

# 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**
  - **Department of Work and Pensions, Department of Agriculture, Department of Labour, Foreign and Commonwealth Office, Securities Exchange commission, Taxation, Patent and Trademark registration, Customs, Vehicle registration, Passport and Immigration.**
- **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



# 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



MISSION & LONG RANGE GOALS

INTERMEDIATE OUTCOMES

OUTPUTS

PROCESSES

RESOURCES & INPUTS

**Short term goal**

*(1 year)*

*Unemployment*

*below 4%...*

*Another 1M back to work*

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

# Logic model for PBB



MISSION & LONG RANGE  
GOALS

INTERMEDIATE OUTCOMES

OUTPUTS

PROCESSES

RESOURCES & INPUTS

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

**Our tactics and how they are working**  
*Retraining for 1/2 million unemployed*



# Logic model for PBB



MISSION & LONG RANGE  
GOALS

INTERMEDIATE OUTCOMES

OUTPUTS

PROCESSES

RESOURCES & INPUTS

The **resources** and  
**people** needed  
to execute the plan

**Our budget  
requirement!**

# Covering Planning and Execution



## **PLANNING**

MISSION  
&

## **EXECUTION**

*Goals*

LONG RANGE GOALS

*Results*

*Objectives*

INTERMEDIATE OUTCOMES

*Results*

*Targets*

OUTPUTS

*Performance Measures*

*Targets*

PROCESSES

*Performance Indicators*

*Budgets*

RESOURCES & INPUTS

*Budget Variances*

PLANNING  
AND  
BUDGETING

COST  
ANALYSIS  
ABC

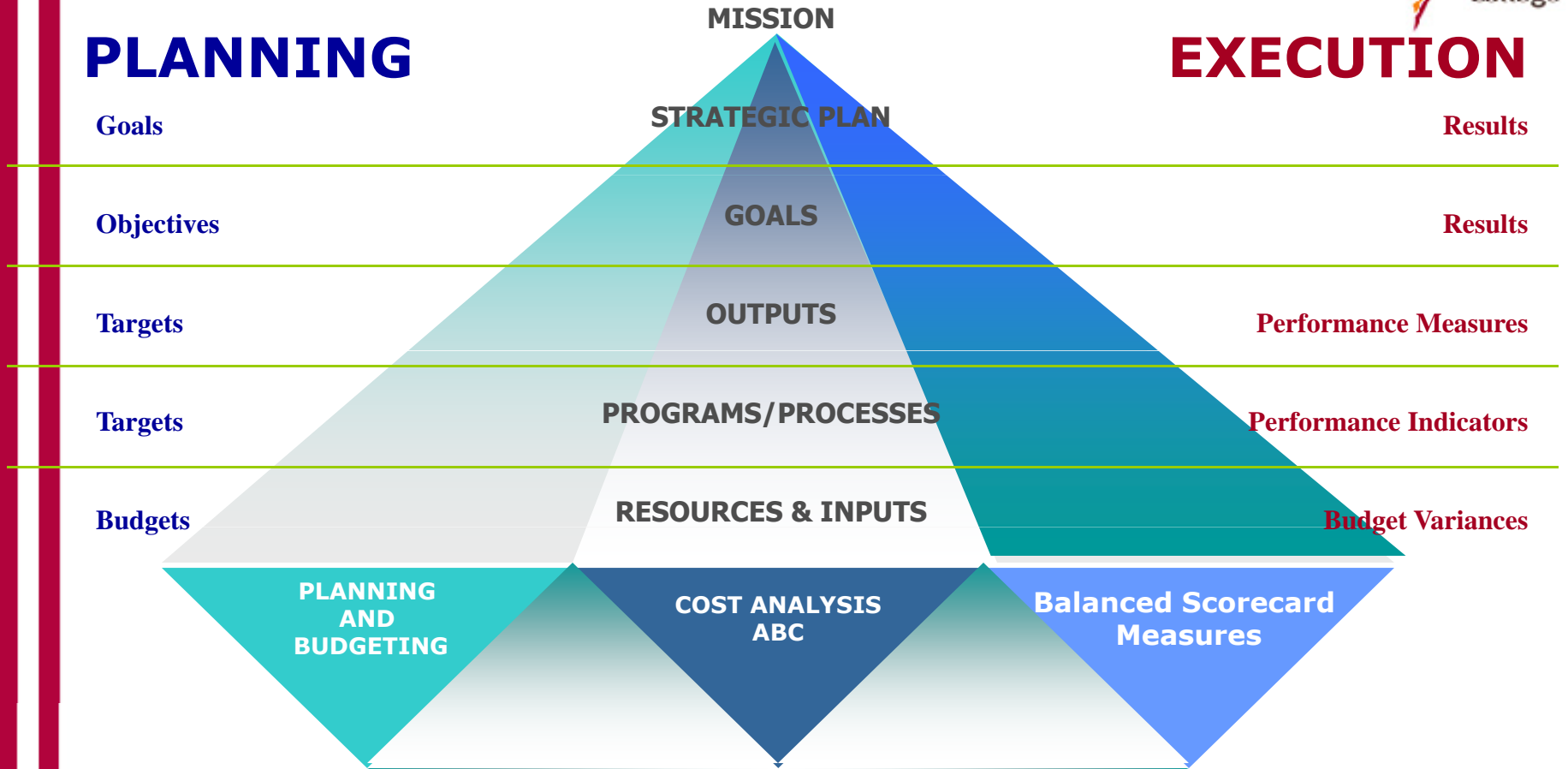
Balanced Scorecard  
Measure

# PBB in a nutshell



## PLANNING

## EXECUTION



"You cannot **plan** for **performance** without understanding the **cost** of **performance**" (Frank Wood – USCG)

# Department of Industrial Inspections



**Dept 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

**Outputs**

# Inspections  
# Follow Up reports

**Resources**

Inspectors  
.....

**Short term (annual) Objective 2**

Inspect 90% of manufacturers not previously assessed as compliant

**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

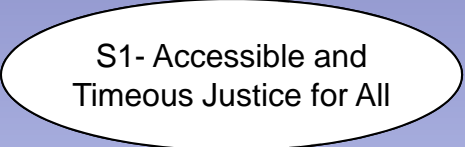
- Through the Balanced Scorecard, clear alignment can be made to Vision / Mission of the organisation
- Balanced Scorecard components
  - Strategy Map
  - Key Performance Indicators
  - Strategic Initiatives
  - Ownership



