

ZERO-BASED BUDGETING: PATHWAY TO SUSTAINABLE BUDGET IMPLEMENTATION IN NIGERIA

Udeh Francis Nnoli¹, Sopekan Sam Adeyemi², Oraka Azubuike Onuora³

¹ Udeh Francis Nnoli (Ph.D), Nnamdi Azikiwe University Awka, Faculty of Management Sciences, Nigeria, fn.udeh@unizik.edu.ng

² Sopekan Sam Adeyemi, Finance & Accounts department, National Engineering Design Development Institute

³ Oraka Azubuike Onuora, Nnamdi Azikiwe University Awka, Faculty of Management Sciences, Nigeria, ao.oraka@unizik.edu.ng

Abstract: This paper investigates the application of Zero-Based Budgeting (ZBB) system to budget implementation by the Federal Government of Nigeria by ascertaining among others, the relationship between ZBB approach and budget performance indices in Nigeria. To achieve the above, primary data were obtained through questionnaires that were specifically designed for this study. The data obtained were analysed with the SPSS version 21. The statistical tools employed were Analysis of Variance (ANOVA) and Pearson Correlation Coefficient (PCC). The Cronbach's Alpha reliability test was used to test the internal consistency/reliability of the instrument used for the study. On the basis of the analysis, we found that there is significant difference in the effectiveness of ZBB in terms of budget implementation compared to the Traditional Budgeting System (TBS). It was also found that the application of ZBB tend to be performance-driven and is able to detect the redundant programmes/projects and staff, thereby recommending either realignment, discharge, transfer or redeployment of projects or resources. The study therefore, recommends among others that ZBB should be encouraged as a good means of budget implementation and also close monitoring of budget execution should be enshrined in work ethics at every stage of budget preparation and implementation in the country. This is believed would go a long way to strengthen measures aimed at mitigating poor budget implementation in the country.

Keywords: ZBB, Traditional Budget System, Budget Indices, Sustainable development

JEL Classification: M41

INTRODUCTION

Government use budgets as a guiding tool for planning and control of its resources, be it financial or otherwise. When a budget of an establishment, department or ministry or even a country is created, it means creating a plan for spending and saving money. Concurring, Abdullahi and Angus (2012) stated that the use of budget involves knowing how much money you earn and spend over a period, particularly one year.

In Britain, the word was used to describe the leather bag in which the chancellor of the exchanger used to carry to the parliament the statement of government needs and sources as described by (Omolehinwa, 2005). After several thoughts of consensus, the budget became the

document contained in the bags which represent plans of government expressed in money and submitted to legislative for approval (Abdullahi and Angus, 2012). In Nigeria, budget is as old as the country but successive administrations had been faced with the challenge of appropriate budget implementation strategies which has led to below optimal performance of Nigerian budgets over the years.

Abdullahi and Angus (2012) reported that the process of preparing budget in Nigeria requires a call circular to the various departments, establishments, ministry or representatives who are expected to participate in the budget discussion. The budget director heads the budget committee and receives departmental or

organizational submissions for onward transmission to the chairman for authentication and verification. On receipt of the budget submission, the chairman is expected to go through the documents, make any necessary adjustment, corrections, modifications and additions based on the mission or objectives of the government. The President then submit the budget to the joint session of the legislative arm as a bill document. The legislative council reads the budget document carefully, discuss every aspect of it, make any amendment if any and send it to the Chief Executive for his consent and authentication. Once it is signed by the executive, it becomes a legal document to use for spending and control of money at any government department, establishment, ministry or representative. It should be noted that the document also serve as a catalyst for mitigating miss-appropriation in the use of public resources for the good of the state.

Budget is a means to end. Therefore, greater emphasis is on the budget implementation because it is effective and efficient budget implementation that determines how successful a budget is. It is a well-established fact that budget implementation is a bedrock of budget outcomes for the purpose of equitable resource allocation and accountability. Nigeria has been experiencing difficulties in budget implementation (Idio, 2011). Budget implementation in this study is the move to begin to apply budget as an operational plan. This means that the delay in putting into use the country budget to guide activities can create crises such as uncertainty on the direction of the economy as well as the seriousness of the policymakers in moving the country forward economically. Other challenges may include, misplacement of priorities, budget indiscipline and inadequacy of funds (Ekpo, 2012). Thus budget not only serves as an instrument of revenue/expenditure estimation but also as a catalyst for mitigating corruption in the use of public resources for the good of the state.

