REVIEWING CURRENT POLICIES, PROCESSES, AND PRACTICES OF PUBLIC WORKS DEPARTMENT'S BUDGETING AND EXPENDITURE FOR CAPITAL DEVELOPMENT PROGRAMMES AND PROJECTS: AN ACTION RESEARCH

By

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This thesis deals with budgeting and expenditure for capital programmes and projects in the Road and Airfield Branch (RAB) of the Public Works Department. Even though the emphasis was on the RAB but the analyses have transcended both the PWD and the MIDC as a whole. There has been no research done on the same subject both in Sarawak and Malaysia. It is hoped that this study using an Action Research methodology gives an insight in some practices of budgeting and expenditure in the department. The literature sheds some light in terms of practices and processes of budgeting in general elsewhere that are useful for this study.

However the study has not attempted to cover those aspects as taxation, balancing budget, capital investment appraisals of budgeting and so forth. Nevertheless, some behavioural aspects related to the organisational culture have been surveyed and analysed that produce interesting results.

The findings shed some light on the present processes, and practices in one of the major departments in Sarawak that warrant interventions to meet objectives of the new civil service as well as facing the vagaries of the ever-changing environment. The findings from a questionnaire survey have shown the important pointers in the department that needs attention. This includes communication, leadership, strategic direction, goals, and motivation. Recommendations made to the relevant authority, among others include best practices budgeting and expenditure, reengineering, organisational learning, organisational development, managing organisational culture and so forth. In the main they are intertwined with human resource development of the organisation. Some recommendations are also submitted for further research.
ABSTRAK


Kajian ini bagaimanapun tidak berhasrat untuk meninjau aspek-aspek seperti percukaian, belanjawan seimbang, penilaian pelaburan modal dan sebagainya. Bagaimanapun beberapa aspek mengenai kelakuan yang berkaitan dengan budaya organisasi telah ditinjau melalui satu soalselidik dan analisis yang mana telah menghasilkan hasil-hasil yang sangat menggalakkan.

CHAPTER ONE
INTRODUCTION TO STUDY

1.0. INTRODUCTION
This study reviewed the current policies, processes and practices of the Public Works Department (PWD) budgeting and expenditure for capital development programmes and projects using Action Research. Action Research involves a spiral of cycles of planning, acting, observing, reflecting and evaluation. It focused on the Road and Airfield Branch (RAB) of the PWD in view that the PWD is the largest public sector department in the State of Sarawak. This chapter discussed the background and statement of the problem, the purpose of study, the research questions, an explanation of some of the commonly used terms and limitations of the study.

1.1. BACKGROUND OF THE STUDY
Optimal utilisation of public funds is one of the key areas in the government’s effort to strengthen the public sector financial management. This issue is important in view of the current financial crisis and the fluctuation in the value of the Malaysian Ringgit relative to other currencies. The Deputy Prime Minister of Malaysia has recently announced that a budget cut of two percent across the board would be imposed for the 1998 Budget. The government has decided to defer or postpone a list of large projects. The list of mega projects involved were:
(a) the Bakun Hydroelectric Project
(b) the Linear City of Kuala Lumpur
(c) the Malaysian–Indonesian Bridge
(d) the Northern International Airport
(e) Procurement of military vehicles
(f) Putrajaya Administrative Centre Phase II
(g) Cameron Highlands - Fraser Hill - Genting Highland Road
(h) Light Rapid Transit in the states of Penang and Johore

The total costs of all the projects make up approximately RM 65.5 billion.

Since the Ministry of Infrastructure Development and Communications Sarawak (MIDC) is the biggest spender in terms of budgetary allocation and projects, therefore, measures must be effected to reduce expenditure and subsequently reduce costs and wastage, but at the same time achieve the desired results.

The theme of optimal utilisation of resources had been subject of focus over the years in view of the on-going campaign and movement by the public service to increase quality, productivity and accountability in the public sector. However, it had heightened when the nation is currently facing its worst financial crisis. In the present context, the MIDC and the PWD have to operate within a very tight budget that necessitates the achievement of the efficiency, effectiveness and accountability objectives of the government.