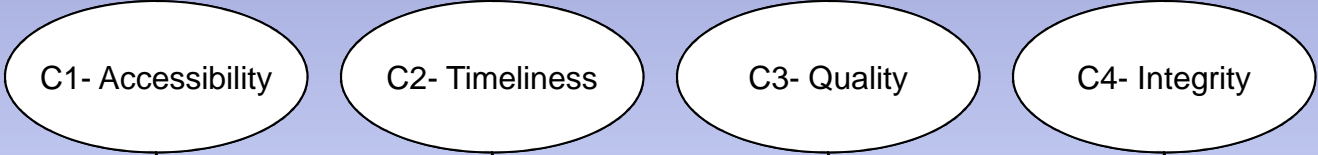
# MINISTRY OF JUSTICE SCORECARD

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

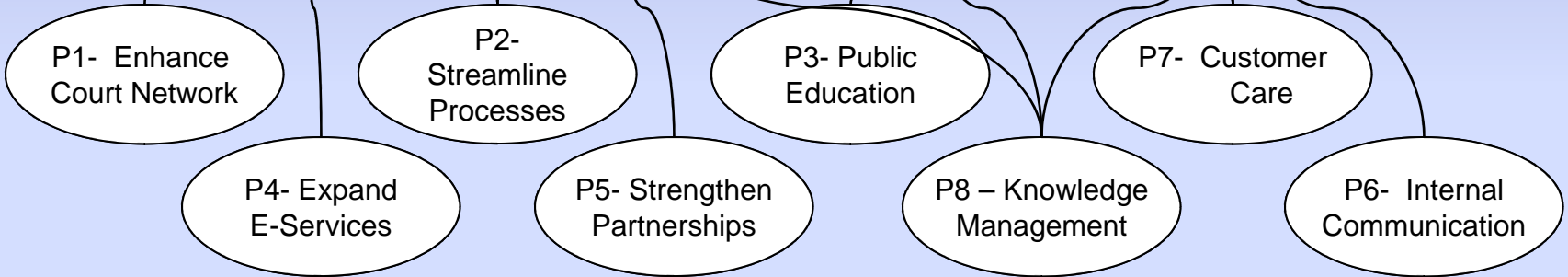
Stakeholder Perspective



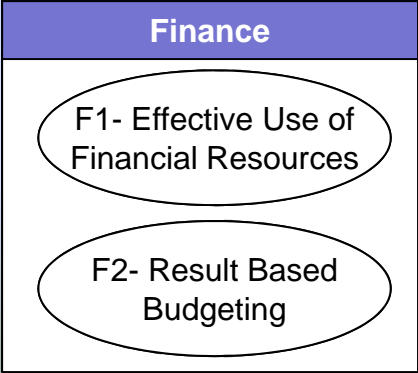
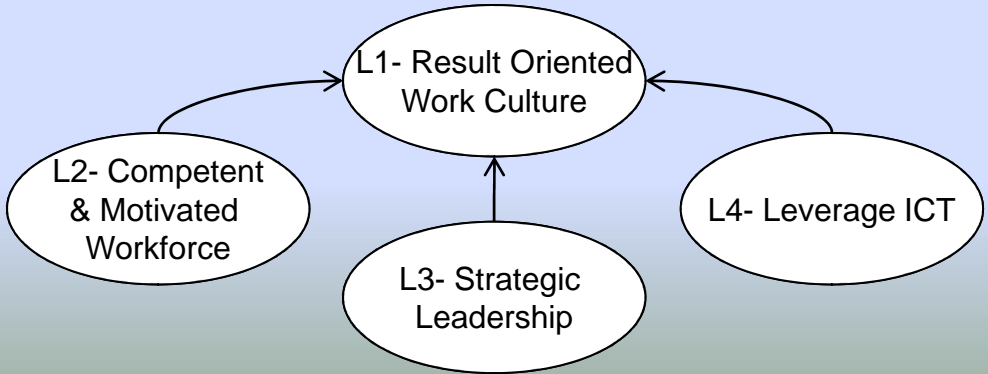
Customer Perspective