Nigeria with population of over 170 million people and a leading crude oil exporter with its major revenue derived from crude oil export has witnessed below optimal performance in its budget implementation occasioned largely by

the budgetary approach which is traditional in nature. The foregoing necessitated the need why the present administration advocates reengineering of budgetary approach hence the adoption of zero-based budgeting approach for the 2016 fiscal year which has generated a lot of interest from public servants, organised private sector and foreign investors. Nigeria is aspiring to be among the top 20th economies of the world by the year 2020 and has just adopted ZBB in her budgeting processes and implementations. ZBB is a budgeting process that distributes resources based on program efficiency and priority areas with appropriate performance measures rather than budget history or incremental basis. In its original sense, ZBB meant that no past decisions are taken for granted. Every previous budget decision is up for review. Existing and proposed programs are on an equal footing, and the traditional state practice of altering almost all existing budget lines by small amounts every year or two would be swept away (NCSL, 1995). According to Abdullahi and Angus (2012), key indicator of performance and growth is the embedment of budget discipline at all the tiers of government, thus money spent must be justified and satisfied by all the established budgetary and budget monitoring organs and this is the crux of ZBB approach to Public Sector Budget.

Meanwhile, Zero Base Budgeting (ZBB) in the public sector versus the private sector is a different process. This must be understood when implementing a ZBB process in the public sector. The use of ZBB in the private sector has been limited primarily to administrative overhead activities (Thomas, 1990). For example, Peter Pyhrr used ZBB successfully at Texas Instruments in the 1960s and authored an influential 1970 article in Harvard Business Review. In 1973, President Jimmy Carter, while governor of Georgia, contracted with Pyhrr to implement a ZBB system for the State of Georgia executive budget process (Thomas, 1990).

The aim of this paper is to investigate the extent of the application and implications of Zero-Based Budgeting (ZBB) as a device for budget implementation of Federal Government of

Nigeria. Following from this, the specific objectives of the study are to determine the effectiveness of ZBB compared to Traditional Budgeting System (TBS) and to determine if there is any relationship between zero-based budgeting approach and budget performance indices in Nigeria.

1. CONCEPTUAL REVIEW

A budget, according to Fong and Kumar (2002), is an important financial plan that incorporates a systematic analysis and interpretation of financial forecasts in terms of products, markets and the application of resources. Budget has also been defined by Reeve and Warren (2008) as an accounting device used to plan and control resources of Operational Departments of Governments and Divisions. These definitions and explanations of budget are similar but this paper adopted the concept of budget defined by Omolehinwa (2005) as a financial and/or quantitative statement, prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. According to Ekpenyong (2014), in budget, plans are translated into itemized, authorized and systematic plan of operation expressed in monetary terms for a given period usually one fiscal year.

Annual budget planning is conducted every year. When time passes, managers treat it as a regular practice and may fall into the habit of repeating a similar budget allocation and adjusting the figures slightly merely to account for inflation (Fong and Kumar, 2002). Government over the years has been preparing budgets for anticipated revenues and anticipated expenditures. Anticipated revenues of government are classified as oil revenues, non-oil revenues, and grants and aids while anticipated expenditures include recurrent expenditures, personnel costs, administration, maintenance cost and capital expenditures. It is the opinion of Kuye (2010) that government budget plan can only be effectively implemented with availability of funds, judiciously applied and accounted for.

In Governmental circles, as opined by Baker (2005) budgets are used to assist management

control and to provide the legal authority to levy taxes, collect revenue and make expenditure in accordance with the budget provisions. It is the budget that establishes and communicates the objectives and priorities of governing units. It is asserted by Edmonds, Edmonds, Olds, McNair, Tsay, Schneider and Milam (2007) that budgeting promotes planning, coordination, enhances performance measurement and introduces corrective actions.

Government uses budget as a base to initiate expenditure actions. Previous budgets help governments to track the level of success or failure achieved over the years. In order to keep track of activities that need to be included in the budget document, Abdullahi and Angus (2012) observed that many government organizations prepare their budgets based on incremental rather than other types of budgeting. It is opined by Langfield, Thorne and Hilton (2006) that the use of the revised current year estimates of income and expenditure as a starting point for determining the budget for next year is frequently claimed to be one of the most fundamental weaknesses of the traditional budgetary process. Traditional budgeting system (TBS) uses the incremental approach. Such an approach fails to consider whether a particular item is still required or whether the amount currently incurred is justifiable. The justification for increased expenditure is the increased cost of inputs, such as materials and labour. This incremental approach may not incorporate a careful evaluation of the level of services being offered (Hilton, 2005). Once an item appears in the budget at inception, its inclusion in future budgets is taken for granted and only incremental changes in the item are considered. In this type of situation, attention is therefore focused on the marginal or incremental difference between this year's budget and last year's budget rather than on the whole of the budget, and it is this that gives rise to the term incremental budgeting (Abdullahi and Angus, 2012). At the end of the year all unspent money will be returned to treasury. Some ministries often find it difficult to return such money so they resort to looking for

activities that will allow spending of more money in order to spend their budget.