1.2. STATEMENT OF THE PROBLEM/THEMATIC CONCERN
A number of weaknesses had been identified not only in the financial management but also project management as areas of public concern. In term of financial management, the Auditor General (1993) had highlighted the issues of over expenditure and under expenditure in some capital development projects which had not been sanctioned by
the relevant authority. Furthermore, he queried on the non-compliance by the departments to the Financial Rules and Procedures laid down by the Financial Procedures Act 1957, the Federal Treasury and State Financial Secretary’s Circulars in implementing these projects (Appendix A). A number of outstanding cases were usually referred to the Public Accounts Committee for further scrutiny which reflect the seriousness of the matter or the concern of the members of the public at large. In term of project management, a number of issues had been identified for instance delay in project implementation, delay in payments of projects and finally deferment of some projects due to many and varied reasons.

The importance of efficiency and transparency in financial and project management had been mentioned by the political leaders of the nation and leaders of both the state and federal civil service from time to time and especially so with the current financial crisis (see Press statements in Appendix B).

Following the directive by the Minister of Finance and Deputy Prime Minister to cut the budget by 2 percent (see Appendix C), the Minister of Works, Malaysia had followed suit by announcing that the public works allocation would be cut by 15 percent across the board with immediate effect. The State Government of Sarawak had also heeded to this directive and announced through the last State Legislative Assembly sitting, a budget cut of 30 percent or RM588 million from the various sectors of the economy vis-à-vis the 1998 Budget (see Appendix D). These concerns had been highlighted by Official Reports over and over again and there have been little done to research into these aspects to redress them systematically and comprehensively.

The specific questions of this study were as follows:

(i) To what extent can the current processes and practices for PWD budgeting and expenditure for capital expenditure programmes and projects meet the objectives of the MIDC;
(ii) To what extent has the current budgeting process included or involved wide strata of stakeholders;
(iii) What is the possible organisational culture to be promoted in the PWD?
(iv) What are the possible best practices for budgetary preparation of capital development projects;
(v) What possible practices for budgetary preparation of capital development projects can be adapted; and
(vi) What are the guidelines that can be used by both managers (to include the top management as well as the Divisional Engineers and District Engineers) and implementers of capital development projects?

1.3. PURPOSES/OBJECTIVES OF THE STUDY

The purposes of the study were to systematically and comprehensively review Public Works Department’s current policies, processes and practices of budgeting and expenditure for capital development programmes and projects, and develop guidelines for both managers and implementers.

1.4. CONCEPTUAL FRAMEWORK

Although the principal focus of this paper was on processes and practices of budgeting and expenditure of capital development programmes and projects, the key
points to be raised here would be related to human resource development and organisational culture. This framework identify key issues that were relevant to the study namely

First, reviewing the processes of budgeting provides evidence on how organisation actually behaves. The technical aspects of budgeting are fairly straightforward whereas the behavioural issues relating to budgeting are much more complex.

Second, people are the most important resource in the organisation but management makes the difference between success and failures. Organisations of the future require focus on new human resource policies. As such, human capital must be revalued with emphasis on team collaboration in order to create workplaces and workforces that are capable of addressing the challenges of the future.

Third, management of organisational culture is a key variable in successful organisational change. Organisational Culture could be defined also as the predominant value system of an organisation. When those underlying values and beliefs are internalised by its members, a number of benefits would be reaped which among others – facilitates organisational decision making and control, generate high level of cooperation and commitment and so forth. However more often than not organisations that are relatively closed tend to adopt an inward looking orientation by being too formalised, and routine. The open organisation is usually characterised by flexibility, responsiveness and the ability to adapt to the environment. The positive influence of Organisational Culture on behaviour and working environment of employees must be viewed seriously. For instance, in organisations with strong cultures, every employee knows and supports the objectives of the organisation while in weak cultures, the objectives are not clearly defined.

Fourth, critics invariably argued that the public sector organisations, as represented by the PWD in this context, showed disparities in their performance as against the private sector. This was however confirmed by the prevalent practices of privatisation and contracting out of services to the private sector entities.