Internal Process Perspective



Learning & Growth Perspective



# Balanced Scorecard KPI List



FINANCE PERSPECTIVE												
Strategic Objectives	Key Performance Indicators	Contribution	Targets	Units of	Tracking							
F1 Effective Use of Financial Resources	F1.1 Unqualified Audit Opinions	LEARNING & GROWTH PERSPECTIVE										
		Strategic Objectives	Key Performance Indicators	KPI Description	Owners	Contribution From	Targets			Units of measure	Tracking Frequency	Strategic Initiatives
	L1 Result Oriented Work Culture	L1.1 % of employees achieve...	Measure supervisors and above	DOOS	ALL	FY 09	FY 10	FY 11	%	Annual	Implementation of FMS	
	L2	L2.1	INTERNAL PERSPECTIVE									
F1.2	L2.1	Strategic Objectives	Key Performance Indicators	KPI Description	Owners	Contribution From	Targets			Units of measure	Tracking Frequency	Strategic Initiatives
		F1	F1.1 No. of new court facilities completed	Additional courts constructed annually	DDCP	CLC, RHC, CLA, MHC, DPP, DI	FY 09	FY 10	FY 11	Number	Annual	Building of new courts
						LC, RHC	80	85	90	%	Annual	Complete a trially management checklist, Refurbishment of selected courts
						C, CLA, C, MHC, DPP	11	11	11	No.	Annual	Business process re-engineering of selected processes
CUSTOMER PERSPECTIVE												
Strategic Objectives	Key Performance Indicators	KPI Description	Owners	Contribution From	Targets			Units of measure	Tracking Frequency	Strategic Initiatives		
