

# THE BUDGET AS A MANAGEMENT TOOL: ZERO BASE BUDGETING, PANACEA TO BUDGET IMPLEMENTATION IN NIGERIA

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## ABSTRACT

Nigeria has been experiencing difficulties in Budget implementation. The objective of this article is to present alternative forms of budgeting and after exposition on them, to recommend one that could mitigate budget implementation problem for Nigeria. Two types of budgeting addressed are incremental and zero-base. Under incremental budgeting, A certain percentage is added or subtracted from previous period's figures to arrive at new period's budget. Under zero base, every programme is re-evaluated for its merits, as if previous budgets never existed. The starting point are the results hoped to achieve, and every debate about budget implementation is done prior to passage. Zero base budgeting is analogous to marketing concept in terms of information requirement and zeroing in on customized needs. To the extent that zero base budgeting plans, executes and controls, it serves as a management tool. Nigeria's budgeting has been incremental, overly politicized and not carried out by experts, but merely based on benchmark price and quota of daily oil production. Factors militating against proper budgeting in Nigeria are distortions in fiscal transparency. Budget implementation in Nigeria is a critical problem. Many have blamed our poor socio-economic and infrastructural development on low degree of budget implementation, which is a result of incremental budgeting process. The paper therefore recommends zero base budgeting to Nigeria at all levels.

**KEYWORDS:** Incremental Budgeting, Marketing Concept, Socio-Economic and Infrastructural Development.

## INTRODUCTION

A budget is the forecast by a government or any organization of its expenditure and revenues for a specific period of time. The word budget is derived from old French bougette, "little bag". The British Chancellor of the Exchequer when he makes his annual financial budget is said to "open" his budget or receptacle of documents and accounts (Encyclopedia Britannica 1973, pp63). In many countries a great increase in government expenditure began before World War II. Moreover, the importance of the effect of government transaction upon the rest of the economy is now widely recognized. For this reason, budget is generally regarded as the occasion for review and debate upon the

country's economic situation (Encyclopedia Britannica 1973, pp63).

The federal budget serves as the formal system for financial administration within the federal government. By scheduling receipts (what the government will receive through various taxes, tariffs and other revenues yielding methods) and outlays (or actual spending), it provides the means for managing programs and controlling finances, Ippolito (1978). The budget covers a fiscal year which in Nigeria runs from January to December.

One feature of the budget that can determine success or failure is budget implementation. Implementation problem unfortunately is extant in Nigeria's budgeting system. Just as selling is difficult if marketing is

not adequately and properly done (Drucker 1973, Levitt 1960) budget implementation is difficult if budgeting process is flawed. Perhaps the greatest obstacle to Nigeria economic and infrastructural development is low degree of budget implementation and this is because of the wrong process of arriving at budget figures in Nigeria.

**The objectives of this article are:**

1. To present forms of budgeting process that may be used
2. To show how marketing concept relates with zero base budgeting and how a budget can serve as a management tool.
3. To reflect on how Nigeria carries out her budget and what factors impede proper budgeting in Nigeria.
4. To ponder on budget implementation in Nigeria.

**The justification of this study is not far fetched:**

1. Budget implementation is poor in Nigeria, kuye {2010} and this is as a result of poor budgeting process.
2. Improved budget implementation is the key to Nigeria Economy recovering (Gwegwe, 2010)
3. Process of budgeting in Nigeria is the incremental approach which is very unscientific, and does not make for easy budget implementation. The study will therefore recommend alternative form of budgeting to Nigeria that could correct the flaws of the incremental approach and make budget easy for implementation.
4. The study will also enrich the literature on the topic.

**FORMS OF BUDGETS:**

Two types of budgeting are discussed in this article, namely, incremental and zero base budgeting.

**1. Incremental budget:**

No matter the form of budget, a budget for each successive year is expected to be higher than preceding year's since the inflation factor must be considered along with certain spending that are mandatory. For instance government legal commitment that must be met, such as interest on debts, staff salaries that increase yearly because of annual increases and Staff

promotions, pensions etc. It is also important to note that many programmes and agencies are continued from year to year because they have operated satisfactorily in the past and therefore occasion no challenge. Examples of such programmes are; the National Youth Service Corps, whose budgets increase by the year because of increasing number of fresh graduates from universities, and living costs. Rather than engaging in a yearly comprehensive evaluation of all programs and agencies and then deciding on the comprehensive worth of existing program, budgets have normally followed an incremental approach.

