifferent to whether total budget is increasing or decreasing. What it does is to identify alternatives, so that if more fund is required to be spent in one department, it may be saved in another unit. CIMA has defined Priority-Based-Budgeting "As a method of budgeting whereby all activities are re-valued each time a budget is prepared. Discrete levels of each activity are valued and a combination chosen to match funds available. Manager of a decision unit has to completely justify why there should be at all any budget allocation for this decision unit. This justification is made a fresh without making reference to previous levels of spending in his department. Activities are identified in decision packages.

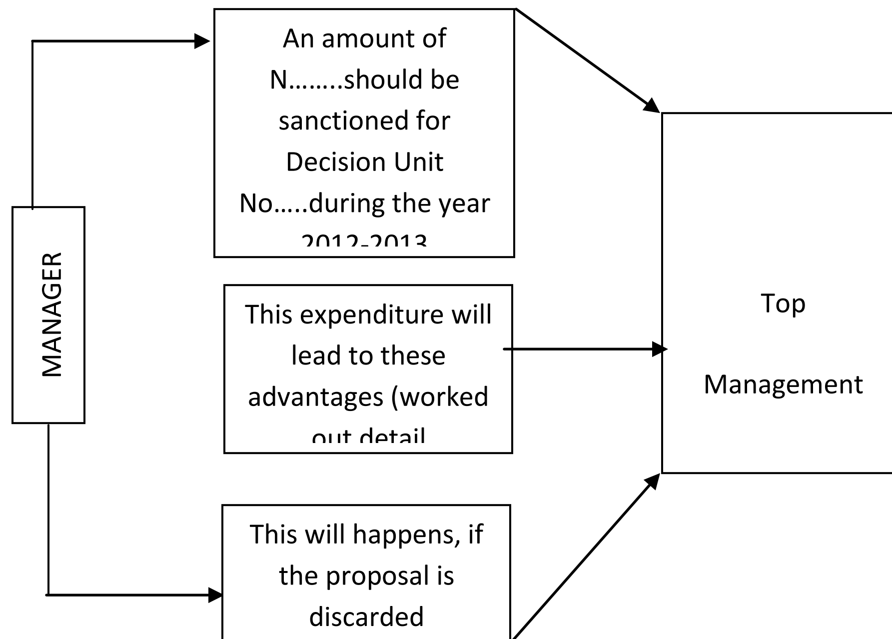
Decision packages are ranked in order of priority. Then the packages are evaluated by systematic analysis. Under this approach there exist a frank relationship between the superior and the subordinates. Management then concord to fund for a specified service and manager of each decision unit clearly accepts to deliver the service. Decision packages are linked with corporate objectives, which are clearly laid down. Available resources are then directed towards alternatives in order of priority to ensure optimum results.

Fig. Conventional Budgeting Structure (Functional/Departmental Budgeting)



Source: Based on Conceptual Philosophy of the researcher

Fig II: Non-Conventional Budgeting Structure (Priority-Based-Budgeting)



Source: Based on Conceptual Philosophy of the researcher

Basis of PBB: The conceptual framework of Priority-Based-Budgeting is primarily focused on:

- Development of decision units.
- Identification of decision packages.
- Ranking decision packages

Development of Decision Units: Under this process, an organization is segmented into decision units.

The manager of each decision unit justifies the relative budget proposal. The decision the following point wise:

- Product trend.
- Market segments.
- Customer grouping.
- Geographical territories.
- Capital project proposals

Identification of Decision Packages: A manager has to break-down his decision unit into smaller decision packages. The top-management may decide the minimum organizational scope required for developing decision packages. A decision package is a document that distinctively identifies a function, operation or an activity. A decision package is evolved with reference to a particular circumstance. A decision package must posses the elements:

- Basic identification of data ie programme number, date and brief description of programme goal.
- Feasibility assessment ie the economic benefits of attempting the programme and the risk involved in discarding the programme.
- Alternative course of action for attempting the programme.
- The decision unit should specify the intangible benefits ie benefits which cannot be identified.