This study seeks to identify the organisational culture in the PWD in relation to the budgetary processes and practices by conducting a survey of the culture by selecting a group of respondents from the RAB at the Headquarters level. The organisational culture must be consistent with the new civil service policy and the efforts towards allocative efficiency, technical efficiency and finally the optimal utilisation of budgeted resources. For instance, if decision making is often made at the top level, they can lead to little empowerment and participation; poor communication leads to vague understanding of policies, mission and goals of the organisation. In the main, the question for managers would be: how to change cultures in order that employees think and act in appropriate ways and the attainment of the mission and goals?

1.5. SIGNIFICANCE OF THE STUDY
The significance of the study could be seen in terms of the learning outcomes for the participants of the Budgeting Action Research Group (BARG), the MIDC and the Public Works Department. The members of the BARG for instance went through the process of planning, acting, observing and reflecting in many mini cycles to arrive at their findings. The study could also benefit the policy makers such as the Minister of
Introduction to Study

Infrastructure Development and Communications Sarawak, the Minister of Finance and Utilities Sarawak, the Auditor General and those interested in the application of action research to the management of both financial resources and development projects. Above all, this study would be useful for leaders who wanted to shape their organisations to meet the challenges of the next millennium.

1.6. DEFINITION OF TERMS
The following terms would be used frequently throughout the study:

**Action Research:**
It is a methodology introduced by Kurt Lewin (1946). It consists of a spiral of cycles of action and research with each cycle comprising the four components of planning, action, observation and reflection.

**Action Learning:**
$L = P + Q$, where L is learning, P is programmed knowledge and Q is questioning insight. It was originally developed by Revans (1982)

**Budgeting Action Research Group (BARG)**
It comprises six members from the MIDC, RAB and the PWD Kuching Divisional Office.

**Budget Practice:**
It could be defined as a procedure that assists in accomplishing a principle and element of the budget process.

**Budget Process:**
It could be defined as activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

**Capital expenditure:**
The expenditure on new construction, land, and extensions of and alteration to existing buildings and the purchase of any fixed assets (e.g. machinery and plant) - including vehicles - having an expected working life of more than one year.

**Expenditure:**
Activities related to spending of public monies as approved by the Legislative Assembly or by Law.

**Incrementalism:**
The budgetary theory that dominated the mainstream of American budgeting for decades

**Line-item Budgeting:**
It is similar to 'Objects-of-expenditure'. It deals with input only that is what it takes to make a project continue. Under this approach, for instance the only policy related questions that one may be asking are (1) how many paper clips do we need and
what would they cost? Or (2) how many parks do we have and what would it cost to maintain them?

**Management By Objective (MBO):**
It is a process whereby an organisational goals and objectives are set through the participation of organisational members in terms of results expected. With this kind of definition, McGregor's Theory Y becomes an important component of the budgetary process.

**MIDC:**
It refers to the Ministry of Infrastructure Development and Communications Sarawak. As a State Ministry it is entrusted with the formulation of plans and policies on infrastructure development and communications in Sarawak.

**Modified Budgeting System (MBS):**
It refers to the Modified Budgeting System currently in use in Malaysia. It is essentially based on the principles and concepts of the PBBS. The differences lie in the existence of the expenditure limits that have been fixed earlier by Treasury as well as the use of new formats.

**Mid Term Review (MTR):**
A formal exercise of reviewing the Five-Year Development Plan – in this context the Seventh Malaysia Plan. This is normally done during the third year of the plan.

**Organisation**
Organisation is above all, social - people. Its purpose must therefore be to make the strengths of the people effective and their weaknesses irrelevant.

**Organisational Culture**
The culture of the organisation comprises the shared values, beliefs, customs, attitude and rituals of its members. In essence, it is the collection of desires, wants, experiences and histories of the people that make up the department.

**PBBS:**
Planning is the defining and choice of operational goals of the organization and the choice of methods and means to be used to achieve those goals over a specified time period.

Programming is the scheduling and implementation of the particular projects designed to fulfill an organization's goals in the most favourable, efficient, and effective way possible;

Budgeting is the price estimate attached to each goal, plan, programme, and project.
Policy:
It refers to "a course of conduct based on principle or advisability. For this context it is defined as a predetermined guide established to provide direction in decision making.

PWD:
The Public Works Department Sarawak

RAB:
It refers to the Road and Airfield Branch of the Public Works Department and the biggest.