Decision makers do not consider all or even most programmes but rather focus much of their attention on marginal increases or decreases in existing programs. According to Wildavsky (1975), this incremental approach has been the most important aid to calculation in dealing with budget complexity and magnitude.

Incremental approach uses previous years budget as a guide, certain percentage is added to arrive at present year's budget. With incremental budget, funds for present year are requested above the preceding year level of spending. Most establishments and programs have a base that is commonly accepted activities and expenditure which is continued from year to year and is not ordinarily subjected to detailed examination, Ippolito (1978). Moreover using last years budget as the primary guide for this years budget serves as a practical aid to calculation, Wildavsky (1975). Instead of engaging in a yearly comprehensive evaluation of all programmes and agencies and then deciding on the comparative worth of existing programmes as compared to possible alternative, budget decision makers merely add percentages to items of expenditure. This is to say that the budget decisions of one year are affected primarily by decision of previous years. In Wildavsky's view, most changes are marginal and much of what has been done in the past no longer needs to be justified or examined in any detail. But over time, the incremental changes that are made can have a dramatic cumulative effect, but the room for immediate maneuver is limited.

**LIMITATION OF INCREMENTAL BUDGET**

The problem with incremental approach is that it limits short term flexibility in the budget. It does not examine every item in the budget and therefore make implementation difficult.

### THE ZERO BASE BUDGET

Zero base budgeting requires that all items in the budget be re-examined each time a new budget is proposed. Its emphasis on comprehensiveness means that the same scrutiny must be applied to all programmes and agencies, regardless of their longevity, legislation mandates and past commitment. No prior assumptions are made about the justification for or inviolability of an agencies base, Ippolito, (1978). Rather than starting with last years expenditures, government starts with the results it wants to achieve in a given area and asks whether it is the right area and if it is a priority

To achieve this general objective, certain kinds of information must be collected and specific analytical tasks must be performed. For each discrete activity within an agency, descriptions and justifications, goals and objectives and performance measurement standard must be provided. Then the effects of alternative courses of actions must be assessed. These include identifying and examining the different ways of performing an activity. They also involve analyzing the impact of different spending levels on that activity. What is the minimum funding level needed to analyze the impact of different spending level on an activity? What is the minimum funding level below which the activity cannot realistically be? What is the funding level required maintaining the existing level of activity? What is the funding level required to improve or expand the existing level of activity? Because activities number in hundreds or thousands, zero-base budgeting is aimed at developing a priority ranking for programmes or activities. This ranking can be used in allocating budgeting resources.

### LIMITATION OF ZERO-BASE BUDGETING

Decisions are effected by experience and conditioned by political feasibility. Information that implements these factors is useful and this is where zero base budgeting can be utilized. In addition, it is essential to examine the flexibility and work load associated with a zero-base system. Difference approaches and techniques may need to be developed for different programs and activities and some program may not be amenable to a zero base approach at all. The time interval between periodic review may also need to be revised based on program requirements.

Finally a zero base approach will increase the budgeting workload for agencies by

significant amount. Ippolito (1978) says that new people will have to spend more time generating more information and this will adversely affect current operational capability. A deliberate attitude toward zero base budgeting would not encourage unrealistic expectation about what it can deliver and would at the same time allow executives official and National Assembly to concentrate on these specific areas of the budget where there are problems and where detailed review would be helpful. If it simply accomplishes the latter, zero-base budgeting will have made a significant contribution.

### MARKETING CONCEPT, ZERO BASE BUDGET AS A MANAGEMENT TOOL:

Marketing concept is a management orientation which holds that the company should search for the need and wants of a target market before embarking on the production of goods and services as the way of making profits and accomplishing company objectives. It replaces the selling concept which places emphasis on selling. Under selling concept, a firm produces what it can best do, with available resources not minding customers' wants and needs. It then tries to sell the product by all means.

But under the marketing concept the wants and needs of the target customers are first sought before production. Information is collected on their taste, sizes, colour, texture, finish, rate of usage, number and spread of customers, their buying behaviour and ability to pay as well as about substitute products. This enables the company not only to produce the products needed, but to produce according to specification, quality and quantity. While this is done the product is sold even before production therefore selling is no problem after production. No wonder Drucker, (1973), says that the aim of marketing is to make selling superfluous.