Ranking Decision Packages: Ranking the decision packages, a company will be able to weed out a lot of marginal efforts. The scarce resources of the organization should be directed to most promising lines of activity. Ranking implies determining the priorities among the available decision packages. Ranking decision packages is an important exercise and should be attempted by those who has the required knowledge and experience. Initial ranking is conducted sectional-wise by manager and reviewed by the budgetary committee, with the departmental functional heads. A decision package is ranked keeping in view the points:
- Necessity of introducing programmes.
- Technical competence of the organization for attempting the programmes.
- Economic-benefit-analysis relating to the programmes.
- Operational feasibility of introducing programmes.
- Study of risk involved in abandoning the programme.

Benefit of PBB: A wise executive manager should not have faith in efforts approved in the past, when reasons for that approval is no-longer exist. Priority-based-budgeting emphasis that all spending in an organization should be challenged. This process will highlight very useful facts of great importance to management. PBB drives the managers to innovate. Under the process of PBB, any manager going to put forth a budget proposal automatically must ask himself the following basic questions:
- What are the alternative ways for the accomplishment of this objective?
- Is the budget proposal technically and economically viable?
- What will happen if proposal is discarded?

PBB is a very healthy process that promotes self-searching among the mangers. It is used with the object of finding out most useful alternatives for available resources of the organization. Under this technique the managers with ability to innovate, analyze and synthesis are able to make successful claims. The subsidiary benefits of priority-based-budgeting includes:
- All proposals, old and new complete equally for scarce resources.
- This technique drives managers to find out cost effective ways to improve operations.
- It requires less paper work as compared to conventional budgetary implementation because the proposal goes from grass-root to top management. It avoids successive appraisals at various levels of management.
- It detects deliberately inflated budget requests.
- It identifies complete impact of spending on a particular project.
- PBB is an effective managerial technique, which seeks to find out best alternatives for available organizational resources by a disciplined and analytical approach.

Steps Involved in the Introduction of PBB

- Corporate objectives should be established and clearly laid-down in details.
- Decision units should be identified by segregating the organization according to functional activities/operations for detailed analysis.
- An analysis and documentation of each decision unit should be done by a responsible manager of the decision unit keeping the following points in view:
- Current operations of decision units should be identified and linked with organizational objectives
- Alternatives to meet the target should be expressed.
- Best alternative should be selected and efforts required to accomplish the alternative should be documented.
- “Decision units” should be splited into decision packages, ranked in order of priority.
- A designated responsible budget staff should compile operating expenses for packages approved by functional departmental heads.

Dichotomy-Conventional Versus PBB

Conventional budgetary implementation is accounting oriented. Its main emphases happen to be on previous level of expenditure. Priority-based-budgetary implementation makes a decision oriented approach. It is very rational in nature and requires all programmes, old and new to compete for the scarce resources of the organization. In conventional budgeting, reference is made to paid level of spending and demand is made for inflation and new programmes. Whereas, in PBB, a decision unit is broken into fully understandable decision packages which are ranked according to priority to enable top management to focuses its attention only on decision packages which enjoy priority to others. In conventional budgeting, managers deliberately inflate their budget requests so that after the **cuts,** they still get what they want. In PBB, a rational analysis of budget proposals are attempted. The managers who necessarily inflate the budget requests are likely to be caught and exposed. Management accords its approval to those carefully devised result-oriented package. In conventional budgeting, it is for the top management to decide why a particular amount should be spent on a particular decision unit. In non-conventional budgeting (priority-based-budgeting), the responsibility is shifted from top management to the manager of the decision unit. Traditional budgeting makes a routine approach. PBB makes a very straight-forwarded approach and immediately spotlights the decision packages enjoying priority over others.