Sixth Malaysia Plan (6MP):
It was the first phase of the Second Outline Perspective Plan (OPP2) covering a period of 1991-1995. The Plan dealt with the programmes and projects designed to achieve the objectives of the National Development Policy.

Seventh Malaysia Plan (7MP):
It covers the development period 1996-2000. It is the second phase of the Second Outline Perspective Plan.

State Financial Secretary Sarawak (SFS):
It refers to the State financial authority.

Zero-Base Budgeting (ZBB):
It was designed as a system of budgeting and planning that is presumed to identify and evaluate costs as well as focus attention to the highest priority objectives of the agency involved.

1.7. SCOPE AND LIMITATIONS OF THE STUDY
This study was not an attempt to specifically examine those aspects related to taxation, budget balancing, the politics of budgeting, assessing the economic rates of returns of roads expenditure and a myriad of other issues that were covered in the budget and expenditure literature. However the study mainly reviewed the budgeting and expenditure in respect of the capital works programmes and projects of the RAB of the PWD. The study aimed to generate recommendations and guidelines that might be applicable to the RAB and other branches in the PWD. In the process of the literature review however, mention had been made of the various approaches of budgeting that were inextricably linked with the administration in the U.S.

In view of the limited time of about four months to conduct the study, the action research processes as used in the study could not proceed with the implementation stage. This was primarily due to the fact that the researcher was mainly exposed with the conventional research method at the beginning of the 1997/98 session. The confusion was however overcome when the researcher was exposed with the method while attending a two-week course at the Gibaran Action Research Management Institute, Adelaide. Moreover the researcher had also spent
ample time to negotiate with the organisation before he could proceed with the research.

This project would however continue beyond the Master's degree programme insofar as implementation was concern. The Proforma Budgeting Guidelines proposed herein for instance required more feedback from many sources including the other branches, the Divisional and District Offices of the PWD throughout the State. The discussion would be useful in forming a basis for constructing an acceptable set of guidelines for adoption by the PWD as a whole.

The answers to some of the research questions and recommendations were based on the perceptions, observations and reflections of members of the Budgeting Action Research Group (BARG) and validations from the senior and top management of the MIDC and the PWD. Comparisons were also made from outside sources as cited by the literature.
CHAPTER TWO
LITERATURE REVIEW

2.0. INTRODUCTION
This chapter would firstly discuss the theoretical framework of budgetary theory, and an introduction to public expenditure. It went to consider the budgetary reform packages in the forms of new approaches and concepts based on researches mainly in the United States, and the United Kingdom. An overview of the budgeting system in Malaysia would also be briefly covered. Finally, it would also discuss on organisational culture and the behavioural issues related to budgeting.

2.1. BUDGETARY THEORY
The most influential works on budgeting in the last few decades were authored by the incrementalists such as Lindblom (1959), Wildavsky (1974), Fenno, Davis et al and Sharkansky. Lindblom (1959) suggests that in governmental decision making, successive limited comparison of policies is more feasible and rational than comprehensive analysis. Limited, noncomprehensive, incremental change, representing mutual adjustment of participating groups, is portrayed as the most common method of policy formulation. In the Politics of the Budgetary Process, Wildavsky (1974:15) examined the interaction of agencies and the US Congress and the resulting appropriations decisions as follows:

Budgeting is incremental, not comprehensive. The beginning of wisdom about an agency budget is that it is almost never actively reviewed as a whole every year in the sense of considering the value of all existing programs as compared to all possible alternatives. Instead, it is based on last year's budget with special attention given to a narrow range of increases or decreases.

This theory explains the strategies and behaviour of participants and the observed patterns of budgetary stability. In the process, agencies would attempt to establish a base and then gradually expand it. The strategy is to ask for an increase while expecting to be cut back. The US Congress for instance will make incremental cuts in agency requests because it expects the agencies to request more than they need.

The theory of budgetary incrementalism is not limited in application to the US federal budget but studies have shown that it transcends virtually every level of the US government as well as other nations and international organisations. Hoole et al (1976) found incremental decision rules in the United Nations and the WHO, and the ILO.

