Performance-Based Budgeting: Critical Success Factors in Implementation
What issues do you face?

1. What national outcome is the ministry or department responsible for?
2. What outputs are required to deliver the outcome?
3. How are outputs defined, and costed?
4. How do you serve the people better?
5. How do I reduce costs?
6. Are there outsourcing opportunities?
7. How do I budget more accurately?
8. How do I manage for better performance?
Andrew Lim

• Formally head of Asian operations for SPSS Inc., and ABC Technologies Inc

• 21 years in Business Intelligence software market, helping clients implement management information systems used for strategic decision making

• Implemented activity-based cost management and Balanced Scorecard systems for numerous clients, both US MNCs and local companies & public sector organisations.

• Conduct frequent talks, training, and workshops on performance measurement concepts, applications and implementation issues.

• “Evangelising” the use of performance management in the countries throughout Asia.

• BSC Projects at IDA, SSC, MCYS, IPTO (Min. of Law) and Goldcoin and Commercial Bank of Qatar, Fraser & Neave, Chong Fu, Hwa Chong Institution, Botswana Civil Service College, Tanzania Civil Service College, Min of Justice Namibia, Asia Commercial Bank Vietnam, PMO UAE, IPA Saudi Arabia, PMO Brunei.

• BSC Specialist, Civil Service College

• Asian Development Bank – COP for MfDR

• Business Process Improvement Advisor – Tanzania Govt
Agenda

- Overview of Performance-Based Budgeting (PBB)
- Key Elements of PBB
- PBB Implementation
- Overview of Balanced Scorecard & ABC/M
- Defining Outcomes & Measures
- Building of ABC/M Model
- Critical Success Factors
Performance-Based Budgeting in the Public Sector
What is Performance-Based Budgeting?

Definition:
Performance-Based Budgeting is the integration of performance information into the budget formulation process to better manage for results.
What is Performance-Based Budgeting?

Forecasted resources (i.e., budget) are computed as a function of desired goals/outcomes, required output volumes, and activity levels (based on historical cost accounting data).
What is Performance-Based Budgeting?

Performance-based budgeting uses cost accounting methods (e.g., full cost of outputs, unit cost) to prepare budgets based on the amount of resources that identified activities are expected to consume, to meet the forecasted workload (i.e., output volume) required to achieve performance, outcome, and strategic goals.
Who is doing PBB?

• Federal or Central Government agencies and bureaus

• Defense
  – Various entities in the Army, Navy, Air Force, Coastguard, etc.

• State, Regional and Local administrations
  – Local or regional governments, police forces, health authorities and universities

• Countries around the world
• Donor Agencies – World Bank, ADB
Key Elements of PBB

Set objectives and monitor progress towards them

To set objectives and monitor progress towards them with accountability cascaded down to teams and individuals. This requires the Balanced Scorecard.
Key Elements of PBB

Programme and output costing

- To set priorities and make informed decisions about resource allocation.
- Need to have a deep insight into costs.
- Calculate full costs and allocates these costs to programs and program outputs and outcomes.
- This requires activity-based costing (ABC/M)
Business Issues

Resource plans and budgets

- To quickly and easily formulate resource plans and budgets to achieve the desired output and outcomes.

- This requires a budgeting system that allows the easy integration of the operational perspective and key performance metrics.
Logic model for PBB

MISSION & LONG RANGE GOALS

INTERMEDIATE OUTCOMES

OUTPUTS

PROCESSES

RESOURCES & INPUTS
Logic model for PBB

Tangible results for the people

Ultimately how “success” is defined and measured

Long range outcome (5 years)
Unemployment below 3%
Logic model for PBB

- **Annual goals** of strategies designed to achieve the end outcome

  **MISSION & LONG RANGE GOALS**

  **INTERMEDIATE OUTCOMES**

  **OUTPUTS**

  **PROCESSES**

  **RESOURCES & INPUTS**

- **Short term goal**
  (1 year)
  Unemployment below 4%...
  Another 1M back to work
Logic model for PBB

MISSION & LONG RANGE GOALS

INTERMEDIATE OUTCOMES

The specific initiatives, actions (programs) we take and services we offer to implement our strategy

OUTPUTS

PROCESSES

RESOURCES & INPUTS

Our tactics and how they are working
Retraining for ½ million unemployed
Logic model for PBB

MISSION & LONG RANGE GOALS

INTERMEDIATE OUTCOMES

OUTPUTS

PROCESSES

The resources and people needed to execute the plan

Our budget requirement!