PBB: Adaptability in a Mono-Economy

The adaptability of “Priority-based-budgeting” in a mono-economy is virtually on theoretical frame-work, merred by absolute dependent on foreign investment and technological transfer with less or no indigenous industrial capacity development. Nigeria is said to be goldmine of foreign investment in Africa. This is because, its estimated stock of foreign investment is

approximated to be 2.5 trillion (US) dollars or about 40% of all foreign investment in Africa Nigeria is said to be the (5th) fifth most important foreign investment nation in the underdeveloped world after Brazil, Venezuela, Mexico and Argentina. In mono-cultural economies, "Priority-Based-Budgeting" is merely on theoretical approach due to over dependent on foreign investment and their host country oriented management tendency. All the parent companies do not intend to affiliate and adapt in any way the local management conditions to suit the changing environment and the inherent challenges. Priority-Based-Budgeting is decision oriented, hence a challenging technique to the decision unit managers. Its advantage is mostly visualized in manufacturing environment rather than in mono-economic system. Where technological development is barely at its infantry stage. In a static economy, effort is directed towards consumer effect which is the end-product of mono-economic system.

PBB: Parental Hybrid of Responsibility Accounting

Responsibility accounting is the By-Product of Priority-Based-Budgeting, which emphasizes the division of an organization into subunits in such away that each sub-unit is the responsibility of an individual manager.

This approach recognizes course and effect relationship between a manger's decisions and actions and it seeks to relate the cost and revenue results of these decisions and actions. The basic premise of this approach is that a manager is held responsible for those activities which are under his direct control. This approach is used exclusively to assist management in planning and controlling the organizational activities effectively and efficiently.

Pre-Requisites for Implementation of Responsibility Accounting

- The area of responsibility and authority of each centre (decision unit) is well defined usually in the organizational chart.
- Each responsibility centre has a clear set of goals for the manager.
- The revenues, expenses, profits and investments that are controllable by the manager of a responsibility centre should be included in the performance report of the centre.
- Performance reports for each responsibility centre should be prepared to highlight variances, the items requiring management's attention.
- The manager of each responsibility centre should participate in the establishing the goals that are to be used in measuring his performance limits.

A manager's total performance depends on a variety of measures such as quality control and morale of workers in addition to financial performance. The concept of responsibility centre (decision unit) applies only to the financial performance of a manager should be measured by how well controllable factors are managed. All inputs and outputs are expressed in monetary terms as far as possible.

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Responsibility centre (decision unit) is a unit of function of an organization which is headed by a manager having direct responsibility for its performance. Five types of responsibility centres/decision units can be established for management control-cost, expenses, revenue, profit and investment.

Cost Centre: It is a segment of activity, area of responsibility for which costs area accumulated. Responsibility in a cost centre is restricted to costs alone. A segment of the organization that provides tangible or intangible services to departments. In a manufacturing environment, all production centres service centres are equally considered to be separate cost centres.

Revenue Centre: The revenue centre is segment of activity or area of responsibility for which only revenues are accumulated. The primary responsibility of generating sales revenue lies on the revenue manager. He has no control over the investment in assets or the cost of manufacturing a product, but can influence the cost/expenses of marketing the product.

Profit Centre: A profit centre is a segment of activity or area of responsibility for which both revenues and costs are accumulated. Most responsibility centres are viewed as profit centres, taking the difference between revenues and expenses as profit. The main objective of the centre is to maximize the centre’s profitability.