The theory has moved forward from its descriptive form into what Moreland (1975) called "analytic incrementalism", that is, mathematical representation of the process using regression equations. The final elevation of incrementalism was to a predictive theory using econometric modelling techniques. The main bias of incrementalism is perhaps its emphasis on stability as against change. The theory has dominated the mainstream of American budgeting for decades and will remain so primarily due to fact those government changes only marginally from year to year.
2.2. BUDGETING APPROACHES
2.2.1. Overview
Public Budgeting may be defined as an expression of revenue and expenditure for the future as a means for planning and management of the national resources to meet the needs of the people. Generally, the role of budgeting is that of an instrument of economic policy, enabling measurement of the impact of government fiscal and expenditure policies on the economy. It and can be divided into two categories namely (a) As a fiscal policy instrument and (b) A management tool. The focus of budgeting is the attainment of efficiency in the allocation of resources in the public sector, according to the goals of the fiscal policy. Ideally, goals are established in the light of available data and forecasts, and economic, political, and administrative constraints. Plans and programmes are developed in accordance with these goals, and specific projects are analysed and selected. Annual allocation of resources follows. During implementation, new issues are recognised and if necessary resources are reallocated. The budget is finally evaluated for accountability and the formulation of new goals. The aim is to maximise ad hoc approaches and integrate economic, financial, and programmes analysis into the budget process (Premchand, 1983).

In the following analysis, the researcher would illustrate the budgetary reform packages in terms of approaches in budgeting with special reference to the experience in the U.S. where much of the reforms were developed. However, for comparative purposes, the practices in the U.K. and Malaysia would also be illustrated.

2.2.2. Line-Item Budget
Line item, the traditional budget of expenditure format, includes expenditure information by accounting object of expenditure category. Historically, line-item budgets contained little information other than input costs. The use has diminished in the 1960s and 1970s as PPB and ZBB were adopted by many governments. In the 1980s and 1990s they have again become popular in some states and many local jurisdictions because they are easy to prepare using commercial spreadsheet programmes on PCs or accounting systems.

The tradition in non-profit-making organisation or the public sector has been a concentration on inputs (i.e. control of expenditure) where the control process has concentrated on comparing actual cash inputs with budgeted cash inputs. However, critics argued that such organisations more often than not calculate their budgets using an incremental approach. It was argued that the incrementalists will only perpetuate the past inefficiencies since the current activities are taken as given and not challenged.

Jones and Pendlebury (1984:130) stated the defects of line-item are as follows:
(a) The budget is subdivided on the basis of department or activity centres, each of which may operate several programmes either individually or as joint ventures;
(b) It is usually drawn up on an annual basis by comparing the previous year’s expenditure and adding increments, or perhaps decrements;
(c) There is a natural tendency, when dealing with inputs on an incremental basis, to favour existing programmes. New programmes have to compete with each other for limited resources, regardless of their priority; and
Control is primarily exercised on the budget inputs rather than its outputs. That is, it provides data on what government consumes rather than data about what government does or about the purposes for which money is spent.

Having said the above, the popularity of this approach has nevertheless been retained. For instance Cope (1996) cited his 1995 survey in the U.S. that over 79 percent of the 1,396 local governments that responded to a national survey on budgeting methods used a line-item budget format. This includes 74 percent of the 764 municipalities and 86 percent of the 632 countries surveyed either alone or with other elements as part of a hybrid budget format.

2.2.3. Performance Budget
The performance budget was designed to emphasise what government does rather than what it buys. In this type of budgeting, objects of expenditure are viewed in relation to the programmes they serve. In the US, this type of budgeting was earlier used in the Tennessee Valley Authority and the USDA in the 1930s and popularised by Hoover Commission. This method warrants an examination of budgeted expenditures in terms of overall programme direction, with performance measures designed to permeate every unit of government. These performance measures might either review the end products resulting from expenditure of public funds or the level of work activity which thereby resulted.

The American political era of the 1950s and 1960s got its roots in the Group theory. It suggested that the person who was responsible for budgeting must keep in mind that the budget is not merely an internal agency document, but is in fact reflective of the pressures of a wide variety of groups in the community. For this reason, change of an immoderate nature will lead to considerable pressure on the incumbent budgeter.