Zero-base budgeting is analogous to the marketing concept. Both require series of information, zero-base budgeting requires information on activities and task to be covered in the budget while marketing concept collects information on the consumers' wants and needs. The process of zero-base budgeting embraces collecting information, setting goals and objectives, stressing effective use of alternative actions which refers to planning. It identifies and examines the different ways of performing activity, which refers to implementation or executing. It provides performance measurement standard which refers to control.

Thus zero base budgeting plans, executes and controls, which precisely defines management. It can be seen that zero base budget is a management tool.

By forcing the consideration of alternative methods and funding, it can promote efficiency, it generates data and analyses that administrators can use in assessing what an agency is doing and how it is doing. There is then the potential for better utilization of existing resources through reallocation of personnel and funds, as well as through revised operating methods.

### BUDGET IN NIGERIA

Budgeting in Nigeria has traditionally

been incremental, and based on the benchmark price and projected daily productions of oil. But Oil price may change, quota may change. For example for 2010, both oil and non oil revenue were about 17% and 21% respectively below budget levels as at the end of the third quarter (The Nation, Wednesday 25, November, 2010).

The budget pattern at the federal level is often replicated at the states and local government levels.

The table below shows the budget of Akwa Ibom State of Nigeria, one of the 36 states of Nigeria from creation of the state in 1987 to date, which mirrors the situation at federal level and the other states.

**Table 1: ANALYSIS OF AKWA IBOM STATE BUDGET, ORIGINAL VERSUS REVISED BUDGET.**

YEAR	ORIGINAL			REVISED		
	RECURRENT EXPENDITURE	CAPITAL EXPENDITURE	BUDGET SIZE	RECURRENT EXPENDITURE	CAPITAL EXPENDITURE	BUDGET SIZE
1987	292,179,290	117,245,680	409,424,970			
1988	242,473,070	195,772,960	4,38,246,030			
1989	296,246,290	216,740,000	512,986,290			
1990	482,053,230		716,428,650			
1991	658,332,680		965,780,290			
1992	635,424,410	629,710,560	1,265,134,970	665,511,200	782,710,560	1,448,221,760
1993	960,624,710	1,318,726,840	2,359,351,550			
1994	949,561,710	234,375,420	1,916,309,070			
1995	1,418,910,670	307,447,610	1,967,581,580			
1996	1,889,431,060	306,649,980	2,196,081,040			
1997	2,204,081,900	622,767,120	2,826,849,020			
1998	2,338,041,720	1,082,788,300	342,083,020			
1999	3,669,004,380	1,135,335,120	4,804,539,500	4,339,359,170	2,932,885,250	7,272,244,420
2000	9,481,717,030	21,743,469,250	31,225,186,280			
2001	13,690,998,910	56,837,517,850	70,528,516,760			
2002	19,732,603,360	38,981,880,860	58,714,454,220			
2003	21,494,872,080	21,034,589,470	42,529,462,140			
2004	22,085,852,080	25,334,673,430	47,420,525,510			
2005	24,357,327,850	62,815,080,240	87,172,408,090			
2006	27,807,141,030	90,867,944,660	118,675,085,690			
2007	37,208,197,460	111,050,571,300	148,258,768,760	40,895,297,460	143,137,571,300	184,032,868,760
2008	36,446,791,920	126,029,318,000	162,476,109,920	42,313,791,920	222,831,816,000	265,145,607,920

2009	41,094,540,170	167,114,108,000	208,208,648,170	43,094,540,170	240,718,708,000	283,813,248,170
2010			298520550	4872,142,770	249,793,408,000	385,346,500,000
2011			309,509,000,000			?

**Source:** Akwa Ibom State budget office Governor's office Annex, Uyo

This data is further manipulated to show the degree of increases or decreases and the general trend as demonstrated in table 11.

**Table 2:** Percentage of increase or decrease for successive years and the general trend.

YEAR	BUDGET	PERCENTAGE %	+ -
1987	409,424,970		
1988	4,38,246,030	7%	+
1989	512,986,290	17%	+
1990	716,428,650	39%	+
1991	965,780,290	35%	+
1992	1448221760	50%	+
1993	2,359,351,550	62%	+
1994	1,916,309,070	.19%	-
1995	1,967,581,580	53%	+
1996	2,196,081,040	125%	+
1997	2,826,849,020	29%	+
1998	342,083,020	21%	+
1999	7272244420	112.58%	+
2000	31,225,186,280	324%	+
2001	70,528,516,760	125.8%	+
2002	58,714,454,220	-16.5%	-
2003	42,529,462,140	-27%	-

2004	47,420,525,510	11.5%	+
2005	87,172,408,090	83.83%	+
2006	118,675,085,690	36.14%	+
2007	184032868760	55%	+
2008	265145607920	44%	+
2009	283813248170	7%	+
2010	385346000000	35.7%	+
2011	309509000000		

**Source:** Computed from table

The negative sign in 1994, 2002 and 2003 show the decrease budget in these years, for the rest of the years it has been incremental budget.