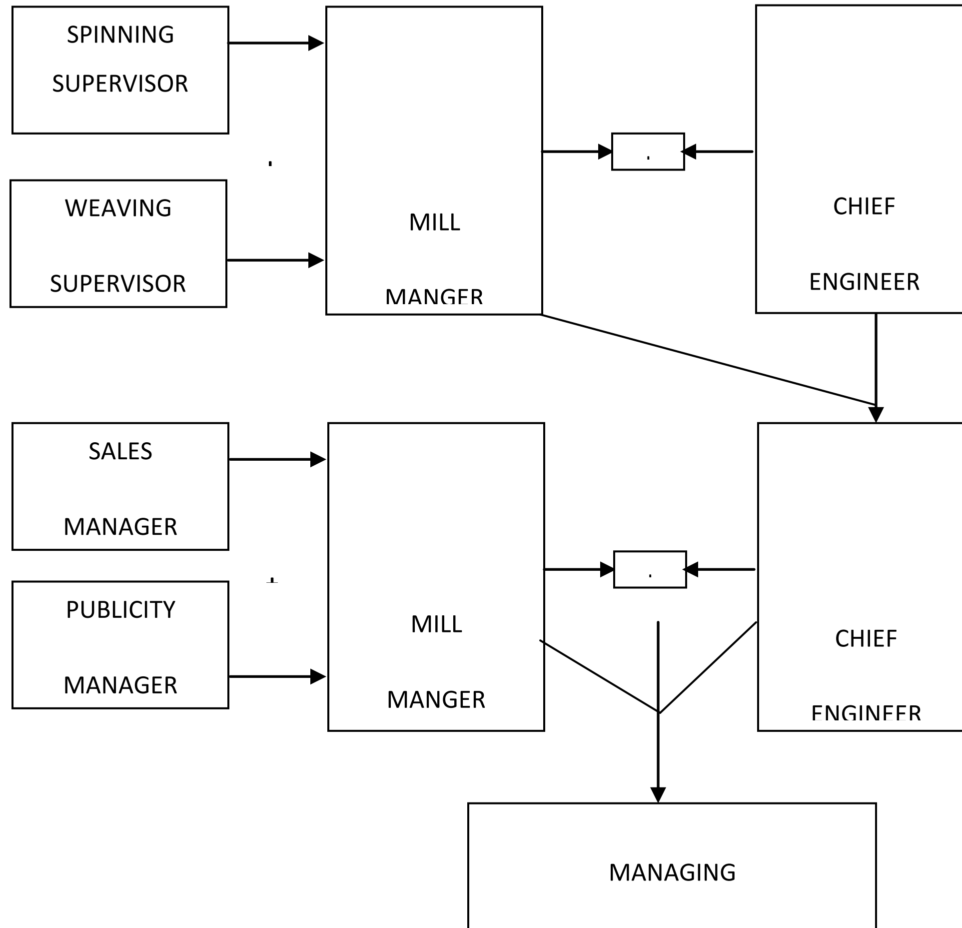
Investment Centre: It is a segment of activity responsible for both profits and investment. For planning purposes, the budget estimate is a measure of rate of return on investment. For control purposes, performance evaluation is guided by a return on investment variance. The objective function of an investment centre is to maximize the centre’s return on investment.

Data Exhibition 1: Responsibility Accounting a Micro-View in Priority-Based-Budgeting
Texlon Nig Ltd. a textile cotton mill, data extracted from the books for a particular period shows that: the spinning supervisor, weaving supervisor and the processing supervisor report to the mill manager, who along with the Chief Engineer reports to Director (Technical). The sales manager along with publicity manager reports to Director (marketing) who along with the Director (Technical) reports to the managing Director:

	Budget ₦	Variance ₦	Adverse/ Favorable ₦
Traveling Expenses	40,000	2,000	A
Publicity Dept. Salaries and Admin.	120,000	10,000	A
Sales Commission.	250,000	10,000	F
Spinning Dept. Labour.	800,000	40,000	A
Weaving Dept. Labour.	600,000	20,000	A
Raw Materials.	2800,000	120,000	A
Process House Material.	700,000	60,000	F
Maintenance Stores.	200,000	10,000	F
Processing Dept. Labour.	500,000	120,000	A
Maintenance Dept. Labour.	260,000	5,000	F
Utilities: Spinning Dept.	150,000	15,000	A
Weaving Dept.	200,000	10,000	F
Processing Dept.	300,000	50,000	A
Maintenance Dept.	50,000	10,000	A
Weaving Materials.	100,000	5,000	A
Sales Dept. Salaries & Admin.	100,000	5,000	F
Publicity Expenses	200,000	2000	F
Director (Technical):			
- Office Salaries & Admin.	175,000	25,000	A
Director (Marketing):			
- Office Salaries & Admin	200,000	10,000	F
Managing Director's:			
- Office Salaries & Admin.	250,000	20,000	A
Mill Manager's Salaries & Admin.	100,000	5,000	A
Sales	10,000,000	1200,000	A