2.2.4. Planning, Programming, Budgeting System (PBBS)
The PPBS was the predominant budgeting approach developed in the 1960s and its intellectual origins are many and include:
(a) System theory
(b) Economic theory
(c) Planning theory
(d) Information/Decisional technologies
This package began with the assumption that government is limited in the amount it can expend. This implies that the government ought to limit its programmes in such a way as to provide the most benefits in relation to fiscal allocation:
First, there must be review of purposed action in terms of how they relate to governmental objectives.
Second, there must be an analysis performed concerning how the objectives would be accomplished given the amount of available resources. Programmes packages consisting of alternative approaches to solving the same problem would be developed, and compared in terms of their costs and benefits.
Third, there must be an effort to protect costs of programmes over an adequate time period (say, five to ten years) in order to gain recognition of total costs of proposed programmes.
Fourth, efforts must be made to determine how both private and public efforts would fit into the accomplishment of the given goal in order that necessary
macroeconomic decisions regarding appropriate expenditure levels for federal programmes might be made.
Fifth, by means of such mechanisms as social indicators it is seen as help to gain a sense of how expenditure of governmental monies would affect the section of society toward which such monies were targeted.

Budget reform through this approach was not very successful in view that it consumed a large amount of time, human resources, materials and other resources.

2.2.5. Management by Objectives (MBO)
Management by Objective is a philosophy of management first proposed by Drucker (1954). It seeks to judge the performance of employees based on their success in achieving the objectives they have established through consultation with their superiors. Performance-improvement efforts under MBO focus on the goals to be achieved by employees rather than the activities they perform or the traits they exhibit in connection with their assigned duties.

It was the time of Nixon that the Management by Objectives approach was implemented to replace the PPBS in 1971. This approach was not designed as a budgeting mechanism per se because it focused on the accomplishment of specific objectives of a substantive in nature. However, it can be interlined with budgeting strategies in the sense that the objectives outlined in the budget can then be implemented by means of a well designed Management by Objective system. According to Rose in "Implementation and Evaporation: The Record of MBO" (1977) the MBO approach was implemented for several years in the federal bureaucracy and then set aside because of OMB's recognition that it was a political reform requiring consensus about means and ends - and not a technically efficient means to implement the objectives.

The ideal type of MBO involved a set of specific steps, including

(a) Developing a mission statement for the unit.
(b) Identifying subsidiary objectives which break the mission statement into management sub-areas.
(c) Designing measurable goals.
(d) Drafting time lines for implementation, utilising techniques such as PERT/CPM as well as GANTT charting, and incorporating within them specific milestones for their accomplishment.

2.2.6. Zero-Base Budgeting (ZBB)
ZBB was designed as a system of budgeting and planning that is presumed to identify and evaluate costs as well as focus attention to the highest priority objectives of the agency involved. ZBB is similar to PBBS and MBO in a number of ways since it is what Landau calls it a "management control system". (Landau and Stout, 1979).

ZBB was popularised by President Jimmy Carter when he conceived that it could be a highly efficient means of controlling spending, which he had used in state government in Georgia. It has among others the following elements:

(a) Efforts to have top management set overall objectives at the beginning of the budget process.
(b) Efforts to place more power in the hands of middle management (at least in terms of preparation of decision packages).
(c) An effort to analyse all elements of governmental spending prioritised by each level of management in terms of desirability.
If the major purposes of budgeting as being control, management orientation, and planning, Herbert (1979) notes that it is not possible to ascertain a major purpose of ZBB. He argued the following points:

(a) ZBB is not a continuation of PPBS because it does not emphasise ends (and it does not utilise cost-benefit analysis to any great extent).

(b) ZBB does not emphasise work load measurement such as performance budgeting, but is different from performance budgeting since it suggests budgeting from a zero base.

(c) ZBB has historic similarities to the 1952 Lewis discussion of "the alternative budget system".

2.3. EXPENDITURE

Capital expenditure by definition is related to new construction, land, and extensions of and alteration to existing buildings and the purchase of any fixed assets (e.g. machinery and plant) - including vehicles - having an expected working life of more than one year. (Likierman, 1988). Usually the current expenditure is closely tied to the capital expenditure and in time of crisis, usually the capital expenditure will be cut first.

According to Beyer (1973) government allocate resources to carry out their objectives and priorities through revenue or expenditure policies; budget document reflect government options, activities, intention, and decision making in allocating available resources. This allocating policy making implies a choice among competing claims.