### **FACTOR MILITATING AGAINST SMOOTH BUDGETING IN NIGERIA**

Fiscal transparency research in Nigeria was conducted by Apampa and Oni (2010) They categorized budgeting problem in Nigeria under the following factors:

- Legal framework for transparency
- Clarity of roles and responsibilities
- Public availability of information
- Capacity and system in the budget activities
- Management of extra budgeting activities
- Participation in the Budget process

In all cases they found that there were distortions in physical transparency.

### **BUDGET IMPLEMENTATION IN NIGERIA**

Budgeting protocol entails effective planning, monitoring and implementation of current and capital proposal. But regrettably, budgeting culture in Nigeria begins and ends with planning alone. Oversight functions carried out by the legislative area of government in the past as it concerns budget monitoring have been nothing but mere window dressing (Gwegwe, 2010). According to Gwegwe (2010), this fact has helped to condemn budget as mere rituals. Poor budget implementation in Nigeria is a huge indictment on both the executive and legislative area of government at the local, state and federal levels.

For budget to impact on the society, implementations issues should be addressed Deru (2010). In Deru's view, we have been having good budget over the years but the implementation has been our problem.

Since budgeting in Nigeria is based on benchmark price of oil in the world market and projected daily productions, it follows that revenue (outlay) may not always be as projected (The Nation, Wednesday 25, 2009). For example in 2010, both oil and non oil revenues were about 17% and 21% respectively, below budget levels as at the end of third quarter, (the Nation, 2009). On the expenditure side, while budgetary allocation have been promptly released to the Ministries, Department and Agencies (MDAs) actual utilization has been below expectation.

For 2009, the proposed budget was predicted on a \$45 per barrel of crude oil price, a daily oil production of 2.92 million barrels per day. As it turned out in 2009, there was a sudden crash of oil prices from a peak of \$147 in July to about \$42.00 in January delivery which made the oil price benchmark of \$45 to be optimistic. And for the daily oil production of 2.92 million, this is checked by Niger Delta restiveness. (The Nation Wednesday 25, 2009).

### **CONCLUDING REMARKS**

The starting point for the budgeting process should always be expected results. What

results do we expect to obtain from each Ministry, Department or Agency (MDA) in the next twelve months, and what efforts does this require? Budgets are expressed in monetary terms. But monetary terms should be seen as symbolic expression, a kind of shorthand for the actual efforts needed and should be based on "real values" That is on raw material needed, on work needed, on manufacturing capacity needed. Budgets, in other words should always be used as a tool to think through the relationship between desired results and available means.

In particular, it is important to avoid the worst pitfall of budgeting, the pitfall into which government budgets tend to fall. This is the tendency to regard last year's expenditure as being about right and to project them into the new budget. Typically, in this kind of budgeting government starts out with the budget for last year and then either adds ten percent across the board or cuts ten percent across the board. This may provide a symmetrical budget. But it also means that the budget has not been used as a planning tool and is unlikely to use resources where they are needed. This is incremental budget which is practical in Nigeria.

Growing in popularity as a remedy against this sort of projected budget is zero base budgeting. Rather than starting with last year's expenditure, government starts with the results in focus in a given area and asks if it is the right area? Is it a priority area? And then what is really needed to obtain the results? This is the zero base budget and which is hereby prescribed for Nigeria at all levels of government.

Budget implementation problem is Nigeria is extant and this has been observed by many, as the bane of socio-economic and infrastructural development.

The major contribution of this paper is the presentation of zero base budgeting as a management tool which if practices in Nigeria will mitigate budget implementation problem. Another contribution is that Budget structure is analogous to marketing as budget implementation is analogous to selling.

### **RECOMMENDATIONS**

The problem with Nigeria budget is implementation. This is caused by the incremental budgeting process practiced in Nigeria. An alternative approach to budgeting is zero base which is analogous to marketing

concept. With zero base budgeting the implementation is easy since every detail must have been taken care of in the budgeting process. Zero base budgeting is accordingly recommended for Nigeria.

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