The management accountant was asked to prepare responsibility accounting reports for the Managing Director, Director (marketing), Director (Technical) and Mill Manager.

Responsibility Reporting Model I:



Source: Emotional Design Structure

Data Presentation 1: Responsibility Accounting Reports

		Budget ₦	Actual ₦	Variance ₦	Adverse/ Favorable ₦
1.	**Mill Manger:**				
	(A). Spinning Supervisor:				
	Raw Materials	2,800,000	2,920,000	120,000	(A)
	Labor	800,000	840,000	40,000	(A)
	Utilities	150,000	165,000	15,000	(A)
	Total Of A	3,750,000	3,925,000	175,000	(A)
	(B) Weaving Supervisor:				
	Materials	100,000	105,000	5,000	(A)
	Labor	600,000	620,000	20,000	(A)
	Utilities	200,000	190,000	10,000	(F)
	Total of B	900,000	915,000	15,000	(A)
	(C) Processing Supervisor:				
	Raw materials	700,000	640,000	60,000	(F)
	Labor	500,000	512,000	12,000	(A)
	Utilities	300,000	350,000	50,000	(A)
	Total of C	1500,000	1502,000	2,000	(A)
	(D) Mill Manager:				
	Salaries & Admin	100,000	105,000	5,000	(A)
	Total for Mill Manager (ie A + B + C + D)	6250,000	6447,000	197,000	(A)
2.	**Chief Engineer:**				
	Maintenance Stores	200,000	190,000	10,000	(F)
	Maintenance Labor	260,000	255,000	5,000	(F)
	Maintenance Utilities	50,000	60,000	10,000	(A)
	Total for Chief of Engineer	510,000	505,000	5,000	(F)
3.	**Director Technical:**				
	Mill Manager	6250,000	6447,000	197,000	(A)
	Chief Engineer	510,000	505,000	5,000	(F)
	Office Salary & Admin.	175,000	200,000	25,000	(A)
		6935,000	7152,000	217,000	(A)
4.	**Director Marketing:**				
	(E) Sales Manager:				
	Sales-Income	10,000,000	8,800,000	1,200,000	(A)
	Expenses – Traveling	40,000	42,000	2,000	(A)
	Sales Commission	250,000	240,000	10,000	(F)
	Salary & Admin.	100,000	95,000	5,000	(F)
	Total of E	390,000	377,000	13,000	(F)
	(F) Publicity Manager:				

	Salary & Admin.	120,000	130,000	10,000	(A)
	Publicity Expenses	200,000	198,000	2,000	(F)
	Total of F.	320,000	328,000	8,000	(A)
	(G) Director Marketing:				
	Sales Manager – Income	10,000,000	8,800,000	1200,000	(A)
	Sales Manager Expenses	390,000	377,000	13,000	(F)
	Publicity Manager	320,000	328,000	8,000	(A)
	Office Salary & Admin	200,000	190,000	10,000	(F)
	Total of G	910,000	895,000	5,000	(F)
5.	**Managing Director:**				
	Mg. Directors Office Staff	250,000	270,000	20,000	(A)
	Director Marketing	910,000	895,000	15,000	(F)
	Director Technical	6935,000	7152,000	217,000	(A)
	Total Expenses	8095,000	8317,000	222,000	(A)
	Director Marketing:				
	Sales	10,000,000	8,800,000	1200,000	(A)
	Profit	1,905,000	483,000	1422,000	(A)

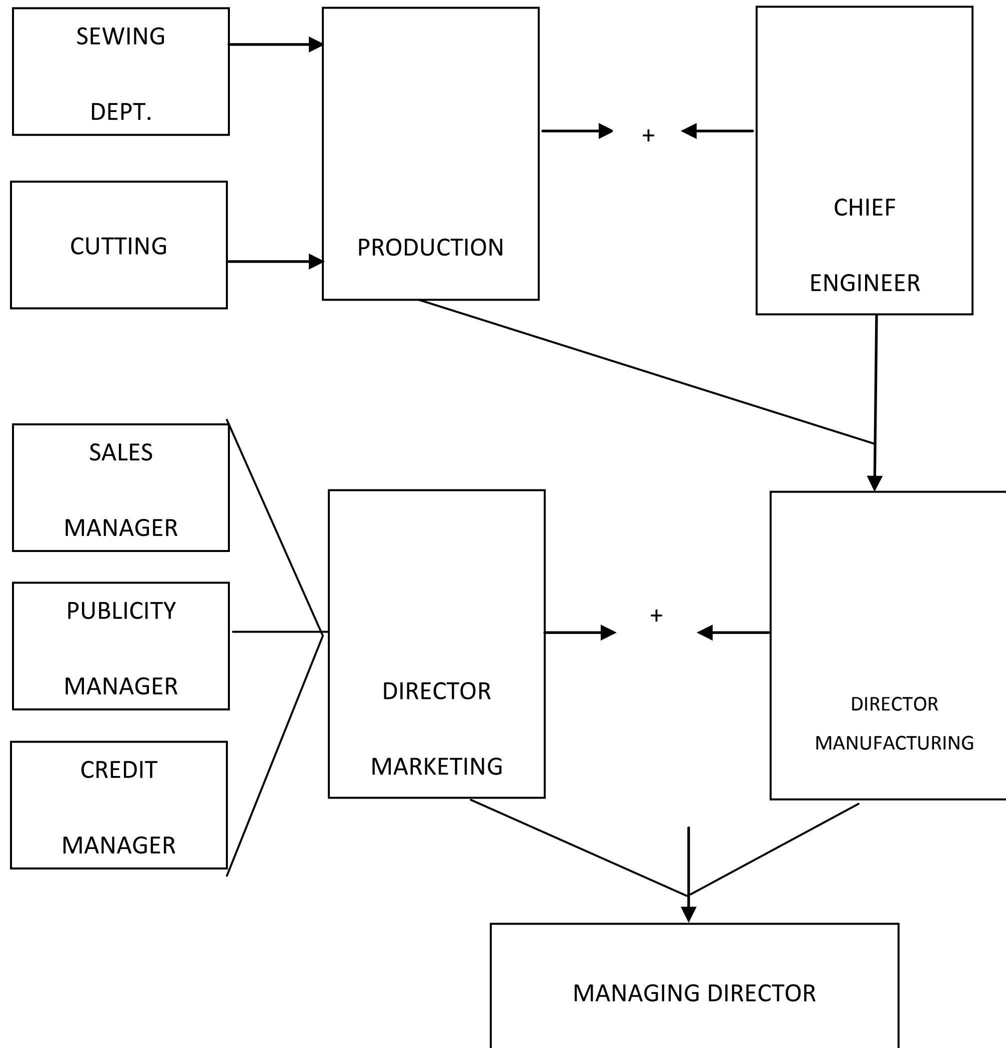
Data Exhibition II: Responsibility Based Accounting:

Nice-Fit, a segment of TEXLON NIG. LTD, is a manufacturers of ready-made gaments by a simple process of cutting the clothes in various shapes and then sewing the corresponding pieces together to form the finished product. The sewing department and cutting department report to the production manager who along with Engineering Manager reports to the Director-Manufacturing. The sales manager, publicity manager and the credit manager report to the Director marketing who along with Director Manufacturing reports to the Managing Director of the company. The account department reports the following for the last quarter 2012:

	Budget ₦	Actual ₦
Bad Debt Losses	500,000	300,000
Cloth Used	3,100,000	3,600,000
Advertising	400,000	400,000
Audit Fees	750,000	750,000
Credit Reports	120,000	105,000
Sales Representative		
- Traveling expense	90,000	102,000
Sales Commission	70,000	70,000
Cutting Labour	60,000	66,000
Thread	5,000	4,500
Sewing Labour	170,000	184,000
Credit Dept. Salaries	80,000	80,000
Cutting Utilities	8,000	7,000
Sewing Utilities	9,000	9,500
Director Marketing:		
- Salaries & Admin/o	20,000	21,400
Production Engineering Exps.	13,000	12,200
Sales Management Office Exps.	16,000	15,700
Production Manager Office Exps.	18,000	17,000
Director Manufacturing:		
- Salaries & Admin/o	210,000	201,000

Prepare responsibility accounting reports needed by Director Marketing, Director Manufacturing and the production manager.

Responsibility Reporting Model I:



Source: Emotional Design Structure

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Data Presentation 1: Responsibility Accounting Reports

	Budget ₦	Actual ₦	Variance ₦	Adverse/ Favorable ₦
Production Manager:				
(A). Cutting Dept.				
Cloth Used	3,100,000	3,600,000	500,000	A
Cutting Labour	60,000	66,000	6,000	A
Cutting Utilities	8,000	7,000	1,000	F
Total Of A	3,168,000	3,673,000	505,000	A
(B) Sewing Dept:				
Thread	5,000	4,500	500	F
Sewing Labour	170,000	184,000	14,000	A
Sewing Utilities	9,000	9,500	500	A
Total of B	184,000	198,000	14,000	A
Total of (A + B)	3352,000	3871,000	519,000	A
Director Manufacturing:				
1. Production Manager (A + B)	3352,000	3871,000	519,000	A
2. Production Manager – Office Expenses	18,000	17,000	1,000	F
3. Engineering Manager – Expenses	13,000	12,200	800	F
Total Of (1, 2 & 3)	3383,000	3900,200	517,200	A
Director Marketing:				
(C) Sales Manager:				
Bad Debt	500,000	300,000	200,000	F
Audit Fee	750,000	750,000	-	
Commission	70,000	70,000	-	
Sales Mgt. Office	16,000	15,700	300	F
Total Of C	1336,000	1135,700	200,300	F
(D) Publicity Manager:				
Advertising	400,000	400,000	-	
Traveling Expenses	90,000	102,000	12,000	A
Total Of D	490,000	502,000	12,000	A
(Total Of (C + D)	1826,000	163,7700	188,300	F
(E) **Credit Manager:**				
Credit Report	120,000	105,000	15,000	F
Salaries	80,000	80,000	-	
Total of E	200,000	185,000	15,000	F
Total of (C+D+E)	2026,000	1822,700	202,300	F
Managing Director:				
* Director Marketing (C+D+E)	2026,000	1822,700	203,300	F
* Director Marketing – Salaries	20,000	21,400	1,400	A
* Director Manufacturing	3593,000	4101,200	508,200	A
* Director Mgt. – Salaries	210,000	201,000	9,000	F

	5849,000	6146,300	297,300	A

Comment: Priority-Based-Budgeting (PBB) and its attendant merits are virtually more useful in a poly-cultural economies, where industrial development is in high momentum and its adaptability is maximumly utilized. In a mono-cultural economies, its utility is marred by a devastating inflationary trend with an unequal instability. It is a non-conventional budgetary implementation capable of harnessing the financial resources of the organization to full advantage.

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