In the context of the UK Lawton and Rose (1994) cited that The Plowden Committee on Planning and Control of Public Expenditure recommended a system of annual surveys of planned public expenditure for years ahead. This led to the introduction of the so-called PES system. The PES involved the cost projection of existing policies (Heclo and Wildasky, 1981). The committee (known as the Public Expenditure Survey Committee, PESC) consisted of an inter-departmental group of departmental financial officers and Treasury officials prepared information for decision makers. They then compared total spending implications of policies available resources and different expenditures against each other. This was done by costing programmes up to five years ahead. The idea then was to introduce greater rationality to the public expenditure process. However, the eventual effect was, as Heclo and Wildavsky observe, to enshrine incrementalism. They state:

If PES makes it less likely that new monetary programmes with large spending implications will be introduced inadvertently, it also helps to assure departments that their ongoing programmes will not suddenly be disrupted (1981:238).

Public expenditures are options and priorities of the government. They imply a choice among competing claims: the government decodes who should spend how much of the total resources, how, why and at who's expense. These decisions are bound to reflect changing political, social and economic priorities as well as the administrative constraints of government.

There are procedures for selecting among alternative expenditures. The criteria for such choices could be linked to the institution, to historic factors, to power and political relations in decision making.
2.4. OPERATIONAL DEFINITIONS

2.4.1. Definition of Policies
According to the New American Webster Dictionary (1981), policy refers to a course of conduct based on principle or advisability. Watkin (1997) defined policies as directives designed to guide the thinking, decisions, and actions of managers and their subordinates in implementing a firm's strategy. Policies provide guidelines for establishing and controlling ongoing operations in a manner consistent with the firm's strategic objectives. Policies communicate specific guides to decisions. They are designed to control and reinforce the implementation of functional strategies and the grand strategy (Watkin, 1997). The ultimate goals of public policy are to improve the quality of future governmental decisions and to work toward improving the quality of some aspect of human life (Portney, 1986). In this respect, the implementation of public policy in developing countries is crucial in the steps toward the developed nation status. Hence, the ability of the public bureaucrats to identify all the variables that affect the achievement of their objectives becomes the crucial factors for implementation.

2.4.2. Definition of the Budget Process
According to Cope (1996) budgeting process could be defined as "the political and legal means by which public officials plan, evaluate, and decide how resources will be allocated among competing claims." For the purpose of this study the budget process could also be defined as activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets. Good budgeting is a broadly defined process that has political, managerial, planning, communication, and financial dimensions. The budget process is not merely to balance the book every year, but is strategic in nature, encompassing a multi year financial and operating plan that allocates resources on the basis of the set goals and objectives. The characteristics of a good budget process must possess the following:

(a) Incorporates a long-term perspective
(b) Establishes linkages to broad organisational goals
(c) Focuses budget decisions on result and outcomes
(d) Involves and promotes effective communication with stakeholders
(e) Provide incentives to government management and employees.

Examination of the budgetary process in the public sector provides interesting evidence on how organisations actually behave (Lawton and Rose, 1994). The budget process varies from organisation to organisation but all will share the common theme of allocating resources through a political process. It is political not necessary because politicians are involved but because it involves the representation of organisational interest and has scope for budgeting and conflict. Furthermore, planning and budgeting is essentially a management function not an accounting function. The financial staff will provide the necessary data to facilitate decision making but the budget-making involves all of the organisation's management team viz. managers/directors/supervisors.

Cope (1996) also stated that in the context of the U.S. as a whole, many changes in budgeting process are taking place at all levels of government, in conjunction with the various management intervention such as TQM and because of government performance reviews and reinvention activities. The scope of this study would be narrowed to capital budgeting. According to Canada, Sullivan and White (1996), capital budgeting are the series of decisions by individual economic units as to
how much and where resources will be obtained and expended for future use, particularly in the production of future goods and services.

2.4.3. Definition of Budget Practice
For the purpose of the study, a budget practice could be defined as a procedure that assist in accomplishing a principle and element of the budget process. Budget practices could be hierarchical - that is, one practice can help accomplish another practice. A practice is not a budget practice unless it specifically contributes to the development, description, understanding, implementation and evaluation of a plan for provision of services and capital assets.