RESOURCES & INPUTS
Covering Planning and Execution

**PLANNING**
- Goals
- Objectives
- Targets

**MISSION & LONG RANGE GOALS**
- Long Range Goals
- Intermediate Outcomes
- Outputs

**EXECUTION**
- Results
- Resources & Inputs
- Processes
- Budgeting & Analysis

**PLANNING AND BUDGETING**

**RESOURCES & INPUTS**
- Cost Analysis
- Balanced Scorecard

**Budget Variances**
- Measure
"You cannot plan for performance without understanding the cost of performance"  
(Frank Wood – USCG)
Department of Industrial Inspections

Mission
"Protect our citizens in the workplace"

Long Term Objective (5 year)
Reduce the # of days lost due to workplace accidents to less than 0.25 per million days worked

Short term Objective 1
Inspect 50% of manufacturers previously assessed as compliant

Short term (annual) Objective 2
Inspect 90% of manufacturers not previously assessed as compliant

Outputs
# Inspections
# Follow Up reports

Resources
Inspectors
......

Outputs
# Inspections
# Follow Up reports

Resources
Inspectors
......
PBB Steps

1. Align outcome measures to Vision/Mission
2. Define output measures to deliver outcome
3. Do ABC to determine cost per unit of output
4. Use the cost per unit to determine budgets
5. Budget approval based on agreed output & outcome
Alignment to Vision / Mission

• Through the Balanced Scorecard, clear alignment can be made to Vision / Mission of the organisation

• Balanced Scorecard components
  ➢ Strategy Map
  ➢ Key Performance Indicators
  ➢ Strategic Initiatives
  ➢ Ownership
MINISTRY OF JUSTICE SCORECARD

Vision: To be a model provider of accessible and timeous justice for all
Mission: To provide quality judicial and legal services

S1 - Accessible and Timeous Justice for All

C1 - Accessibility
C2 - Timeliness
C3 - Quality
C4 - Integrity

P1 - Enhance Court Network
P2 - Streamline Processes
P3 - Public Education
P4 - Expand E-Services
P5 - Strengthen Partnerships
P6 - Internal Communication
P7 - Customer Care
P8 - Knowledge Management

F1 - Effective Use of Financial Resources
F2 - Result Based Budgeting

L1 - Result Oriented Work Culture
L2 - Competent & Motivated Workforce
L3 - Strategic Leadership
L4 - Leverage ICT

Learning & Growth Perspective

Internal Process Perspective

Customer Perspective

Stakeholder Perspective
# Balanced Scorecard KPI List

## Finance Perspective

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Key Performance Indicators</th>
<th>KPI Description</th>
<th>Owners</th>
<th>Contribution From</th>
<th>Targets</th>
<th>Units of Measure</th>
<th>Tracking Frequency</th>
<th>Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1</td>
<td>% of employees absent</td>
<td>Measure absences and above</td>
<td>DCGS</td>
<td>ALL</td>
<td>0</td>
<td>25</td>
<td>30</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Implementation of PMS</td>
</tr>
</tbody>
</table>

## Learning & Growth Perspective

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Key Performance Indicators</th>
<th>KPI Description</th>
<th>Owners</th>
<th>Contribution From</th>
<th>Targets</th>
<th>Units of Measure</th>
<th>Tracking Frequency</th>
<th>Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>L1</td>
<td>% of employees with 8+ years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Internal Perspective

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Key Performance Indicators</th>
<th>KPI Description</th>
<th>Owners</th>
<th>Contribution From</th>
<th>Targets</th>
<th>Units of Measure</th>
<th>Tracking Frequency</th>
<th>Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>I1</td>
<td>% of new court facilities completed</td>
<td>Additional courts constructed annually</td>
<td>DDOJ</td>
<td>FY 09</td>
<td>FY 10</td>
<td>FY 11</td>
<td>Annual</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Customer Perspective

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Key Performance Indicators</th>
<th>KPI Description</th>
<th>Owners</th>
<th>Contribution From</th>
<th>Targets</th>
<th>Units of Measure</th>
<th>Tracking Frequency</th>
<th>Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>No. of courts per 100,000 population</td>
<td>Magisterial Courts</td>
<td>PS MOJ</td>
<td>FY 09</td>
<td>FY 10</td>
<td>FY 11</td>
<td>Annual</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Stakeholder Perspective

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Key Performance Indicators</th>
<th>KPI Description</th>
<th>Owners</th>
<th>Contribution From</th>
<th>Targets</th>
<th>Units of Measure</th>
<th>Tracking Frequency</th>
<th>Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>To be a Model Provider of Accessible and Timely Justice for All</td>
<td>Focus on Rule of Law, Transparency and Corruption sub-index Baseline is 5 (2009)</td>
<td>PS MOJ</td>
<td>PS MOJ</td>
<td>Top 5</td>
<td>4</td>
<td>3</td>
<td>Rank</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic Objectives</th>
<th>Key Performance Indicators</th>
<th>KPI Description</th>
<th>Owners</th>
<th>Contribution From</th>
<th>Targets</th>
<th>Units of Measure</th>
<th>Tracking Frequency</th>
<th>Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1.1</td>
<td>Ibrahim Index on African Governance</td>
<td>Positive perception from public</td>
<td>PS MOJ</td>
<td>PS MOJ</td>
<td>70</td>
<td>72</td>
<td>75</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Alignment to Vision / Mission

- Budgets are aligned to Strategy through
  - key processes
  - projects, programs, initiatives
Through Activity-Based Costing,

- costs of key processes,
- costs of projects, programs,
- costs per unit of output,

Can be computed more accurately!
Overview of ABC

ABC is a simple concept

Resources are consumed by activities

Activities are consumed by products/services (Cost Objects)
Definition: Activity-Based Costing

“A methodology that measures the cost and performance of activities, resources, and cost objects.

Resources are assigned to activities, then activities are assigned to cost objects based on their use.”

Adapted from The CAM-I Glossary of Activity-Based Management, Edited by Norm Raffish and Peter B.B. Turney, (Arlington: CAM-I, 1991.)
CAM-I Cross

Cost Assignment View

What things cost...

Process View
Why things have cost...

Resources

Resource Cost Assignment

Activities

Performance Measures

Activity Cost Assignment

Cost Objects

Adapted from The CAM-I Glossary of Activity-Based Management, Edited by Norm Raffish and Peter B.B. Turney, (Arlington: CAM-I, 1991.)
Building an ABC Model

1. Identify Resources
2. Identify Activities
3. Identify Cost Objects

- Draw Arrows from Activities to Cost Objects
- Define Activity Drivers
- Draw Arrows from Resources to Activities
- Define Resource Drivers

- Enter Resource Costs
- Enter Resource Driver Qty.
- Enter Activity Driver Qty.

- Calculate Costs
PBB Critical Success Factors

To succeed with implementing PBB, four areas need attention:

- PBB Model Design and Architecture
- Implementation and Data Integration
- Getting Management and Employee Buy-In
- Application of the Data

Balancing the emphasis is a project team’s biggest challenge
PBB Critical Success Factors

- **Model Design and Architecture**
  - Level of complexity
  - Level of detail
  - Cost drivers
  - Accuracy requirements
  - Activity definitions
  - Process linkages

- **Implementation/Integration**
  - Scope and boundaries
  - Pilot site choice and phasing
  - Data interfaces
  - Data collection approaches
  - Validation of the data
  - Use of software

- **Application of Data**
  - Cost analysis
  - Focus for improvements
  - Process value analysis
  - Target costing
  - Benchmarking
  - Budgeting
  - Process changes
  - Strategy changes

- **Getting Buy-In**
  - Executive sponsorship
  - Project champion
  - Overcoming resistance
  - Credibility of outputs
  - Not accounting-driven
  - Creating ownership

- Executive sponsorship
- Project champion
- Overcoming resistance
- Credibility of outputs
- Not accounting-driven
- Creating ownership
Requirements for Success...

Get top-management commitment

Drive organizational learning

Assign a full-time program manager
Requirements for Success

Build a cross-functional team

Start with a pilot

Show benefits and successes

Empower the team to facilitate change
Resistance to Change

Because:
- Existing resource demands
- Status quo is comfortable
- Fear of the unknown
- Fear of loss in status of control
- Resistance to accountability
- Lack of skills
- Lack of innovative spirit
Thank You!

Andrew Lim: asglim@bscsolutions.com.sg
or asglim@yahoo.com