In Nigeria, in order to overcome the lapses of incremental budgeting, the current administration adopted a clean slate type of budgeting which is otherwise known as zero-based budgeting (ZBB). Fong and Kumar (2002) asserted that zero-based budgeting offers a better approach to dealing with the drawbacks of traditional budgeting. They further stated that unlike in incremental budgeting, zero-based budgeting does not start from the previous year's budget level. Existing operations are studied, and continuance of the operation or activity must be justified on the basis of its usefulness and its need to the goal of government. As a result, each ministry, department and agency (MDA) begins from zero and prepares a series of budgets for each decision package under consideration. In the words of Ekpenyong (2014), ZBB is a budgeting and financial management strategy to help policymakers achieve more cost-effective delivery of public services. The concept of zero-base budgeting has been utilized successfully by private corporations and recommended for application to the federal budget for some time. For government use, this planning and budgeting technique endeavours to redirect efforts and funds from lower priority current programs to higher priority new programs, improve efficiency and effectiveness, and reduce spending. The main focus of ZBB is on optimizing accomplishments available at alternative budgetary levels (GAO, 1997).

In the view of Zia-ur-Rehman and Noman Shafi (2011), there are two distinguished characteristics of zero-base budgeting. Firstly, budgets are prepared separately in each organizational unit and secondly each unit's manager separately prioritizes these budgets at every level and each higher level manager then again prioritizes the budgets through the whole line of the employees who are responsible. Zero-based budgeting aims to justify resource allocation in an individual budget scheme, regardless of prior period budgets. It is not based on historical data and begins each budget period afresh. The budget is first allocated as zero unless the manager

responsible makes the case for resource allocation. The manager must justify the reasons for the financial resource allocation. Each budget item is queried as if it were new before any financial resources are allocated to it. Each plan is justified in terms of the total cost involved and the total benefits. Past performance is not referred to as a building block. Zero-based budgets are set to prevent regular budget creeping behaviour that emphasizes inflationary adjustments (Warren, Reeve and Fess, 2005). Concurring with this view, Fong and Kumar (2002) opined that new and old work tasks are treated equally and that every managerial activity is properly identified and then evaluated by analysing alternative levels of operation for the same activity. These alternatives are ranked and relative priorities are set for achieving effectiveness and efficiency. This approach differs from traditional budgeting techniques as it emphasizes the analysis of alternatives. Budgets are then built around what is needed for the upcoming period regardless of whether the budget is higher or lower than the previous one (Peter, 1978).

Therefore, for budget to be translated into concrete development and growth there must be a real forecast of goals or targets at all the tiers of governments. The essence of governments relying on budget is because it serves as a map of activities at all tiers of government. Reliable, accurate and timely presentation of budget will facilitate early government goals attainment (Ekpenyong, 2014). The challenge of budget implementation notwithstanding, there are a consensus for the need to plan. Budget is a plan of future actions expressed in financial terms. Nigeria had put forward her vision for 2020 and 2030 as shown in the Medium-Term Expenditure Framework (MTEF) and signing-on of sustainable development goals. Hence, one of the strategies for achieving this vision is the implementations of Zero-Based Budgeting.

Zero-based budgeting (ZBB) is becoming outstanding as a management tool in the realization of objectives devoid of delay crises in budget implementation. It is on this basis that the researchers examines the application and possible implications of Zero-Based Budgeting

(ZBB) as a device for budget implementation to improve the operations and achieve objectives in the management of Nigerian economy in face of dwindling revenues and rising public expenditures of Federal Government.

2. MATERIAL AND METHODS

This study adopted a survey research design. It took place in four geo-political zones of the Federal Republic of Nigeria. The zones were South-West, South-South, South-East and North-Central. The researchers-constructed instrument called "Zero-Based Budgeting for Nigerian Government Budget Implementation Questionnaire (ZBBNGBIQ)" was used for data collection. The instrument has 11 items of Four-Point Likert scale as strongly agree (4 points), agree (3 points), strongly disagree (2 points) and disagree (1 point). It was designed for the respondents to find out relevant information about the application of Zero-Based Budgeting (ZBB) for solving the problem of budget implementation and its budget performances potentials in Nigeria. In the four zones, the questionnaires were administered to the participants namely Administrators, Accountants, Financial Sector Employees, Government Employees, Business People and Public analysts. A total of three hundred and fifty questionnaires were administered in each zones to willing participants. Data were gathered on budget performance potentials of ZBB with regard to budget's impact on the following performance indices; Financial Sector, Agricultural Sector, Workers' Welfare Needs, Education and Research, Business Evolutions & Sustenance and General Economic Growth & Development. The data were analysed with SPSS version 21. Hence, Analysis of Variance (ANOVA) statistical tool was used for hypothesis one and Pearson Correlation for hypothesis two. The tests were conducted at 95% confidence level. Cronbach's Alpha reliability test was used to test the internal consistency reliability of the instrument used for the study.

H₀₁: There is no significant difference in the effectiveness of ZBB and Traditional Budgeting System (TBS) in terms of budget implementation.

H₀₂: There is no significant relationship between Zero-Based Budgeting (ZBB) as a device for budget implementation and selected budget performance indices.

3. RESULTS AND DISCUSSIONS

Tab. 1 showed the result of Cronbach's Alpha reliability test. Cronbach's alpha is 0.960, which indicates a high level of internal consistency for the scale since reliability coefficient of .70 or higher is considered "good reliability" in most research situations. Tab. 2 revealed that 80.5 % (i.e. addition of 50.0 % and 30.5 %) of the respondents were of the opinion that ZBB is more effective in budget implementation compare to Traditional Budgeting System (TBS). This analysis revealed that application of ZBB is performance-driven so as to justify every spending of the government; this will foster sustainable budget implementation and reduce the incidence of poor budget performance. The outcome of one-way ANOVA presented in Tab.3 showed that there is significant difference between the effectiveness of ZBB and TBS in terms of budget implementation ($F_{5,1194} = 28.128, p < .001$). This shows that the null hypothesis one which states that there is no significant difference in the effectiveness of ZBB and TBS in terms of budget implementation is rejected since p-value is less than the level of significance ($p = .000 < 0.05$). In order to support the decision on the null hypothesis one, null hypothesis two was formulated which states that there is no significant relationship between Zero-Based Budgeting (ZBB) as a device for budget implementation and selected budget performance indices. This is considered necessary to eliminate very overbearing responses from one geo-political zone that may influence generalization to all the selected zones. Therefore, to test the hypothesis two, Pearson Correlation was used as shown in Tab. 4. Using the Rowntree (1987) classification cited in Nyongesa and Silas (2009), table 4 showed that ZBB effectiveness and ZBB's ability to positively affect selected budget performance indices show a very strong and very high relationship which is statistically significant ($r =$

.976, $p < .001$). Hence, null hypothesis two is rejected since the significance level (0.05) is greater than p-value (.000) indicating that ZBB

has ability to foster positive performance in the selected budget indices.

Tab. 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.960	.962	11

Source: SPSS Reliability Result

Tab. 2: ZBB Effectiveness over Traditional Budgeting System

	Frequency	Percent
Strongly Agree	750	50.0
Agree	458	30.5
Disagree	169	11.3
Strongly Disagree	123	8.2
Total	1500	100.0

Source: Field Research, 2016

Tab. 3 ANOVA Result For ZBB Effectiveness over Traditional Budgeting System

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	116.083	5	23.217	28.128	.000
Within Groups	985.513	1194	.825		
Total	1101.597	1199			

Source: SPSS ANOVA Results

Tab. 4: Correlations Results

		ZBB more effective for budget implementation.	ZBB's ability to positively affect the selected budget performance indices.
ZBB more effective for budget implementation.	Pearson Correlation	1	.976**
	Sig. (1-tailed)		.000
	N	1500	1500
The application of ZBB positively affect the selected budget performance indices.	Pearson Correlation	.976**	1
	Sig. (1-tailed)	.000	
	N	1500	1500

Source: SPSS Correlation Results

** Correlation is significant at the 0.01 level (1-tailed).

CONCLUSIONS AND RECOMMENDATIONS

Zero-based budgeting, which is allied with Management By Objectives (MBO), requires a programme's existence to be justified in each financial year, as opposed to simply basing budgeting decisions on a previous year's allocation. It is a "bottom-up" approach to budgeting and development because it provides a systematic method of planning government financial resources. It requires an extensive amount of time and paper work. The results showed that ZBB is more effective for budget implementation than TBS. It also showed that ZBB has the ability to positively affect budget performance indices. This study has been able to establish that zero-based budgeting is performance driven; it will be able to detect the redundant programmes/projects and staff, thereby recommending either realignment, discharge or transfer or redeployment to other Ministries, Departments or Agencies. The study therefore, recommend that Zero-based budgeting should be encouraged as a good means of budget implementation and also close monitoring of budget execution that should be enshrined in work ethics of the country so as to strengthen other measures in mitigating poor budget implementation and ensure sustainable budget implementation in Nigeria. Key players in the budgetary process should be trained periodically on zero-based budgeting. This will enable them acquire relevance experience and knowledge for effective functioning. In addition, control of the budget should be made ethically paramount because ZBB not only aligns implementation strategy and budget objectives but also stipulates performance measures necessary to evaluate government policy thrust or direction.

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