C1 Accessibility	C1.1 No. of courts per 100,000 population	Magisterial Courts. Current baseline is 1.77	PS MQJ	CLC, DDCP	FY 09	FY 10	FY 11	Number of courts	Annual			
C2 Timeliness	C2.1 % on time											
C3 Quality	C3.1 % of complaints											
C4 Integrity	C4.1 No. of complete judgments											
STAKEHOLDER PERSPECTIVE												
Strategic Objectives	Key Performance Indicators	KPI Description	Owners	Contribution From	Targets			Units of measure	Tracking Frequency	Strategic Initiatives		
S1 To be a Model Provider of Accessible and Timely Justice for All	S1.1 Ibrahim Index on African Governance	Focus on Rule of Law, Transparency and Corruption sub Index Baseline is 6 (2008)	PS MQJ	PS MQJ	FY 09	FY 10	FY 11	Rank	Annual			
	S1.2 Stakeholder's Perception Survey	Positive perception from public	PS MQJ	PS MQJ	70	72	75	%	Annual	Design questionnaire, commission survey consultants		



## Alignment to Vision / Mission

- Budgets are aligned to Strategy through
  - key processes
  - projects, programs, initiatives

## Alignment to Budgets

- 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.”**

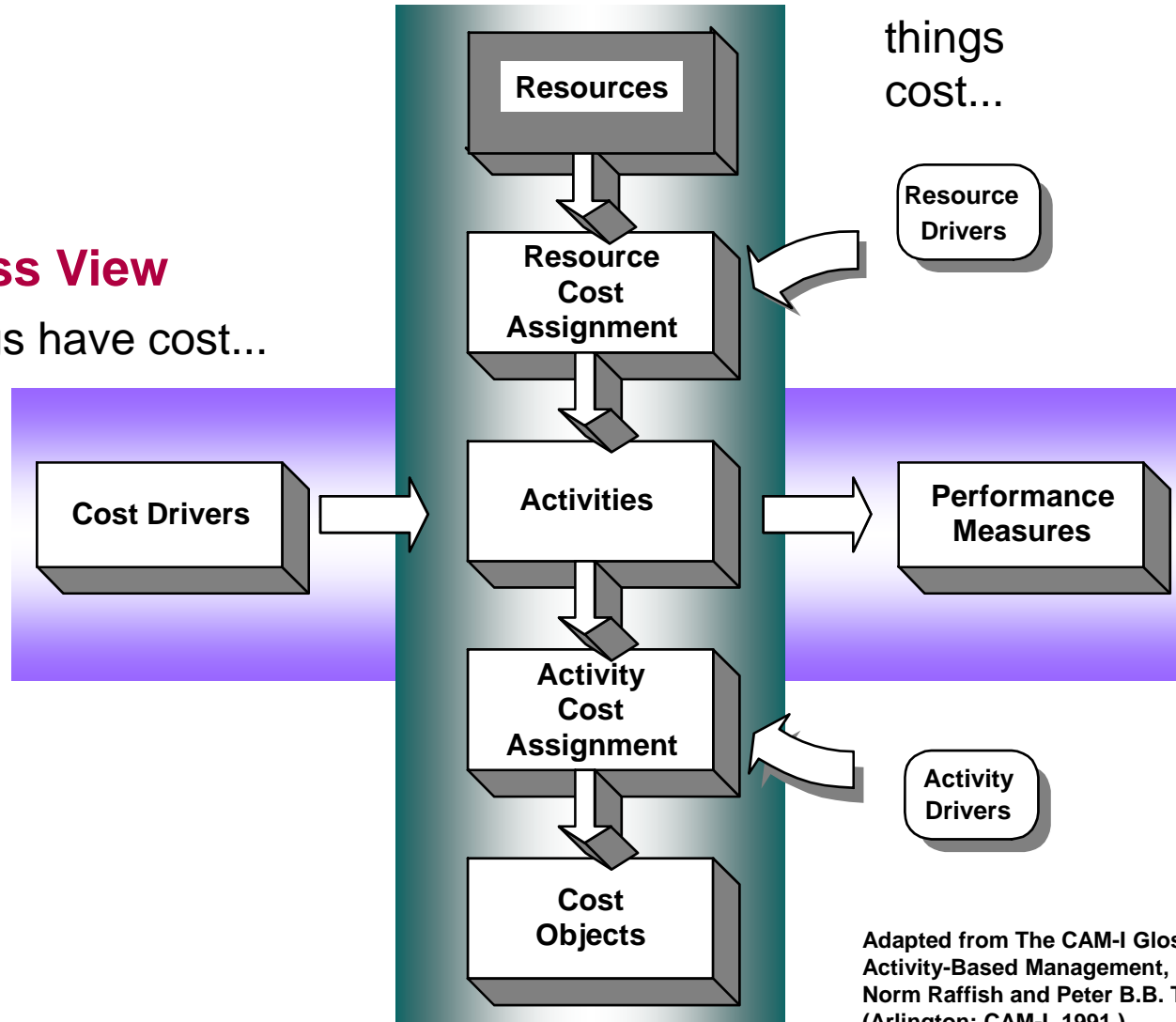
Adapted from The CAM-I Glossary of Activity-Based Management, Edited by Norm Raffish and Peter B.B. Turney, (Arlington: CAM-I, 1991.)

# CAM-I Cross

## Cost Assignment View



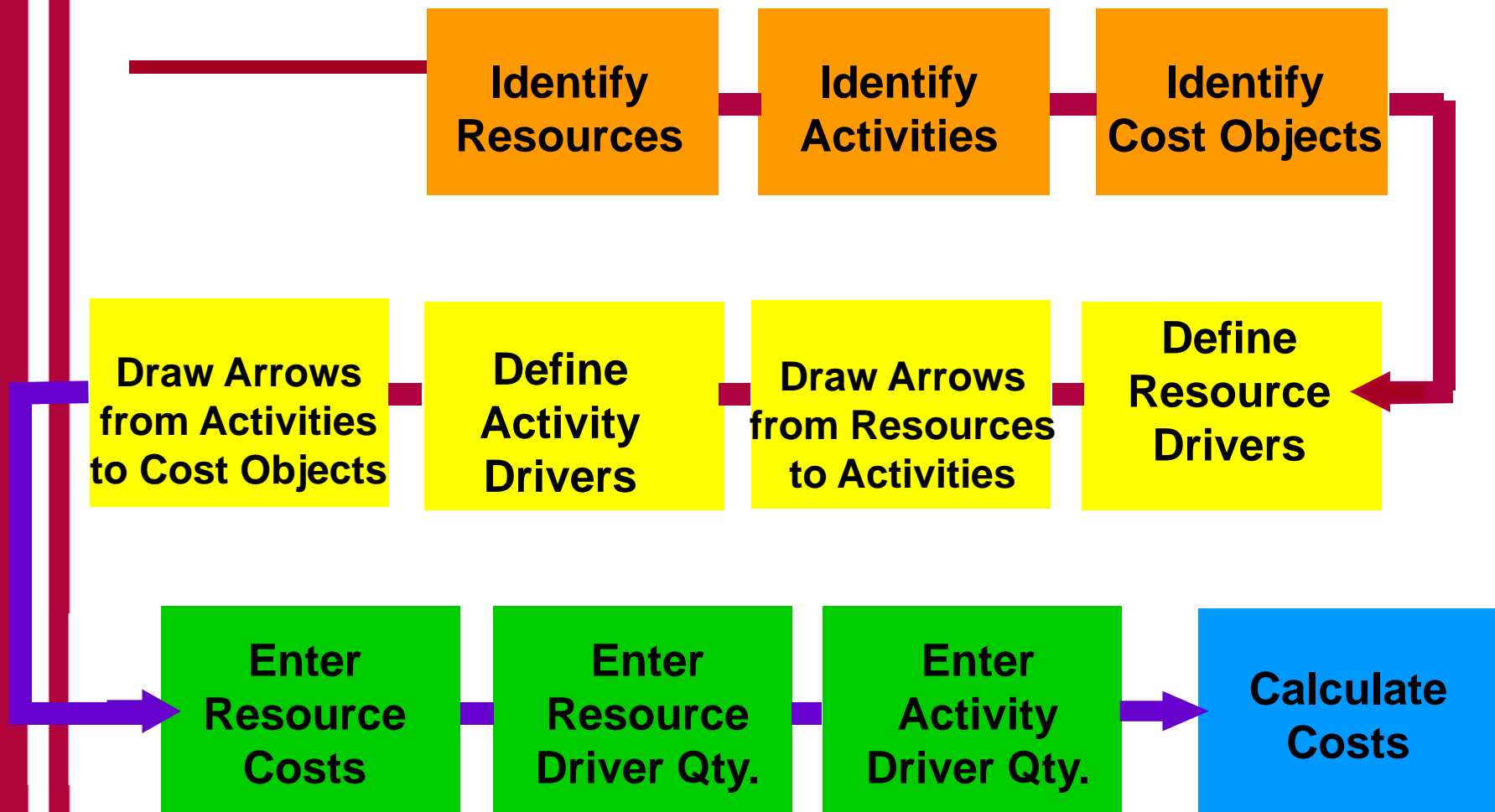
**Process View**  
Why things have cost...



What things cost...

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

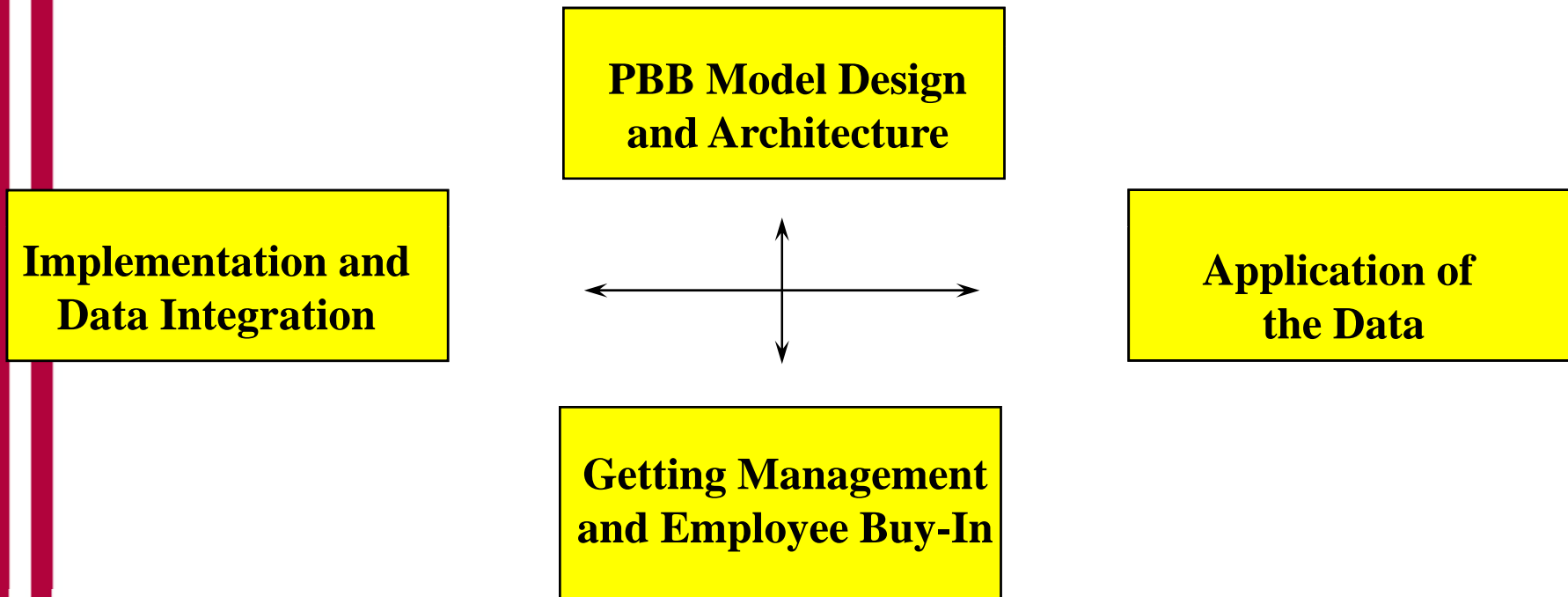
# Building an ABC Model



# PBB Critical Success Factors



To succeed with implementing PBB, four areas need attention:



**Balancing the emphasis is a project team's biggest challenge**

# PBB Critical Success Factors

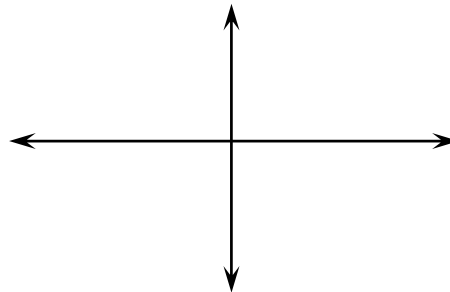


## Implementation/Integration

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

## Model Design and Architecture

- Level of complexity
- Level of detail
- Cost drivers
- Accuracy requirements
- Activity definitions
- Process linkages



## Getting Buy-In

- Executive sponsorship
- Project champion
- Overcoming resistance
- Credibility of outputs
- Not accounting-driven
- Creating ownership

## Application of Data

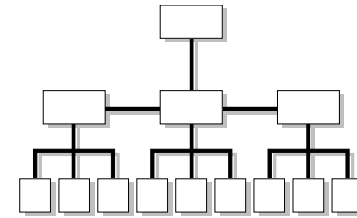
- Cost analysis
- Focus for improvements
- Process value analysis
- Target costing
- Benchmarking
- Budgeting
- Process changes
- Strategy changes



# Requirements for Success...



**Get top-management  
commitment**



**CEO**

**Management  
Teams**

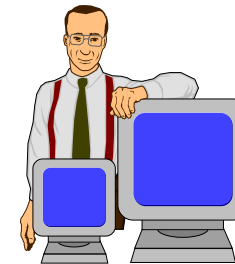
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**Drive organizational  
learning**



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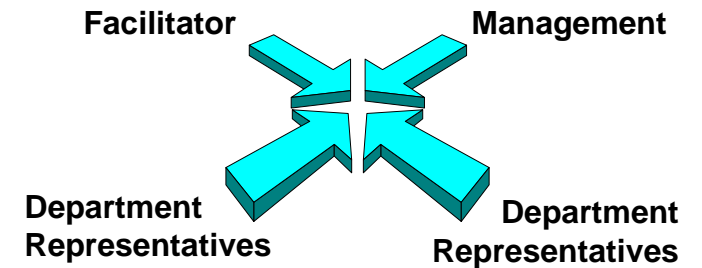
**Assign a full-time  
program manager**



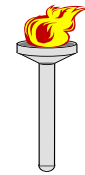
# Requirements for Success



**Build a cross-functional team**



**Start with a pilot**



**Show benefits and successes**



**Empower the team to facilitate change**



# Resistance to Change



**It's a natural reaction**

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!



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