2.4.4. Definition of Programme
According to Salamon (1989) a programme is “a particular combination of authority, organisations, resources and personnel assembled to achieve specific purposes”. For the purpose of this study a programme could be defined as a project or a group of projects to achieve a specific purpose.

2.5. BEHAVIOURAL ASPECTS OF BUDGETING
Emmanuel et al. (1990) emphasised that the technical aspects of budgeting are fairly straightforward whereas the behavioural issues relating to budgeting are much more complex. The critical problems arise out of how managers use the information provided by the budget system, and how the effects of such used feedback on the information that is entered into the budget. It is useful to consider this area under the following headings:

(a) Management use of budgets
Broadbent and Cullen (1993:123-124) cited that Dee and Gee (1973) indicated that many managers considered that the budgetary information with which they were provided was not very useful, and it was frequently ignored. To account for this, they tested the following condition, which were considered necessary for an effective system of budgetary control:

First, management's authority and responsibility must be clear - in Dew and Gee's study this condition was not always satisfied. Second, managers must accept their budgets and consider them to be attainable - Dew and Gee discovered that participation improved the attitude of middle managers towards control information. A considerable amount of work has been undertaken with regard to the level of targets used in budgets. The consensus view seems to be that the highest level of performance is achieved by setting the most difficult specific goals, which are acceptable to managers, the key point being that the budget is difficult but attainable.

Third, budgetary control information must be understood by the managers - managers included in the study tended to be unhappy about the way in which budgetary information was presented. There was no flexibility in terms of presentation and all reports tended to be in a similar format. Dew and Gee suggested that formats needed to be flexible in order to meet the requirements of different managers.

Fourth, training in budgetary control must be effective - the study suggested that managers looks for personal contact with accountants in order to understand the aim of budgetary information.
Fifth, managers must understand the aim of budgetary information - the study by Dew and Gee suggested that many managers were suspicious about the role of budgets and tended to look at the process in a fairly negative way.

(b) Participation
Participation in the decisions of the organisation has been advocated as a way to increase individual motivation while simultaneously reducing interdepartmental conflict. The behaviour literature has generally argued for participation and the most current management theorists believed that employee initiative, performance, and morale are increased with employee participation (Brownwell, 1983; Ronen and Livingstone, 1975).

There has been considerable debate about the role of participation in the setting up of budgets. Most observers are of opinion that participation in budget setting is a prerequisite for a meaningful budget. It was argued by Dew and Gee (1973) that participation in the budget setting process improved the attitude of middle managers to the control process. The fact that managers have been involved in setting the budget makes it more likely that they will accept it. The acceptance of a budget target is crucial to the success or failure of a budgeting system (Broadbent and Cullen, 1993). One indication that an organisation encourages active participation is the existence of good superior-subordinate relationship fostered by (1) frequent person to person contact, (2) the use of results in performance appraisal, (3) the use of departmental meetings to review actual results, and (4) the creation of a game spirit where there is a margin for error, tolerance, and slack (Hofstede, 1968).

(c) Budgets as targets
Hofstede (1968) suggested that the highest level of performance is achieved by setting the most difficult specific goal, which will be accepted by the manager concerned. However, Stedry (1960) on the other hand suggested that the formulation of a specific target improved performance. But he added that that the precise effect is determined by the way in which the target influences the participant's own goals or 'levels of aspiration'. The crucial feature of targets seemed to be that they must be accepted by the person to whom they are assigned (Emmanuel et al, 1990).

(d) Budgets as forecasts
When budgets are prepared in organisations, budgetary biasing may take place. Budgetary biasing is usually associated with people introducing slack into their budgets so that they can achieve their targets more easily. However, there is also evidence that managers operating in tough environment may bias their estimates in the opposite direction and set themselves budget that they are unlikely to achieve. The reason being that managers may be feeling insecure because of past poor performance and feel that by promising improvement, they would gain immediate approval despite the risk of future disappointment. Broadbent and Cullen (1993) cited that Lukka (1988) found evidence of both forms of budgetary biasing in the organisation he looked at.

(e) The use of budgets in performance evaluation
Budgetary control system is often viewed very negatively. In a study by Hopewood (1976), three distinct styles of using budget and actual cost information in performance evaluation were observed and were described as follows: