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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Streamlining Zero-base Budgeting Will Benefit Decisionmaking

Zero-base budgeting is a process that considers other ways of carrying out programs and activities It also examines current organizational objectives, operations, and costs A special feature of ZBB is that programs are ranked by their order of importance to the organization

GAO looked at zero-base budgeting in industry and Federal, State, and local governments and believes that the concept can be useful in analysis and decisionmaking It should be incorporated into the planning, budgeting, and reassessment functions of the organization

Its ultimate success in the Federal Government will depend on management's efforts to streamline the process to fit the needs of the agencies, OMB, the President, and the Congress

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PAD 79-45
SEPTEMBER 25, 1979

B-170612(1)

To the President of the Senate and the
Speaker of the House of Representatives

Dear Mr. Speaker:

This report assesses zero-base budgeting (ZBB) as a tool
for analysis and decisionmaking. After looking at the way it
was implemented in various public and private organizations,
we concluded that ZBB concepts, if applied appropriately, can
be useful in analysis and decisionmaking. This report also
contains our recommendation to streamline the process to fit
the needs of most organizations using ZBB, especially those
in the Federal Government.

The Federal budget process plays a major role in
Government decisionmaking. Consequently, we believe it is
important that the Congress understand and support the major
changes we are recommending in this report.

We made this study to determine the most useful aspects
of zero-base budgeting and its strong and weak points. We
studied the values industry and Federal and State government
people attribute to zero-base budgeting and how they use it.
Mainly, through the use of interviews, we identified zero-base
budget users' perceptions of (1) the usefulness of zero-base
budgeting to their management decisionmaking process and (2)
its weaknesses.

In-depth interviews were conducted in the public and
private sectors with legislative representatives, senior
career staff in the Office of Management and Budget, top,
managers, program managers, and budget officers. In addition,
we made a telephone survey of the budget officers of selected
corporations, 20 other major Federal agencies, and other
State governments not visited.

We are sending copies of this report to the Director,
Office of Management and Budget; to the heads of the organiza-
tions that participated in the study; and to the heads of
the Federal departments and agencies.

Comptroller General
of the United States

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D i g e s t

GAO assessed zero-base budgeting as a tool
for analysis and decisionmaking. Managers
using this concept

--examine current objectives, operations,
  and costs;

--consider other ways of carrying out their
  program or activities; and

--rank different programs or activities by
  order of importance to their organization.

Its ultimate success in the Federal
Government will depend on efforts to stream-
line the process to fit the needs of the agen-
cies, OMB, the President, and the Congress.

Indepth interviews were conducted with pri-
vate corporations, State and county govern-
ments, Federal agencies, the Office of Man-
agement and Budget (OMB), and Congressional
committees.

GAO found that often both private and public
sectors hastily applied a rigid, mechanical
zero-base budgeting process. This led to
problems which resulted in:

--Expectations and results differing at
  different management levels.

--Duplication of effort.

--Useless information.

--Lack of incentives to cut waste.

--Frustrations created by having few
  visible results to show for the resources
  committed.

The experiences of successful organizations show that zero-base budgeting does not belong solely in the budget cycle and it is not a strict process mechanism.

Rather, zero-base budgeting concepts should be incorporated into an organization's planning, budgeting, and reassessment processes so as to strengthen and streamline all of these analyses and decisionmaking functions.

Implementing zero-base budgeting concepts into the Federal budget process has added useful information on managers' priorities, but it has also increased the workload of preparing the budget. Zero-base budgeting's first 2 years have expanded the workload of Federal budget process, but generated limited optimism for the system in the agencies GAO studied. There is a long way to go before its benefits can be fully realized.

For zero-base budgeting to be effective, the Federal budget process should be streamlined in several ways. Zero-base budgeting concepts should be incorporated into the planning, budgeting and reassessment functions. Nonessential information reporting requirements should be eliminated. The rules should be clear to everyone and incentives should be created so managers will want to participate actively. The now separate Federal budget presentations which support the executive and legislative information needs should be linked. Some of these include zero-base budgeting information; some do not.

Linking the information should make it more useful to various decisionmaking bodies, because they would all be using more consistently structured information. Making budget presentations more comparable should have the added benefit of reducing the duplicate work required of agencies that now prepare budget data in several forms for different review groups.

The Federal budget process plays a major role in Government decisionmaking. Consequently, GAO believes it is important that the Congress

understand and support the major changes we
are recommending in this report

If public and private organizations adopt
the broad definition of zero-base budgeting
and the implementation approach that GAO
suggests, they should be able to streamline
the process to their individual needs. Spe-
cific recommendations for the Federal Govern-
ment follow.

Recommendations

GAO recommends that the Director, OMB,
require that the Federal zero-base budgeting
process be streamlined, retaining the basic
concepts and reducing the process and paper-
work aspects.

This should include:

--Identifying the essential information
  needs of each agency, the Office of
  Management and Budget, the President, and
  the Congress that can reasonably be
  provided by zero-base budgeting and elim-
  inating other reporting requirements.

--Phasing the planning, budgeting, and reas-
  sessment activities and providing firm
  links between the phases.

--Achieving agreement between OMB and the
  agencies during the spring on what
  programs/ activities will receive com-
  prehensive zero-base budgeting treatment
  during the upcoming zero-base budget
  cycle. Developing comprehensive infor-
  mation for policy and program review
  only on those agreed upon programs/
  activities. Developing the minimum
  information necessary on all other
  programs/activities for comprehensive
  ranking.

--Incorporating flexibility into the process
  so that agencies find zero-base budgeting
  advantageous in formulating operational
  plans;

--Unifying or linking the zero-base budgeting
  program/ activity lists with the President's,
  the agencies', and authorizations and appro-
  priations committees' lists to the maximum
  extent practicable and requiring agencies
  to promptly design their accounting systems
  to provide data necessary to support the
  adopted zero-base budgeting structure.

--We also believe OMB should recognize that
  success requires, (1) clearly defined rules
  for zero-base budgeting, (2) zero-base bud-
  geting design responsibility at a suffi-
  ciently high level to bring about change,
  and (3) incentives established for managers
  to view zero-base budgeting as an opportunity
  to win. Consideration should be given to
  incentives such as (1) returning to a man-
  ager's program (for congressionally approved
  activities) part of a budget cut which was
  recommended by him or her and accepted, (2)
  releasing a program/activity from indepth
  budget review every year, and (3) using a
  manager's performance in identifying and
  achieving through zero-base budgeting the
  best possible and least wasteful way of
  doing business as one of the indicators
  used in complying with the Civil Service
  Reform Act mandate to link pay to perform-
  ance.

AGENCY COMMENTS

Comments on this report touch on many
different issues, which reflect the differ-
ent ways zero-base budgeting is used by
the organizations we contacted (Federal,
State and county governments, and private
business). Overall, the comments on the
report were favorable. Most agreed with
the report and accepted the conclusions.

OMB, however, disagreed with several of
GAO's recommendations. It thinks that:

--The zero-base budgeting program/activity
  list does not need to be unified on a
  one-to-one basis with other congressional
  decisionmaking lists.

--It does not need to issue further guidance on phasing the planning, budgeting, and reassessing activities and setting up links between phases.

--The amount of information presently required is needed to rank comprehensively all programs/activities not identified during the spring for comprehensive zero-base budgeting treatment.

--Decisionmaking rules are not being ignored by higher level managers.

GAO still supports its recommendations. These issues and GAO's responses are discussed in chapter 7.

<u>C o n t e n t s</u>

CHAPTER 1

ZERO-BASE BUDGETING CONCEPT

Zero-base budgeting (ZBB) is the now fashionable budgeting process. Why fashionable? Theorists claim it strives to give managers all information on all alternatives to all programs in an organization, so the managers can decide whether the programs should be funded and, if so, at what level. Although not a recent arrival on the budgeting scene, ZBB has only lately been used extensively in governments and private business. Because of ZBB's relative newness, there have been problems in its use, but there have also been successes. We studied these and from them came up with a way that most organizations can use ZBB to make improvements in their analyses and decisionmaking.

We also prepared our own definition of ZBB, because it means different things to different people. In this report, ZBB means any systematic budget analysis in support of decisionmaking in which managers (1) examine current objectives, operations, and costs; (2) consider alternative ways of carrying out their program or activity; and (3) rank different programs or activities by order of importance to their organization. This is a deliberately general definition, so that the details of the process do not dictate the definition. The elements are found in most good budgeting systems. Generally, the organizations we studied do not literally start from zero. Each organization assumed a base of activities necessary to carry on operations. Those bases are considered essential and not subject to review. Instead, efforts are focused on determining priorities, analyzing urgent issues, and considering alternative funding levels.

The publicity surrounding ZBB which portrays it as a process by which costs can be cut as well as reallocated, has caught the attention of politicians nationwide. The numerous articles, books, and seminars on the subject have, of course, helped fix ZBB's position in the public eye as well. Apparently, however, the public and politicians have seen this budget process as if from afar, where its intricate structure and interrelationships are not visible. That is, the public has been led to believe that ZBB cuts costs, in turn reducing taxes, and that all programs are justified afresh each year. (This is a generalization.)

Given this perception, relentless growth in government expenditures combined with the public's reluctance to accept further tax increases have led the public to clamor for

1

Pocket Constitution

The Declaration of Independence
The Constitution of the United States
The Bill of Rights
Amendments XI–XXVII

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ZBB APPEALS

o   To the politicians as

    *   A vote getter

    *   Stemming the spread of the proposition 13 and balanced budget
       revolt

o   To the public as

    *   Seeking and eliminating waste

    *   Cutting spending, thereby, reducing taxes

    *   Looking at all activities from zero

tighter fiscal control such as they think ZBB can provide.
Reacting to this, politicians may see ZBB as a way of heading
off, or reducing, widespread revolt along the lines of
California's proposition 13 and, therefore, feel obliged
to at least consider, if not implement, the process. Other
ways legislators have responded are reflected in sunset laws
and proposals.
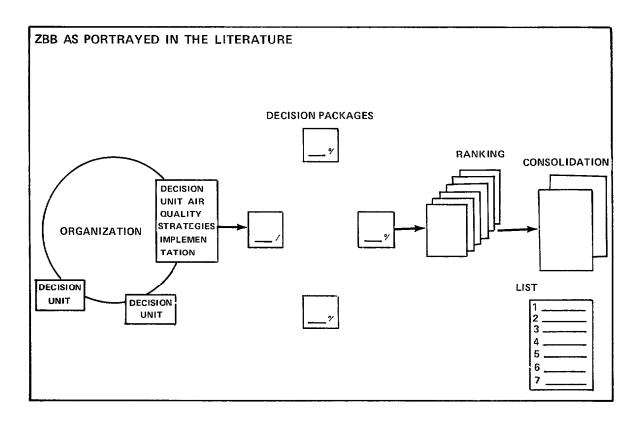
ZBB, AS DESCRIBED BY THEORISTS, COMPARED TO TRADITIONAL BUDGET PROCESS

Traditionally, many organizations have followed an incre-
mental budgeting process. That is, rather than examining
operations in depth, they budget money each year for individ-
ual programs or activities by adjusting at the margin for
foreseen changes, including for such things as new legisla-
tion, projects, activities, and inflation. Critics often
claim that incremental budgeting thus ignores the trade-offs
that might be revealed by deep analysis, and it thereby leads
to excessive total spending and a misallocation of funds
among programs.

In contrast, ZBB proponents say that ZBB does not assume
that existing programs and operations are automatically car-
ried forward into the future. All existing and proposed
programs, and possible trade-offs, are considered on their
merits, without regard to previous funding levels. As a
result, some old programs are expected to expire while new
ones are expected to emerge.

The origin of ZBB has been traced back to at least 1924 and probably goes back much further. As early as 1962, the Department of Agriculture used a variant of ZBB to formulate its fiscal year 1964 budget estimates. However, branded as a failure, the process was abandoned until the late sixties when a modern version of ZBB was successfully used by private businesses. Its success has provided the impetus for numerous States and the Federal Government to adopt the concept in the seventies.

Under the modern version of ZBB as portrayed in the literature, allocation of funds among activities takes place through a process involving several steps.

First, the activities of the organization which need or request resources are identified. These activities are usually referred to as decision units. For example, a decision unit could be an alcoholism program, the reproduction of pamphlets, or research and development on a specific product line. Second, decision packages for each decision unit are prepared. Decision packages contain:

--the goals or objectives of the activity,

--the consequences of not performing the activity,

--alternative ways of doing the activity, and

--alternative levels of effort and spending to carry out the activity.

Once decision packages have been prepared, they are ranked in descending order of importance and sent to the next higher organizational level. As decision packages are sent up the organizational ladder, the manager of the next level may consolidate the rankings of the various programs or activities for which he or she is responsible. This process continues until the senior management level (in the case of the Federal Government, the President and his staff) produces the final ranking. Through this ranking process, scarce resources are presumably budgeted in an efficient manner.

ZBB ADVANTAGES

o   Ranks programs by priority

o   Links planning to budgeting

o   Identifies alternative ways of carrying out an activity

o   Presents a variety of funding levels

o   Increases managers' involvement in the budget process

As described in literature on the subject, ZBB offers several advantages over traditional budgeting: ranking programs by priority, planning in advance, identifying alternative ways of doing and funding programs, and increasing managers' involvement in the budget process.

Priority setting is an integral part of ZBB. The literature says all parts of the budget are supposed to be ranked in terms of priority to the organization. If parts of the previous budget are now low on the priority list, funds previously allocated to them can be redirected toward higher priority items. In contrast, under incremental budgeting, past decisions become part of the base budget. These may or may not be intended to be carried forward into future years. Quite often the base remains undisturbed in such cases because the focus is on proposed changes. With zero-base budgeting, however, marginal programs are identified (regardless of whether they are part of past budgets) and resources can be allocated from them to higher priority programs.

4

Another cited advantage to ZBB is that the planning and budgeting processes must be closely linked. Under incremental budgeting, an annual operating plan is often extended each year by continually approving the base budget. Theoretically, ZBB requires that decision packages be linked to the organization's long-range goals and objectives.

The literature attributes a third important feature to zero-base budgeting. Alternative ways of carrying out an activity, including costs and benefits, are considered when developing decision packages. As a result, innovation is supposed to be fostered. This innovation comes not from a special research and development group but from the rank and file managers who put together the decision packages. While the alternatives do not necessarily represent drastic changes, they do force managers to consider other ways of accomplishing the organization's goals. Under incremental budgeting, alternatives are not necessarily considered.
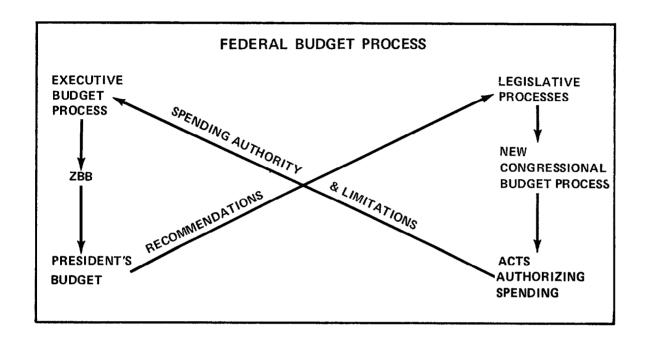
Another reason the literature considers ZBB preferable to incremental budgeting is because decision packages present different funding levels for each program. These alternate levels typically include a minimum level, which may be substantially below the current budget, and a higher level that would mean expanding the program. Funding levels with finer gradations may be added. Having a variety of levels allows decisionmakers to foresee the effects of shifting budget allocations from one activity to another and, thus, facilitates the budgeting process.

Finally, increased involvement of managers in the budget process is cited as advantageous. First line supervisors and program managers participate in the formation of their budgets, whereas under incremental budgeting often only the budget personnel put together next year's budget. Through the increased management involvement with ZBB, proposals are handled and evaluated more efficiently and allocations can be made more equitably.

ZBB AS A PART OF THE FEDERAL BUDGET PROCESS

ZBB is the most recent innovation in the executive side of the Federal budget process. As shown in the illustration on page 6, ZBB is used in putting together the President's budget documents which are sent to the Congress. In turn, the congressional budget process is used to create the congressional budget in the form of the acts authorizing spending or appropriating funds for already authorized programs. The acts, in turn, govern the spending of the executive branch, thereby affecting the agencies' ZBB results and, consequently, the next year's ZBB.

5

On the legislative side, the most recent budget change was mandated by the Congressional Budget and Impoundment Control Act of 1974. The act introduced what is commonly called the congressional budget process. Where before, each appropriations act was passed independently, now there is a coordinated setting of functional targets within a total budget goal. This is orchestrated on a legislatively mandated schedule. Further discussion is in chapter 6.

FEDERAL BUDGET PROCESS

EXECUTIVE
BUDGET
PROCESS

SPENDING AUTHORITY

RECOMMENDATIONS

& LIMITATIONS

ZBB

LEGISLATIVE
PROCESSES

NEW
CONGRESSIONAL
BUDGET PROCESS

PRESIDENT'S
BUDGET

ACTS
AUTHORIZING
SPENDING

CHAPTER 2

SCOPE AND METHODOLOGY

To determine the most useful aspects of zero-base budgeting, we studied the values government and industry attributed to ZBB and the uses made of ZBB. The strong and weak points of ZBB as perceived by these groups and the consistency of these perceptions among the different groups were determined. In addition, we identified the perceptions of the usefulness of ZBB to the management decisionmaking process, as well as the general procedures being used in implementing ZBB.

There are a variety of research methodologies that could be utilized in conducting a study of ZBB. These include: (1) a study of archival data, (2) a laboratory experiment, (3) a field experiment, (4) a field study, and (5) research based on a survey.

A study based on archival data requires the passage of enough time to develop extensive information. Further, the underlying process from which this data is generated should be stable. Given the newness of ZBB in the Federal Government and most other organizations, it was concluded that this methodology would be inappropriate for the purposes of this study.

A laboratory experiment consists of controlling--in a laboratory setting--all of the influential factors. Experiments of this kind allow full control over the whole process, but often focus on a few small details. Given the need to focus on the broad issues associated with ZBB, this methodology was deemed inappropriate.

Field experiments are conducted in the natural setting of the issue being studied and consist of controlling some of the key factors. While eliminating some of the problems associated with laboratory experiments, field experiments still require the ability to control some factors. Therefore, due to some extraneous and uncontrollable factors, some issues are lost in field experiments. GAO has no managerial control over the organizations using ZBB. Accordingly, we did not use this methodology.

Field studies usually consist of a few case studies. These studies provide indepth analysis of the issues being examined, often over long periods of time. However, it is difficult, if not impossible to generalize to a large population based on a few select studies. Also, when the data collection is based on observations, comparability from

7

one study to the next is often difficult to establish. Because a more extensive sample was necessary and any suggested improvements were time critical, we chose not to use this precise methodology.

Survey research attempts to collect data from a representative sample of the population of interest. In general, a research program is constructed that includes a sampling design and an interview guide or questionnaire. The data collection approach can be conducted in various ways, such as personal interviews, phone interviews, mail questionnaires or any combination. This type of research can accommodate a reasonably large sample size and allows the use of specific information to draw conclusions about larger populations. It also provides the benefit of dealing with issues in their natural setting. However, this method does not allow the indepth analysis that can be performed by a field study.

While all these methods have their strengths and weaknesses, due to the points cited above and considering the resources available, the methodology chosen for this empirical study was a blend of survey and field study approaches. The sample selection was determined by factors discussed below.

The study primarily involved six corporations, three Federal agencies, seven State governments, and one county government. In addition, we gathered information from four congressional committees, the Office of Management and Budget, other Federal agencies, and certain researchers. We made a telephone survey of the budget officers of (1) 10 corporations selected at random from Fortune's first 1,000 industrial and its first 50 retail companies, (2) 20 other major Federal agencies, and (3) 30 State governments not visited. These telephone interviews were based on a structured questionnaire which had both open-ended and close-ended questions.

The three Federal agencies studied were the Department of Labor, the Environmental Protection Agency, and the Department of Housing and Urban Development. These agencies were selected partly because of their field office's participation in preparing ZBB packages, the seriousness and intensity with which they were reported to have undertaken ZBB, and the indicated successes that the agencies had had in using ZBB.

The seven States visited--California, Idaho, Kansas, New Jersey, New Mexico, Rhode Island, and Texas--had instituted ZBB and had actual working experience with it. The States represented a cross section of the country and a mixture of population, size, and industry. In addition, the

Proposition 13 activity in California and comments by State officials prompted us to select the San Mateo County government, which operates a ZBB system.

The corporations selected were American Telephone and Telegraph Company, New York Telephone, The Boeing Company, The Parsons and Whittemore Organization, Texas Instruments Incorporated, and United Virginia Bankshares Incorporated. These large corporations were selected based on knowledge that they had used ZBB and represented a cross section of utility, manufacturing, and service-oriented companies. We also included some which had contractual relationships with the Federal Government. Actual locations visited are listed in appendix I.

Indepth interviews totaled 163 and were held with the following types of organizational representatives:

Legislative representatives	18
Senior career staff in the Office of Management and Budget	5
Top managers	33
Program managers	44
Budget officers	63
Total	163

In conducting the study, we

--interviewed officials representing top management, budget offices, and operating organizations in all but three organizations visited;

--examined ZBB policies, procedures, instructions, and forms;

--examined budgets, ZBB rankings, and ZBB packages;

--gathered statistical data, where available, on the costs of doing ZBB;

--reviewed other documents on ZBB, specifically as they related to the organizations contacted and to ZBB in general; and

--contacted congressional committees, the Office of Management and Budget, and certain researchers regarding their views on ZBB.

CHAPTER 3

ZBB EXPERIENCES VARY WITHIN ORGANIZATIONS
BUT NOT AMONG PUBLIC AND PRIVATE SECTORS

Given the differences in budgeting procedures, political interests, organizational objectives, and previous experiences among Federal and State governments and private corporations, we expected to find that, as groups, they would have separate zero-base budgeting processes and different results, such as larger or smaller cuts to the budget. This is not the case. The various sectors seem to apply ZBB in similar fashion, and they use the results of ZBB much the same way. However, expectations and results differ at different management levels within the organizations.

This chapter summarizes our analysis of the perceptions and opinions of the 163 officials, managers, and budget professionals we interviewed in-depth, and the 60 budget professionals who participated in our telephone survey. Because these people had different experiences, not all of them could discuss every aspect of ZBB about which we asked. Therefore, our points are based on experience-related responses. In many instances these people made their points with illustrations or case histories.

ZBB PROCESSES AND RESULTS SAME AMONG ALL SECTORS

Concerning the ZBB process, one of our misconceptions was that the process would differ among Federal and State governments and private corporations. We expected this because private businesses have the common denominator of profits, which, we think, gives them an advantage in using cost/benefit types of analyses for ranking decision packages.

What we discovered was not what we expected. To illustrate, despite the benefits cited in using cost/benefit analysis in ranking decision packages, such analysis is not seriously done in any of the organizations examined, private or governmental. One possible explanation is that the corporations are only using the concept in nonmanufacturing, service-oriented activities that are similar to governmental activities in terms of difficulty to measure. These activities do not easily lend themselves to cost/benefit assessment.

Concerning ZBB procedures, we expected corporations to use ZBB more effectively than their governmental counterparts. We could detect no real difference. Influencing the process are pressures from outside the organizations--voters, consumers, regulators, interest groups--and desires of specific

10

senior managers in all sectors. These factors influence the
way managers make their decisions, thereby affecting the
results. In addition, "game playing" is present in some
organizations in each sector. For example, some managers hide
unnecessary programs or activities in their top priority pack-
ages and some rank their "pet" projects high and someone
else's low.

As far as results, all organizations have similar
problems. ZBB can and sometimes does reveal ways to increase
efficiency, but more often the efficiencies or cost cuts
are imposed by an outside action. In such cases, the organi-
zation may or may not use ZBB in determining where to make
the cuts. In other words, the driving force for cost cutting
is often some outside agent like a tax revolt, a dip in the
market, or a relentless top manager pursuing efficiencies.

Generally, in all sectors studied, ZBB alone does not
prove to be an effective cost reduction tool. ZBB is a
process that is only as good as the analyses and decisions
of the people who use it. What activities become decision
units and how they are analyzed, and whether or not managers
can reassign or fire people, really determine whether ZBB
can be used to cut costs. However, often the details associ-
ated with the ZBB process seem to lead managers away from
the substantive decisions that need to be made.

On a more positive note, ZBB seems to encourage greater
communication between individuals within an organization and
increases their awareness of their organization's priorities.
This is found across all sectors in roughly equal proportions.

EXPECTATIONS AND RESULTS DIFFER AT
DIFFERENT MANAGEMENT LEVELS

While the use of zero-base budgeting does not vary much
across the sectors studied, ZBB's perceived utility within the
various layers of management differs. (See p. 12.) Legisla-
tive representatives, Office of Management and Budget (OMB)
officials, top managers, program managers/corporate group
managers, and budget officers look at ZBB differently.

In part, these differences relate to management's differ-
ing responsibilities, which influence the ways they use ZBB.
Legislative representatives--as creators of our laws and as
directly responsible to constituents--want ZBB to serve the
voters' desires, such as cutting expenditures and making
different funding allocations. OMB officials (responsible
for putting together the President's budget) want ZBB to
serve the desires of the Executive Office of the President.

The Federal Budget Process

A Description of the Federal and Congressional Budget Processes, Including Timelines

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ZBB PARTICIPANTS

What they want	What they often get	
	Negative	**Positive**
Legislative representatives (To serve the voters' desires) o An effective information source	o An executive branch tool	o Two State Legislatures receive valuable informa tion and use it
OMB staff (To serve the President's desires) o Program cuts o Alternative program approaches o Several choices of fund ing levels o Knowledge of agency priorities	o Program growth justi fications o Old warmed over ideas o Submissions that double and quadruple o Information that many programs do not lend themselves to ZBB	o Several funding level choices o Agencies' managers' program priorities
Top managers o Greater control o More complete informa- tion o An influence over the organization's priorities	o Justification for addi tional expenditures o Volumes and volumes of paper o Endless forms with little substance o Staff morale problems	o Increased control o More information about the organization o Established priorities o Solutions to certain problems
Program manager/corporate managers o More money for their programs o More influence in establishing priorities	o Forms that make no sense o Forms calling for infor mation that is not avail able o Caught up in the details of budgeting	o Knowledge and influence over other programs o Justifications which support program growth
Budget officers o Help to form the budget o Adequate justifications	o Left out of the decision making process o No time for budget analysis o Become trackers of forms and numbers	o More effective budget o Funding alternatives for programs o Established priorities

Lately, their desires have been focused primarily on reducing the deficit. Top managers, who are responsible for carrying out the general policies and management of the organization, want ZBB to give greater control, more complete information, and to influence organizational priorities. Program managers, responsible to top management for the operations of their programs, want to influence priorities and receive more money for their programs. Budget officers, responsible for putting together the organization's budget and presenting justifications and other budgetary information to other groups participating in the budget process, want ZBB to help form the budget and provide adequate justifications.

Because these people have different ideas about what ZBB is to be, they are frustrated and confused when it does not meet their expectations.

Legislative representatives

Legislative representatives--State and Federal--view ZBB as a managerial tool, useful for the executive but not their branch of government. (There were some exceptions to this statement. For example, the State legislators in both Idaho and Colorado directly use ZBB materials.) Generally, Legislative representatives also believe that the data being generated by ZBB is in a form more useful to the executive branch, rather than to the legislative branch. For example, the relationship between legislation (authorization and appropriation bills) and ZBB information is usually hard to discern and often nonexistent.

Another point is that limited time precludes any meaningful use on their part of the massive amount of data being accumulated as a result of the ZBB process. Therefore, the information is not usable to them. It is not cross-referenced to the program designations they used in making past decisions, thereby making comparisons difficult.

Office of Management and Budget staff

Senior career staff in OMB see the advantages in the ZBB information submitted to them as generally: (1) giving them several funding level choices for programs and activities and (2) showing them the agency manager's program/activity priorities. However, OMB staff believe that the alternative program approaches presented are just old, warmed-over ideas. They see ZBB as very process oriented and believe the agencies need to do more analytical work. They also note that the size of submissions from the agencies is double to quadruple what it used to be. Much of the information they get from the agencies is very detailed.

13

OMB officials also state that some programs--complex ones that have multiple objectives and involve many organizations--do not lend themselves to ZBB. In addition, ZBB adds nothing where good performance measures are already being used to make decisions.

Top managers

Top managers see advantages to ZBB, and many believe the process will help them solve many of their problems. They think ZBB will increase their control over the organization by increasing the accountability of middle and line managers. They expect accountability through information revealed and decisions made in the ZBB process.

However, rather than identifying programs which are "fat" and can be significantly reduced, top managers often find that ZBB produces justifications for additional expenditures and volumes and volumes of paper. Rather than focusing on better ways of carrying out program objectives, they often find endless forms with little substance. Rather than revealing issues which need careful consideration, top managers are often confronted with an overwhelming amount of seemingly useless information. They also think ZBB will give them a way to impose their priorities on the organization. However, it sometimes causes morale problems for people who realize suddenly that their work is a low priority.

Some think the advantages of ZBB outweigh the disadvantages, because they can usually control how much they participate in ZBB and because they are receivers of the paper, not the producers of it. Also, any excessive paper is offset by the expertise they gained on the mission and operations of the programs and the influence over its direction. Where successful in using ZBB, some top managers are elated and content having obtained their ZBB objectives and controlled the ZBB workload. (See ch. 4.)

Program managers/corporate group managers

The feelings of top management are not echoed by program managers. They see zero-base budgeting as taking exorbitant amounts of time from their operating activities. Instead of managing programs, they find themselves caught up more and more in the details of budgeting.

In the belief that they have to justify their programs before receiving funds, they try to carry out the ZBB instructions and to complete all the forms on time. They often find themselves filling out forms that do not work well for their

14

programs. Further, the forms call for information that is not available and that their supporting functions cannot provide. At the same time they often are being asked to come up with alternative approaches to carrying out their programs and then find it difficult to be creative while immersed in detail.

On the more positive side, they see ZBB as an opportunity to affect the agency's priorities in areas outside their program jurisdiction and to obtain high priority and more money for their programs. For this objective, they want good information on their own activities and other programs and they want to participate in making ZBB decisions.

They also find that the data being generated often is too much to handle. They do not have the time or capacity to read and/or digest the information. The important information often gets lost in the deluge. Many of the program managers believe that the process is just outright overwhelming.

Program managers also become frustrated by ZBB. On the one hand, their roles in the budgeting process have changed. On the other hand, the budget seems to stay the same when they expected it to be different, which would justify their added effort.

Budget officers

In general, budget officers have a dim view of ZBB, finding the whole process quite frustrating. Often, without warning, the functions of their jobs change. Instead of preparing the budget, doing issue analysis, and being involved in the decisionmaking process, they find themselves becoming full-time trackers of forms and numbers. Little or no time is available for budget analysis because the volume of information prohibits anything other than a cursory review.

Budget officers think the process begins to take over and become an end in itself. That is, the budgeting issues being considered are often ignored in order to meet deadlines, fill out forms, or revise numbers. The creation and re-creation of numbers as decisions are modified over and over again by managers in the different ranking sessions--seems to be a never-ending job. Also, they need to use ZBB in creating the budget documents for the Congress. When the decision unit list is different from the program/activity list used in the justifications to the Congress, the workload increases, since budget numbers have to be reconstructed and reconciled so they correspond. At the Federal level, particularly, officials

15

state that this also takes away, or at least reduces, time available to analyze the budget.

Where successful in using ZBB, they are happy with having obtained their ZBB objectives. They particularly like having several funding choices for each program/activity. Also, they see the priority listing of all programs/activities as very valuable.

In the next chapter we discuss the successes of ZBB, and in chapter 5, the problems.

CHAPTER 4

SOME ORGANIZATIONS USE ZBB SUCCESSFULLY

ZBB PREREQUISITES FOR SUCCESS

o   People clearly recognize the need for some budget reform

o   ZBB is tailored to fit the needs and characteristics of the specific organization and its managers

o   Managers are asked to analyze longer-term alternative program strategies before they get into the details of alternative funding levels and priorities for the next year

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Many organizations studied do not successfully use zero-base budgeting as described in chapter 5, but that does not mean that ZBB is an unworkable budget process. We believe many lessons can be learned from organizations who success-fully use ZBB (although there were few of them in our study populuation). The consistent themes are that ZBB is success-ful where:

--A real organizational need exists which ZBB can ful-fill.

--Skillful streamlining and modification of ZBB takes place. By this we mean the plan used in implementing ZBB is tailored to fit the needs of the organization.

--There is careful timing of the three segments: planning, budgeting, and reassessment.

These themes are interrelated in the successful or-ganizations, but steamlining is the most important. This point is underscored by the fact that organizations we consider unsuccessful in using ZBB borrow procedures and implementation plans designed for other organizations.

Besides streamlining, tactics for installing ZBB are needed. In the successful cases, sufficient time is al-loted for this. The result: careful planning pays off in less design problems and organizational discontent. Each step is planned, scheduled, and tracked.

Rather than using the indications of success set forth in the literature--that success is based on eliminating waste and cost cutting--we classified success in the following way:

1. ZBB concepts play an undisputed role in forming the decisions that go into preparing the budget.

2. People at various levels in an organization generally perceive the changes they made as a result of their ZBB experience to be successful.

We found that cost cutting and other results cannot be attributed solely to a process. Many other factors affect outcomes, and measurement criteria are lacking.

We used the above criteria because we believe they allow for various organizational objectives.

ZBB IS SUCCESSFUL WHEN A REAL NEED EXISTS WHICH ZBB CAN FULFILL

Officials in the organizations studied which successfully use ZBB clearly recognized the need for some budget reform when they implemented ZBB. Management agreement about the need results in organizational cooperation when using ZBB. Such cooperation among members of an organization is necessary to any organizational change. However, recognition of need for reform alone does not overcome design problems when the use of ZBB conflicts with the organization's normal operations. Such conflict exists in several organizations which are unsuccessful in using ZBB.

Present with this need for budget reform is one or more of the following:

--Recognition that the current system is inadequate.

--Recognition that the budget needs to be reduced or kept at the same level.

--Recognition of the desires of new management.

--Recognition of the need for better information on current activities.

In two successful cases, the need for budget reform is based on the perception that the current system is inadequate, the belief that the budget needs to be reduced, and the recognition of the desires of new management. In one, San Mateo County, California, ZBB was introduced by the new

18

county manager who was unhappy with the ongoing incremental
budget system. He concluded that the county needed a new
system to help control expenditures. His position was sup-
ported by the Board of Supervisors, who had been frustrated
with the traditional budget process, particularly because
they had no idea how expenses alined with program results.

In another successful case, the new governor brought
in ZBB at a time when budget growth needed to be curtailed.
Any admission of new programs required budget cuts in ongoing
programs in order to maintain a nongrowth budget posture.

In a few of the successful cases we studied, officials
brought in ZBB simply because they recognized inadequacies
in the current system. Officials in one private enterprise
said they had an incremental budgeting system but were pres-
sured by the need to justify expenditures. Because of this,
they began looking for more complete budget information which
eventually prompted them to introduce ZBB. Evaluating over-
head personnel expenses is the primary reason for using ZBB
in The Parsons & Whittemore Organization. In another success-
ful case, the need to plan and control growth was the driving
force behind the introduction of ZBB. The need to reduce
spending or keep it constant, however, is not present in all
the successful cases.

Reducing expenses is important to some. For example,
San Mateo County, California, anticipating the impending rev-
enue reduction from proposition 13, wanted a systematic proc-
ess to help identify the least undesireable program cuts.
Using new budget instructions--designed to use ZBB concepts--
the county manager asked departments to submit budgets.
Based on those submissions, two alternative budgets were
prepared, one assuming proposition 13 would pass and the
other that it would not. After proposition 13 passed, the
Board of Supervisors selected their budget and finished
it, assuming no State aid for cuts. Subsequently, State
aid was received and ZBB was used to add money back into
their programs. The final budget was 83 percent of the prior
year's budget, with the net county cost reductions occurring
in the lower priority areas.

Recognition of the need for better information about
the current activities is usually tied to the need for a
better budgeting system to control expenses. Recognition of
the need for better information may also be tied to training
new managers. ZBB provides a valuable list of activities
which gives an overview of the organization's programs. In
other cases, the current managers need the list to fill infor-
mation gaps and, in fact, find that it allows them to review

19

and impose consistent standards across the organization's units. This is the case in one section of The Boeing Company.

However, officials only needing and using the list of activities resulting from ZBB, believe they would not want to repeat the exercise more than once every 5 years. This is because there is not enough change year to year to warrant the cost of doing ZBB when budget formulation is not the objective.

ZBB IS SUCCESSFUL
WHEN STREAMLINED AND MODIFIED

The most important element of successful ZBB use and the one occurring in every successful case is streamlining. By this we mean that skilled analysts reporting to top managers develop a plan to implement ZBB that is tailored to fit the needs and characteristics of the specific organization. In fashioning a plan, the ZBB process has to accommodate the organization's special needs (especially the decisionmaking process and styles), membership of the groups that work on the budget and make decisions, outside pressures, and the organizational traditions that are not to be altered or challenged.

Contrary to what is normally expected, top management support is not always helpful. The top manager who does not thoroughly understand the organization's special needs can have a detrimental effect (due to inappropriate demands or assessments) on the success or failure that the organization experiences in using ZBB. On the other hand, the involvement of a top manager who understands the organization's special needs and supports the use of ZBB can be very helpful.

ZBB seems to encourage greater communication between individuals and increases their awareness of their organization's priorities. Communication among people in various functions and at different levels throughout the organization reveals the following issues that need to be considered in streamlining ZBB:

--Setting realistic ZBB objectives.

--Determining how ZBB decisions will be made.

--Determining incentives to be used.

--Determining what information is needed.

--Determining how best to install ZBB.

Officials in the successful cases believe these items
are important and carefully plan ways to handle them. Objec-
tives must be attainable as well as fit within the framework
of the organization's long-term strategies.

ZBB decisions need to be in concert with the way cur-
rent budget decisions are made in the organization or the
way officials want to make decisions in the future. However,
as pointed out, consistency in the way decisions are made
is equally important.

In the successful organizations, everyone knows who has
what decisionmaking rights. One level may have the right
to overturn another's decision, but that right is clear and
recognized. One level does not feel that its toes are being
stepped on inappropriately. For instance, in Texas Instru-
ments Inc., "what the boss says goes." That rule is clear
to everyone, thus, causing no confusion. In American Tele-
phone and Telegraph Company (AT&T) different levels of
management are given certain percentages of funding they can
identify and add to the budget. That is a clearly recognized
right.

Members of organizations unsuccessfully using ZBB become
confused and frustrated. The people involved seem perplexed
by the elusiveness of the decision rules and their lack of
understanding about who has what rights in the decisionmaking
process. For instance, Federal agency officials we inter-
viewed each believe that the Office of Management and Budget
officials do not use ZBB appropriately. They expect OMB
officials to accept their priorities as they are submitted.
In fact, there are no rules as to how OMB officials can or
cannot use the ZBB submissions. Consequently, OMB officials
use the submissions the way they see fit, which is not always
as the agencies believe OMB should use them.

Another very important ZBB item is the need for organ-
izational incentives. In successful cases, incentives to
cut costs or find alternative programs are part of the ZBB
design. Since a manager's position and compensation tradi-
tionally are based on production or sales volume, number of
people supervised, or number of grants or contracts managed,
etc., incentives to cut program size must be built into the
ZBB process or participants will figure out ways to get
around the process.

An official at Texas Instruments, Inc., stated that
a manager must understand that he or she can win under this
system as well as lose. A manager is rewarded who proposes
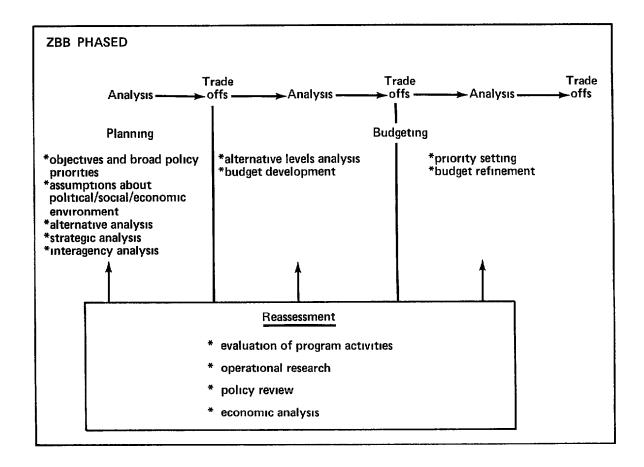to cut the budget by 50 percent because he or she has found a

21

better way of carrying out their responsibilities. But, managers are penalized by having their funding line moved down a bit when something unnecessary is found in top ranked packages. That is designed into the system to inhibit a status quo stance.

One of the most difficult ZBB items for management is the balancing of information needed between that desired and the smallest amount necessary. Reporting has its burden. Used ineffectively the ZBB process at times causes a nightmarish paper mill, but this can be prevented. Officials in successful cases emphasize that when designing a ZBB process, one must define what information is essential. They stated that one key to successful ZBB use is to report only the essential information. This can be different amounts for different types of programs. Also, those programs that will undergo extensive review in a given year require more comprehensive information development than those that will receive less examination.

Officials in many organizations modify ZBB on a limited scale but still have problems using it. They appear to suffer from some internal unspoken management mandate to use a specific ZBB design, or that another organization's design can be successfully transplanted.

The importance of skilled analysts in developing the plan to implement ZBB cannot be overemphasized. In successful organizations, these analysts (reporting to top managers) design the use of ZBB and form the nucleus of the implementation team. The desired ZBB objectives, purposes, and strategies are determined and tuned to the complexities of the organization. These analysts also have the support, access and involvement of top managers, who are committed to developing comprehensive, long-term improvement in their management. This combination of high reporting level and support paves the way for success.

The advice and cooperation of other organizational members is sought by the analysts. In some successful organizations, the design takes place before ZBB's first year of use. In others, this is done before the second year of ZBB, after an extremely difficult first year trying to use someone else's design. Results of that first year are collected and considered in their design process. Officials build on their experiences, other's experiences, and knowledge of their own organizations. They do not allow articles or books about ZBB to dictate their design. The design phase takes a great deal of thought, time, and commitment.

ZBB IS SUCCESSFUL WHEN
PLANNING, BUDGETING, AND
REASSESSMENT ARE CAREFULLY PHASED

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ZBB PHASED

                    Trade                      Trade                      Trade
        Analysis ──►offs ──────►Analysis ──────►offs ──────►Analysis ──────►offs

            Planning                              Budgeting

    *objectives and broad policy    *alternative levels analysis    *priority setting
      priorities                    *budget development             *budget refinement
    *assumptions about
      political/social/economic
      environment
    *alternative analysis
    *strategic analysis
    *interagency analysis


                          Reassessment

                  *  evaluation of program activities

                  *  operational research

                  *  policy review

                  *  economic analysis
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Officials in most organizations that successfully use ZBB concepts believe there is a need to analyze and select alternative program stategies before the alternative funding levels are determined and program priorities are set. They say the decisionmaking process gets too complicated if these processes are not done in phases. When the processes are simultaneous, the more substantive alternative analysis and evaluation loses out to the requirement to come up with a budget. When this happens, people are even confused as to what the differences are between alternative approaches and alternative funding levels.

ZBB's planning segment (top-down)

In the successful cases, extensive planning systems exist which feed into the fiscal year budget formulation

process. Planning has the effect of limiting the agency's effort, paperwork, and budget requests.

This planning segment is conducted in the months before the ZBB budgeting segment. During planning, officials in these organizations review and set program objectives and broad policy directives. They also decide what they think the organization's political, social, and economic future environment is likely to be. Analysis and paperwork are then focused on alternative ways of conducting programs and alternative funding levels which can be approved.

After the broad policy review, officials in the successful organizations analyze alternative business or program approaches and strategies. For example, officials in one organization review all program and activity areas on a schedule. The schedule is clearly viewed as being flexible, thus, allowing review of issues when review seems warranted.

In most of the successful cases, the selected ZBB program alternatives feed into strategymaking sessions--formal or informal. At these sessions, long-term as well as short-term program/activity strategies are devised. The program/activity list for displaying information during the upcoming ZBB budgeting segment is agreed upon in these sessions and agreement is reached about which programs and activities will receive extensive ZBB treatment. Up to now very little paper is generated.

ZBB's budgeting segment (bottom-up)

During the ZBB budgeting phase the successful cases developed an inventory of programs, alternative program levels, and program priorities. This is usually conducted during the months following the ZBB planning segment.

The program/activity list created in the planning stage is used by officials to develop the inventory of activities. Exactly what information will be put together for the inventory (such as activity description, objectives, measurements, etc.) is determined in most successful organizations during the ZBB planning segment and in the design. This information is attached to the program/activity lists during the ZBB budgeting segment. The exact information developed can vary by the type of program, whether an extensive review is scheduled for that activity, and the ideas of the program personnel.

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┌─────────────────────────────────────────────────────────┐
│              SAMPLE PROGRAM/ACTIVITY LIST                │
│  AIR QUALITY                                            │
│        State programs resource assistance               │
│                                                         │
│     Air quality strategies implementation               │
│                                                         │
│     Air quality stationary & source planning & standards│
│                                                         │
│     Mobile source enforcement                           │
│                                                         │
│     Stationary source enforcement                       │
│                                                         │
│         ╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲╱╲              │
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After the inventory is created, the successful cases com-
pose information on alternative funding levels for programs or
activities in the inventory for the next year. The alterna-
tive funding levels establish what you can buy for various
amounts. Finally, the funding levels are ranked by prior-
ity as they move up through the levels of management, using
the rules that are well understood. In most of the unsucess-
ful cases (unlike most of the successful cases), analysis of
alternative approaches are attempted at the same time as
alternative funding levels are identified. This often becomes
too complicated and confuses the process. Further, in most
unsuccessful cases the unclear rules create frustrations.

How the different funding levels are determined varies
among organizations, but none of the successful ones literally
started from zero. San Mateo County uses 80 percent of its
current funding as a minimum and adds growth size increments
of 4 percent each. (They tested different size increments
and found 4 percent worked best for them.) Other organizations
use different guidelines.

ZBB's reassessment segment

We found reassessment of the programs/activities to be
continuous in the successful cases. This reassessment covers
performance. It reflects how well operations/programs are
going and how well things are being managed (including ZBB).
It is conducted by many different people, in each organiza-
tion, i.e., economists, evaluators, planners, top managers,
budget officers, operating program managers, etc. The results
help determine what changes are needed, thus influencing both
the planning and budgeting segments.

Officials point out that timing the reassessment is of upmost importance. The results should feed the decision-making process. If they miss a deadline, a whole year can pass before another opportunity will arise. Also, officials state that reassessments of particular activities or groups of activities need to correspond with the decisionmaking structure used in the planning and budgeting phase. This way, managers can relate the results of the reassessment to the decisions they have to make.

Useful Links

Congress by the Numbers
CongressByTheNumbers.com

Leadership of Congress
CongressLeaders.com

Congressional Schedule
CongressSchedules.com

Congress Seating Charts
CongressSeating.com

Terms and Sessions of Congress
TermsofCongress.com

Senate Classes: Terms of Service
SenateClasses.com

Congressional Glossary
CongressionalGlossary.com

You have 2 cows
YouHave2Cows.com

CHAPTER 5

EXPECTATIONS NOT MET WHEN FORM BECOMES
MORE IMPORTANT THAN SUBSTANCE

Most organizations we studied attempted a ZBB approach that is too rigid, leaving little room for variations and causing numerous problems. Some organizations, however, use the streamlined ZBB approach. They use the literature as a guide and modify ZBB to successfully meet their particular needs. (See ch. 4.)

Officials in organizations adopting the "strict process" ZBB approach face many and sometimes overwhelming problems. The problems encountered in implementing a strict process approach to ZBB included inadequate planning which resulted in

--the lack of cost savings and noticeable adverse effects on decisionmaking;

--increased costs, resulting from committing excessive staff time, computer time, and paper; and

--useless data and duplication of effort due to unresponsive information systems.

LACK OF ADEQUATE PLANNING
BEFORE IMPLEMENTATION

Preliminary planning and analysis that modifies and streamlines the process to meet managerial needs is critical in implementing ZBB.

Without this planning, ZBB is less effective. For example:

--The system is often inflexible,

--Incentives are usually not appropriate, and

--Value judgments are often not interwoven into the ZBB process.

The reason officials in organizations using the "strict process" approach often skipped or slighted preliminary planning was they thought they were compelled to use ZBB as quickly as possible. Typically, they have been told by a top manager to use ZBB in the next budget formulation cycle. Usually, not much time is available before the next cycle

begins. Consequently, the officials rely heavily on the
literature when setting up their systems, and thus they
miss an opportunity to develop plans suited to the specific
needs of the organization. Such systems look good on paper;
however, the "strict process" cases we examined do not work
well and have minimal effect on an organization's operations.
The ZBB process often generates excessive work, creates con-
flicts with normal operations, and results in decisions that
would have been made anyway, but perhaps in a different
format.

These hastily designed ZBB systems suffer from inflexi-
bility. In some cases, we observed that the people respon-
sible for implementing ZBB were unwilling to deviate from the
approaches described in the literature. Also, the designers
were reluctant to acknowledge that revisions are needed to
correct the numerous problems troubling their ZBB process.
Some organizations drop ZBB because they find it inflexible.
For example, a major corporation did this because the
"strict process" system lacked the flexibility necessary
to make it an effective process. Likewise, a State dropped
ZBB because intended goals and needs were not being met.

Another planning problem is managers' failure to develop
incentives. Incentives, which should be built into the sys-
tem to encourage managers to find waste and identify important
issues in decision packages, are not present. The result is
that managers are not enticed to make budget decisions that
reduce costs and improve efficiency. To illustrate this
problem, a manager's position is frequently based on the
number of employees supervised and dollar amounts of programs
being managed. However, in the Federal Government there are
very few incentives that offset the motivation to increase
staff and program and entice a manager to suggest program
cuts. Thus, it is not necessarily in the best interest of
a Federal manager to look for waste and identify important
issues in decision packages. The new Civil Service Reform
Act mandated a link between pay and performance for Federal
managers and supervisers, a practice common in private indus-
try for many years.

Providing incentives which create an atmosphere for
finding ways to improve the effectiveness, efficiency, and
economies of operations is one of the keys to success. We
believe the identification of potential efficiencies for the
ZBB decisions would be an excellent indicator for linking
pay to performance.

Value judgments are often ignored in the "strict process"
approach. Where economic, social, or political circumstances

are not considered, some highly ranked activities may not be feasible and lower ones necessary. Overlooking value judgments can also cause managers to make decisions which conflict with their ZBB processes. Many officials say that there is not a legitimate role for political judgment in the way they have used ZBB. Failure to consider political consequences often negates the decisions made during the ZBB process. Officials in one organization say ZBB failed for them because political considerations were not incorporated into the budget formulation process.

"STRICT PROCESS" ZBB ALONE DOES NOT IMPROVE DECISIONMAKING

Officials who set up ZBB without adequate planning often have systems that are unable to

--improve budget decisions,

--save money,

--describe its decisionmaking rules,

--identify alternative ways of carrying out functions, and/or,

--time events effectively.

For example, officials in one corporation which adopted a "strict process" system say ZBB cannot produce the results expected in their dynamic and rapidly growing organization. In this case, ZBB produced neither the productivity gains nor the cost reductions that were expected. Rather, ZBB was used to justify the hiring of more people for current operations. These results were unacceptable because top managers wanted to reduce their product line unit price by cutting production costs. Officials in another corporation that implemented ZBB in a similar fashion see no improvement in the way they make budget decisions.

Managers in various State and Federal agencies also indicate that ZBB is unable to improve the way they make budget decisions or save money. Officials of one State say that ZBB cannot deal with complex budget issues that change frequently. Specifically, every time a budget assumption is changed, all previous estimates in the decision package have to be recalculated. Aside from being more costly and time consuming, the ZBB "strict process" approach results in an ineffective system that does not meet expectations, i.e., increase operational efficiency and cut costs.

29

The "strict process" approach also causes frustration. It is the perception of many managers that higher level managers do not follow their own rules. For example, after months of following ZBB rules, Federal program managers found that the next higher level of reviewers seemingly chose to ignore certain basic rules that they were required to follow. However, these same top level officials felt equally bound to follow certain other rules and, after an agonizing and time-consuming effort, were appalled when the next higher level, Office of Management and Budget, ignored the rules with which they had to live. These officials felt frustrated by OMB's unwillingness to play by the same ZBB rules they had to follow.

Another problem found in organizations using the "strict process" approach is the inability to identify alternative ways of carrying out operations. Under this approach, alternative analysis is conducted during the budget preparation. Generally, budget and program officials are unable to identify or adequately assess alternative methods at the same time they are preparing the budget, due to the excessive workload. They say they are inundated with forms to fill out and decisions to make on funding levels. Consequently, they cannot direct their thoughts to alternative approaches.

Poor planning and timing can make results unuseable or even prevent results from being produced. For example, an attempt to set interagency ZBB priorities that applied to many Federal agencies suffered from poor timing and poor planning. Because agency funding levels had already been decided, officials did not feel it was fair to reopen and debate funding issues in an interagency forum. In addition, these officials were asked to rank small parts of various agencies' programs although their effect on the agencies overall efforts were not being considered. More fundamental to setting priorities among programs in different agencies is the lack of unity in agency missions. The interagency ZBB exercises often become frustrating and chaotic because of these problems.

EXCESSIVE STAFF TIME, COMPUTER TIME, AND PAPER

In addition to the "strict process" ZBB approach not generating expected results, we found organization officials who use this approach require more staff time, computer time, and paper to justify their budget than the modified systems discussed in chapter 4. Moreover, the resources committed to these strict processes are considerably more than under previous budget processes.

Generally, officials using the "strict process" approach have strong reservations about the excessive resources being committed to ZBB. For instance:

--Officials in one company note that their workload increased substantially, requiring them to redirect resources to add 19 more staff years to do ZBB.

--Officials in a Federal agency report a 100-percent increase in workload and paperwork.

--Another agency reports a 300-percent increase. It generated over 90,000 pieces of paper to present 4,478 decision packages for 751 decision units. Before ZBB, the agency's budget was presented in about 22,500 pages.

--Officials of two States report that paperwork increased 300 percent because of ZBB.

One Federal agency involved all its regional offices and headquarters divisions during several months in a comprehensive ZBB "strict process" exercise that generated enormous amounts of paperwork. Agency officials commented that the paperwork and information generated was so overwhelming that it was often discarded because they did not have time to review it.

The "strict process" approach requires an enormous amount of staff time. One Federal agency had an almost complete turnover in its budget staff following its first year with ZBB, due to excessive demands. Many budget and program officials from all sectors have worked 12 to 15 hours a day, 7 days a week, for extended periods--far more than spent on previous budgets. In two cases, we were told by managers that some of their people came down with serious health problems, which they said were directly related to the workload and time demands.

A "strict process" approach to ZBB creates voluminous data requiring enormous work with numerous calculations and recalculations. This dictates the need for a computer. Where an organization's computer capacity is filled, conflicts occur. For example, one Federal agency used its ADP equipment solely to process the zero-base budget for a week, while all other ADP demands were put aside. Before ZBB, this same agency prepared its budget manually.

In our telephone survey, a Federal budget officer said that the ZBB demands put his agency's computer over its

capacity. He stated that they planned to ask for new ADP equipment, based on the increased work generated by ZBB. Other officials report similar problems.

USELESS DATA AND DUPLICATION OF EFFORT

To compound the already overwhelming problems created by excessive staff time, computer time, and paper, the "strict process" cases also suffer from useless data and duplication of effort. For example, some officials state that they are forced to rely on inappropriate and unrevealing performance measures. Usually these yardsticks measure facts about a process or activity, not how well the process or activity is doing. On the other hand, ZBB needs measures that show the activity's worth to the organization. These more refined measures help managers determine, during the ZBB decision-making process, the impact the activity has on the overall program.

Officials in most of the organizations we visited complained about the lack of good measures with which to assess program effectiveness. For example, a State police department official says that their measures track the number of traffic accidents and violations in the patrol areas. For ZBB purposes, these measurements alone are not useful, because they do not consider variations in population and automobile traffic patterns within the State. Thus, State officials are unable to assess differences in funding levels and needs for police service. In these situations, managers have lots of information, but they still feel uninformed and hampered in ranking ZBB decision packages.

With regard to the use of work measurement systems in supporting ZBB in the Federal Government, we reported earlier their ineffectiveness to OMB (FPCD-78-63, dated July 24, 1978, "OMB Needs to Intensify its Work Measurement Effort"). We found that three of the five agencies OMB identified as having good ZBB submissions did not use work measurement systems to determine staffing needs for their initial 1979 ZBB submissions and did not have plans to develop such systems.

We were also told that accounting and other information systems also provide data which is difficult to use in the ZBB process. Generally, the information provided by these systems is not compatible with the new ZBB data needs. Often the data has to be rearranged or refigured. One State delayed its budget process for 2 weeks while rearranging its accounting data. In other cases, the accounting data is completely unuseable in the ZBB process because it is recorded on an organizational basis instead of by program. Identifying the

essential information needed and its sources in advance would minimize these problems.

Duplication of effort is another inefficiency we heard about in organizations using the "strict process" approach to ZBB. We found organizations in all sectors preparing duplicate budgets. Several States prepare two budget submissions under different processes. The same situation exists in a corporation we visited. In the Federal Government, many different budget presentations are prepared for Presidential and congressional review. Before ZBB, much of the information used to justify an agency's Presidential budget was also used to prepare the congressional budget justifications. However, with the implementation of ZBB, these budget processes have become less compatible and entirely separate submissions have to be prepared.

CHAPTER 6

THE FEDERAL BUDGET PROCESS
CAN BE STREAMLINED

A comprehensive budget process that includes the executive as well as the congressional budget process has evolved in the Federal Government. In addition to other separate processes that have been interwoven in the Federal budget process, zero-base budgeting has been added to the executive branch's part. There is much room for duplication of effort.

Based on the responses we obtained in our study, we have concluded that a large majority of the Federal agency officials contacted were, overall, disappointed with zero-base budgeting. This is understandable. The barriers to reforming the Federal budget process are numerous and difficult. The process is complex, stakes are high, and the resistance to change is strong. Only limited success can be hoped for when instituting a change that does not consider specific needs and does not span the entire budget process.

Rather than taking the time to tailor ZBB concepts to Federal agencies' needs and implementing ZBB in a way that would link it with other budget processes, a "strict process" ZBB was added to the executive portion of the Federal budget process. As a result, ZBB's first 2 years have created little change in the Federal budget process, generated only limited optimism for the system, and shown little success in the agencies we studied. There were numerous other problems encountered in implementing ZBB, as discussed in chapter 5.

Despite the many problems with ZBB, we think the concepts can work in the Federal Government. We were led to this conclusion after analyzing the experiences of several successful organizations. These success stories are also the models from which we derive our discussion on the way we think ZBB can be used successfully.

Organizations that succeeded in using ZBB use a streamlined and phased planning, budgeting, and reassessment process tailored to the specific needs of each organization. The Federal budget process needs similar streamlining and phasing.

To streamline and phase the Federal budget process:

--The program/activity lists 1/ used in the budget process need to be more uniform.

--The planning, budgeting, and reassessment phases need to be firmly linked and timed

--Only essential information should be reported.

These factors are interrelated, but having uniform program/activity lists is critical. Without more uniform program/activity lists, it will be very difficult to link Federal planning, budgeting, and reassessment activities.

THE PROGRAM/ACTIVITY LISTS USED IN THE BUDGET PROCESS NEED TO BE MORE COMPATIBLE

The program/activity lists used for presenting budgetary and program information in the various stages of the budget process should be either the same or easily cross-referenced to prevent duplicating information. Many sets of books are kept using different lists. When information is refigured for the different lists, errors can be introduced. Such errors and duplication can be reduced by the use of more uniform program/activity lists.

Program/activity lists used by the Congress serve specific needs

Three primary committee groups--the appropriations committees, the authorizing committees, and the budget committees --in both the House of Representatives and the Senate, carry

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1/Program/activity lists are called different things by different people. Accountants refer to them as their "chart of accounts." Many budget officers call them "the line items." Other budget officers call them "budget structures." In ZBB they are called the "decision-unit structures." They are the items listed along the left side of an exhibit used for budgetary purposes. Information such as budget numbers, number of people served, and objectives are developed and shown for each item listed. The lists are used to display information for the analysis and decision-making process. Ideally, the composition of such lists should reflect how a group wants to structure its decisions, e.g., organizationally, functionally, legislatively, etc. In this report we call all such lists, "program/activity lists."

out the congressional budget process. The appropriations and authorizing committees receive most of the information they need to prepare the congressional budget from the Federal agencies.

The appropriations committees--for their work in appropriating money to the agencies--mainly receive information in the form of agency budget justifications. These are made up of (1) program/activity lists developed during hearings and meetings with the agency officials and (2) information (focusing on funding) on each program/activity item. The program/activity entries highlight particular issues that are important to the committee and the agency. Since agency officials consider justifying their agency budget to their appropriations subcommittee as their top priority, they want the information developed in the ZBB process to be useable when creating their budget justifications.

The authorizing committees also need the assistance of their respective agencies. In order to project the funding needs (views and estimates) for their areas of interest, these committees need funding information that corresponds to the authorizing legislation and the appropriations accounts. Neither the budgetary information prepared for the Office of Management and Budget, nor that prepared for the appropriations committees, nor the accounting systems display program/activity information as defined in the authorizing legislation. Only where one budgetary program/activity list corresponds to another (is uniform or cross-referenced) can agencies easily transfer budget information prepared for one program/activity list to a program/activity list used for another purpose.

Program/activity lists used by
the executive branch serve
specific needs

The President's budget request to the Congress represents his plans for the fiscal year and, in a general way, represents Presidential priorities. OMB officials prepare the President's budget using agency information prepared according to OMB instructions. The information used in the ZBB process comes from the agencies' informational systems (including the accounting systems). Usually information systems are devised to fill a specific need and the program/activity list for the information system is composed accordingly. For instance, contrary to accounting principles and standards prescribed by the Comptroller General, 1/ many Federal accounting

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1/See page 40

systems merely track and control expenditures; they are not capable of providing other information needed by management. Consequently, the program/activity lists that form the basis of the accounting systems are based on prior years' legislative actions, are not easily tied to the ZBB lists currently used in financial planning and decisionmaking.

When executive branch officials prepare the budget for the Congress, OMB and agency officials must take the ZBB lists submitted by the agency officials and transform the information on them to the program/activity lists used in presenting the President's Budget Appendix. One product is the OMB account activity lists shown in the program and financing schedules in the President's Budget Appendix. These lists change very little from year to year, so the Congress can compare the activities from one year to the next. As a result, they often reflect historical decisions not always relevant to the agencies' current missions and certainly not to the ZBB list.
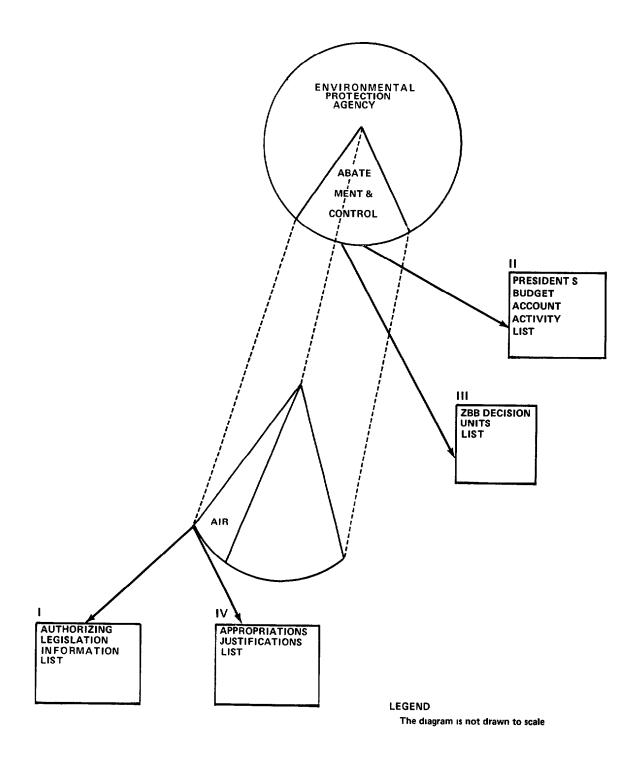
The four program/activity lists presented in the following pages are all used in different parts of the Federal budget process, at different times and by different groups. As you can see in the following exhibit, comparing information in the different lists is not easy. The lists do not correspond.

Informational systems do not support one another

As discussed above, the various informational systems used in Federal budgeting do not correspond. Various budgets may match by chance or when deliberately built to match. However, without consistency in the program/activity lists, the budgeting system in the Government becomes duplicative and unnecessarily burdensome. Officials in one agency say that, before ZBB, many of the presentations submitted to OMB were also submitted to the appropriations subcommittees. This allowed the agency to provide its subcommittees with a polished product. Now agency officials say that, with the ZBB formats, the justifications cannot be used in the agency/OMB interaction, and, consequently, the appropriations justifications do not go through the extensive review process they once did.

Moreover, the ZBB budget must often be transcribed into a new format for the President's budget presentation to the Congress. This, in turn, is redisplayed in a different way for the appropriations committees and in yet another way for the authorizing committees.

THE PROGRAM/ACTIVITY LISTS USED IN THE
BUDGET PROCESS ARE INCONSISTENT AND NOT CROSS REFERENCED

ENVIRONMENTAL
PROTECTION
AGENCY

ABATE

MENT &

CONTROL

AIR

II

PRESIDENT S
BUDGET
ACCOUNT
ACTIVITY
LIST

III

ZBB DECISION
UNITS
LIST

I

AUTHORIZING
LEGISLATION
INFORMATION
LIST

IV

APPROPRIATIONS
JUSTIFICATIONS
LIST

LEGEND

The diagram is not drawn to scale

ENVIRONMENTAL PROTECTION AGENCY
ABATEMENT AND CONTROL

I   Authorizing Legislation Information List for Air
    Portion Only
    P L 84 159 Clean Air Act as amended
        Titles I II III
            State programs resource assistance
                Control agency resource supplementation
                grants

            State programs resource assistance
                Training

            Air quality strategies implementation
                Air quality management implementation

            Air quality strategies implementation
                Federal activities/Environmental impact
                statement review

            Mobile source certification and testing
                Certification review

            Mobile source certification and testing
                Laboratory and data analysis support

            Trends monitoring and process assessment
                Ambient air quality monitoring

            Trends monitoring and progress assessment
                Mobile sources monitoring

            Trends monitoring and progress assessment
                Air quality and emission data analysis
                and progress assessments

            Mobile source standards and guidelines

            Training causes effects prevention etc of
            air pollution

            Grants to organizations

            Studies and report

            Grants for public notification

            Air quality and stationary source planning and
            standards
                Emission standards and technology assess
                ment

            Air quality and stationary source planning and
            standards
                Energy and pollutant strategies development

            Air quality and stationary source planning and
            standards
                State program guidelines and regulations
                development

II President's Budget Account Activity List
    Direct program   Standards setting, planning
        assistance and training
    Reimbursable programs

III ZBB Decision Units List

    State Programs Resource Assistance
        (Basic Ordering Agreements/Grants)

    Air Quality Strategies Implementation

    Air Quality Stationary & Source Planning &
        Standards

    Mobile Source Standards and Guidelines

    Mobile Source Certification and Testing

    Trends Monitoring & Progress Assessment

    State Programs Resource Assistance
        (Training)

    State Programs Resource Assistance
        (Inspection/Maintenance)

IV Appropriations Justifications List for
    Air Portion Only

    Air quality and Stationary Source
        Planning and Standards

            Emission Standards and Technology Assessment
            Energy and Pollutant Strategies Development
            State Program Guidelines and Regulations
                Development

    Mobile Source Standards and Guidelines
        Mobile Source Standards and Guidelines
        Mobile Source In Use Emission Assessment
        Emissions Testing Analysis and Data Support for
            Standards and Guidelines

    State Programs Resource Assistance
        Control Agency Resource Supplementation
        Training
        Grants for Planning for Control of Carbon
            Monoxide and Photochemical Oxidants in
            Nonattainment Areas

    Air Quality Strategies Implementation

    Mobile Source Preproduction Compliance
        Verification
        Preproduction Compliance Verification
        Emissions Testing Analysis and Data
            Support for Preproduction Compliance
            Verification

    Trends Monitoring and Progress Assessment
        Ambient Air Quality
        Monitoring
        Air Quality and Emissions
            Data Analysis and Progress
            Assessment

39

As we discussed above, the budget presentation needs are frequently different for each of the following: (1) agency managers, (2) OMB officials, (3) the President, (4) the appropriations committees, and (5) the authorization committees. The resulting process is not only costly and cumbersome from a budget presentation standpoint, but it makes it impossible to have an accounting system that can support all of the four or five variations of budget structure without being overly complex and exceedingly costly.

GAO's prescribed accounting principles and standards provides for two account structures. One structure is for the administrative control of funds (budgetary accounts). All agencies have this structure and it usually follows organizational lines. The other structure is for the recording of an agency's assets and liabilities, expenses, and revenues. In addition, the principles provide that the expense accounts should be on a cost basis and should be by program, function, project, or activity. It is this structure which should be alined to support ZBB. However, many agencies lack this structure and have to try to substitute the organizational structure.

Congressional information needs
not served by current incompatible
program/activity lists

Time spent needlessly in preparing the separate and un-coordinated budget documents takes time from other agency functions. In addition, since relationships among the various budget figures are sometimes extremely difficult to discern, the reliability of the numbers presented is difficult for others to assess. We believe where consistency is not present, the Congress cannot fully use what information is available in the agencies.

Through the evolution of the Federal budget process, the agencies have primarily attended to the budgetary needs of the appropriations committees. Since the authorizing committees must participate in the congressional budget process, continued focus on only the appropriations committees leaves the authorizing committees operating at a disadvantage.

THE PLANNING, BUDGETING, AND
REASSESSMENT PHASES NEED TO BE
FIRMLY LINKED AND TIMED

A firm link between and careful timing of planning, budgeting, and reassessment activities is needed in the Federal Government. Currently, these activities are often carried on by entirely different organizational units with little or no communication among them. Moreover, the guidelines which define these operations (laws, executive orders, OMB circulars, agency regulations, etc.) pay little or no attention to the need to link and time the planning, budgeting, and reassessment phases so that the results feed into the decisionmaking process. Guidelines which direct planning, budgeting, and reassessment need to set firm links between them and guide the timing of the activities to get the best results.

The organizations studied which successfully used ZBB concepts carefully phased and linked their planning, budgeting, and reassessment activities. (See ch. 4.) The same phasing approach can be transferred to the Federal process.

Setting up the phases so they are conducted at the right time and the results so they are available at the right time and in the right place requires management of the process. Changing directives, regulations, laws, etc. to require this careful timing will help. Assigning the responsibility to an office for setting, enforcing, and monitoring the participation and timing within the executive branch is also needed to ensure success.

MAJOR DECISIONS AND DECISIONMAKERS

Major Decisions	Decisionmakers	
	Executive	Congressional
Set assumptions	President and his advisors, including his Cabinet and OMB	Budget Committees (C) Joint Economic C
Set objectives and broad policy objectives	President and his advisors, including his Cabinet and OMB Agency managers	Appropriations C Authorizations C Budget C
Analyze alternative approaches	Agency managers	Authorizations C
Determine strategies	Agency managers	Authorizations C
Determine programs and activities to receive extensive review	OMB Agency managers	Appropriations C Authorizations C
Determine program/ activity Lists	Agency managers and OMB	Appropriations C Authorizations C
Analyze alternative funding levels	OMB Agency managers	Authorizations C Appropriations C
Set management priorities	President OMB Agency managers	Budget C Appropriations C
Reassess programs	President and his advisors, including OMB Agency managers	Authorizations C Appropriations C Congressional Budget Office
Reassess management processes	President and his advisors, including OMB Agency managers	Government Operations C Governmental Affairs C Rules and Administration C

Planning phase

During the planning phase, Federal objectives and broad policy priorities are considered and set by top managers-- Joint Economic Committee, Budget Committees, the President and his Cabinet, etc. Assumptions and projections about the range of future political, social, and economic situations are needed from various specialists, such as planners, economists, and evaluators. We believe this is an essential step in good budget processes. After the objectives and broad policy priorities are developed, alternative approach analysis (a ZBB concept) can be done. Such analyses can be scheduled flexibly so that issues can be reviewed when warranted, but they should ensure review of all areas within a given number of years. Overlap and feedback between performing alternative approach analysis and setting objectives and broad policy priorities is necessary.

Parallels can be drawn between the authorizing committees' oversight, which is similar to agencies' reassessments, and the committees' search for alternative approaches, which is similar to the agencies' ZBB alternative approach analyses. Obviously, coordinating the timing of the agencies and the authorizing committees efforts could result in benefits to both. One could support the other. These types of linkage should be sought.

Following these exercises the focus should be on short-term strategy analysis, that is, how to conduct programs during the next year. Reviewing the strategy and other necessary issues can be accomplished at the same time the program/ activity lists are being defined. At this time (probably the spring of the year) agreement should be reached (between OMB and the agencies) on which limited number of programs or activities (in ZBB terms, which decision units) will receive extensive ZBB treatment. Minimum funding for programs or activities not receiving extensive ZBB treatment should not be challenged in detail unless the new minimum funding requested is much higher than last year's. A determination will need to be made each year on what information is necessary to support the extensive review and what is the minimum needed for the more limited review and for comprehensive ranking. Extra attention needs to be given to what information should be provided on those types of programs that present particular problems, such as multi-objective programs, programs where the legislation only very generally defines the objectives, and relatively uncontrollable programs like social security. The strategies become the bases for decisions made and information developed in the next phase-- budgeting.

43

Budgeting phase

The budgeting phase is comprised of putting together next year's budget and whatever future projections are desired for analysis. The results from the planning phase are a foundation that helps provide continuity among the various budget decisions made by members of the agencies, OMB, the appropriations committees, the authorizing committees, the President, and the budget committees. During this phase, funding information and other descriptive information is developed for each item on the lists set in the planning phase. Different amounts of information are needed for different types of programs and activities. Also, whether the area will be undergoing extensive review or not affects the amount of information which will be developed.

Creating alternative funding levels and determining their consequences is done by the executive branch using ZBB as a tool. The work of the congressional committees could benefit from selected presentations of limited amounts of this information, if the program/activity lists were recognizable by committee members. In addition, the operating program assessments need to be fed into the decisionmaking process during this phase.

Uncontrollable government expenditures have been used as an argument to discredit the idea that ZBB can be effective. For example, ZBB critics cite that in the President's fiscal year 1980 budget to the Congress, 76 percent of the budget requested is classified as uncontrollable due to current law. The concept "relatively uncontrollable under current law" includes outlays for open-ended programs and fixed costs, such as interest on the public debt and social security and veterans' benefits, and outlays to pay for prior-year obligations.

We believe, however, that the limitations on budgeting uncontrollable expenditures focuses on the requirements of existing law and therefore mainly affects only the next fiscal year. This constraint need not apply to the planning and reassessment phases. These phases should address longer time frames and alternatives to the present "uncontrollable" approaches.

Reassessment phase

This reassessment of how well the programs are operating and how well the management activities are working serves as feedback for both the planning and the budgeting phases. It is conducted continuously. However, results from the reassessments need to be carefully timed to feed into the

44

decisionmaking process which will either continue, discontinue, or modify a program. This could reduce paperwork during the budgeting segment for programs that are no longer justifiable or not going to be changed.

Many organizational units around the Federal Government conduct research, evaluation, program analysis, etc. However, their activities are often uncoordinated. Their reports, issue papers, etc. often arrive at the wrong place at the wrong time and often with unuseable findings. We reported earlier on the need for better planning of the evaluation activities (PAD-79-13, April 3, 1979, "Evaluation of Programs in the Department of Transportation--An Assessment"). We stated that program managers need to determine how well evaluation efforts meet the needs of the various decisionmakers in the legislative and executive branches. Also, specific evaluation requirements during the planning phase should be organized by their priority to the organization. In addition, a schedule setting forth the timing requirements for evaluative information needs to be established.

Program operations' assessments need to be carefully planned so they can feed results into the issues when they are debated, rather than after the fact. That is not easy. Such activity requires the careful selection of topics for reassessment and precise timing of resource applications.

Reassessment is also important to overall operations of the Federal managerial processes, including ZBB. At the end of each cycle where a process is either duplicative or ineffective, readjustments are needed. To know what adjustments are most likely to work requires a careful assessment while the process is being conducted.

ONLY ESSENTIAL INFORMATION
SHOULD BE REPORTED

The duplication of information will be lessened by the use of more uniform program/activity lists in all parts of planning, budgeting, and reassessment. In addition to reducing the amount of duplicative information, an assessment and periodic reassessment should be made of the specific information needed at each level of management for planning, budgeting, and reassessment.

Officials of most organizations which successfully used ZBB were very careful to limit the information created to just essential information. It was a common mistake in the "strict process" ZBB cases to deluge the upper management levels with

information. Often, managers could not then find what they
needed, even if it were there. For example, the Congress
does not have the time nor the inclination to plow through
reams of ZBB materials which are often unclear.

A similar assessment needs to be made for each program
and managerial process. What is needed at each level will
likely be different. For example, executive summaries or
digests are often all a busy top manager will have time to
read. But, a program manager, who has a narrower respon-
sibility, will quite likely wish to see an entire report.
Also, what is needed for different types of programs is likely
to be different. In addition, the extent of review planned
for an area affects the amount of information needed. An
assessment of information needs considering all these factors
should be made.

CHAPTER 7

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

CONCLUSIONS

Zero-base budgeting was publicized as a means to go deep within an organization to eliminate unnecessary programs and to reexamine those things now accepted as impervious to criticism. It was explained as the budget process which would require organizations to analyze their programs from zero; thus, building their budgets each year from the ground up. This would guarantee that spending was as economic as possible.

Despite these popular expectations, some organizations, including the Federal agencies contacted, had an overall sense of disappointment with zero-base budgeting. In the Federal Government, the new administration was anxious to get ZBB implemented, so rather than tailoring ZBB concepts to Federal agencies' needs and implementing ZBB in such a way that would link it with other budget processes, a "strict process" approach to ZBB was used for the executive portion of the Federal budget process. No other parts were changed.

As a result, ZBB has created little change in the Federal budget process and generated limited optimism for the system in the agencies we studied. The problems encountered in implementing "strict process" ZBB included inadequate planning which resulted in (1) excessive use of resources, such as staff, paper, and automatic data processing systems; (2) useless data and duplication of effort due to unresponsive information systems; and (3) frustrations created when, despite ZBB, management did not cut expenditures, follow proposed priority rankings, or adjust programs.

We believe that ZBB can work and should be integrated into the Federal budget process. This conclusion reflects our belief that ZBB concepts are valid but that they have been overshadowed by the mechanical process. These concepts-- analyzing alternative approaches to programs, establishing alternative funding levels, evaluating program effectiveness, and determining managers' program priorities--were successfully incorporated into some organizations' budget systems. They did not make the mistake of considering ZBB little more than a process. They looked at themselves and they looked at the concepts, and only then did they devise a process--a process to suit their special needs. This spelled success. It can be successful in the Federal Government too.

We concluded from the experiences of these successful organizations that ZBB concepts do not all have to be carried out during the budget cycle, as defined in the literature and attempted by most. Rather, the concepts should be incorporated into an organization in phases, and these are planning, budgeting, and reassessment.

The alternative approaches analysis should become part of the planning phase. Decisions made in the planning phase should feed into the budgeting phase. The budgeting phase should incorporate the alternative funding levels and the determination of managers' program priorities. Comprehensive information should be created for only those programs/ activities scheduled for in-depth review. Only the minimum information needed for determining priorities should be created for other programs/activities. The reassessment phase should include the program effectiveness reviews that feed information into the next planning and budgeting phases. It should also include review of managerial processes, including ZBB. The phases can and should be tailored to the needs and capabilities of the agencies.

We believe that implementing ZBB concepts into phases will have another benefit: providing vital links between the now separate Federal budget processes. The information from each phase will be useful to various decisionmaking bodies, because the information they use will be more consistent. This, in turn, will establish a correspondence between the different budget structures.

We believe that the ultimate success of ZBB in the Federal Government will depend on streamlining the process to fit the needs of the agencies, OMB and the President, and the Congress.

RECOMMENDATIONS

We recommend that the Director, OMB, require the Federal zero-base budgeting process to be streamlined, retaining the basic concepts and reducing the process and paperwork aspects. This should include:

--Identifying the essential information needs of each agency, OMB and the President, and the Congress that can reasonably be provided by ZBB and eliminating other reporting requirements.

--Phasing the planning, budgeting, and reassessment activities and providing firm links between the phases.

--Achieving agreement between OMB and the agencies
during the spring on what programs/activities will
receive comprehensive ZBB treatment during the up-
coming ZBB cycle. Developing comprehensive infor-
mation for policy and program review only on those
agreed upon programs/activities. Developing the
bare minimum information necessary on all other
other programs/activities for comprehensive ranking.

--Incorporating flexibility into the process so that
agencies find ZBB advantageous in formulating opera-
tional plans.

--Unifying or linking the ZBB program/activity lists
with the President's, the agencies', and authoriza-
tions and appropriations committees' lists to the
maximum extent practicable and requiring agencies
to promptly design their accounting systems to pro-
vide data necessary to support the adopted zero-base
budgeting structure.

--We also believe OMB should recognize that success
requires (1) clearly defined rules for zero-base
budgeting, (2) zero-base budgeting design responsi-
bility fixed at a sufficiently high level to bring
about change, and (3) incentives established for
managers to view zero-base budgeting as an opportunity
to win. Consideration should be given to incentives
such as (1) returning to a manager's program (for
congressionally approved activities) part of a budget
cut which was recommended by him or her and accepted,
(2) releasing a program/activity from indepth budget
review every year, and (3) using a manager's perform-
ance in identifying through zero-base budgeting the
best possible and least wasteful way of doing business
as one of the indicators used in complying with the
Civil Service Reform Act mandate to link pay to per-
formance.

AGENCY COMMENTS

Comments on this report were solicited and received from
the 17 organizations participating in the study (see app. I)
and the Office of Personnel Management, and Office of Manage-
ment and Budget (OMB). Below we discuss the comments from
OMB, to whom we direct our recommendations. All other com-
ments are summarized in appendix II; written comments are
printed in appendix III.

OMB's general position is that they have always considered the factors we recommend to be

> "important in designing the Executive Branch's ZBB process and agree that they should continue to be taken into account as the agencies evolve toward a more streamlined process"

They go on to say

> "However, we cannot agree with some of the recommendations in the report."

With regard to our recommendation to unify the program/ activity lists, OMB states the following:

> "We believe that current OMB instructions to the agencies represent a more balanced approach than this specific recommendation because it takes into consideration the need to adapt the process to the specific agency, which the draft acknowledges is necessary to use ZBB successfully. OMB Circular No. A-115 specifies that:
>
> > "A decision unit <u>normally</u> should be included within a single account, be classified in only one budget subfunction, <u>and to the extent possible</u>, reflect existing program and organizational structures that have accounting support. (emphasis added)
>
> "As you know, this was done to allow agency officials, who understand the unique suborganizational structures and programs within their agencies, to apply their specialized knowledge in identifying units and to allow for year-to-year adjustments to the units. Our emphasis upon having program managers identify decision units is, we believe, a fundamental aspect of the zero-base budgeting system and one that is key to its success.
>
> "Our position has not changed. We still believe that to require that the ZBB structure correspond to the congressional budget decision-making structure would place undesirable restraints on the management of the agencies. Nonetheless, when zero-base budget decision units were designed for use in the Executive Branch budget decision-

making structure, primary effort was given to designing the units to be as compatible as possible with the two primary congressional budget decisionmaking structures: (a) the appropriation account structure used by the Congress in considering appropriation and other budget authority requests; and (b) the functional classification system used by the Senate and House Budget Committees in reporting concurrent resolutions on the budget.

"The two congressional budget decisionmaking structures do not correspond to the congressional authorizing legislation decisionmaking structure on a one-for-one basis. Nor are they easily linked. The linkage between these structures is very complex, mainly because they are based on the different needs of the congressional decisionmakers in each process. The ZBB decision units are undoubtedly more compatible with the congressional budget decisionmaking structures than with the authorizing legislation decisionmaking structure."

We agree with OMB that the linkage between the different decisionmaking structures (program and activity lists) would be difficult to achieve and that the entire process is very complex. We do not mean that one to one correspondence is necessary in all cases. Linkages (cross references) should be created where one to one correspondence is not desirable. We think the advantages of having correspondence or linkages would outweigh any disadvantages. As a benefit, we believe that the authorizing legislation, so important in the budget process, would be a recognized component of the Executive's decisionmaking structure.

Our recommendation and the OMB comments regarding the program lists (or classification structures or decision units/packages) reflect a long-standing difference of opinion on the relationship of the congressional authorization process to the budget process and the nature of the classification structures, particularly the criteria for defining the basic element or entity for reporting budget data to the Congress. The OMB comments reflect a view that the authorization and budget processes are separate. Therefore, the central budget process, including its classification structure, does not need to provide data to meet the specialized needs of the authorization process. We believe that the two processes are in fact linked at the program level. The strength of the link varies among programs. OMB believes

that the appropriation account should be the lowest level
of the budget classification structure and that all lower
levels should be developed and used on an ad hoc basis. OMB
also believes the information needs of the authorization
process should be met by the ad hoc reporting of the indivi-
dual agencies. We believe that a broader view of the budget
process should be used, which is reflected in this report.
(Another way to say it is that the process by which national
budget priorities are set includes both the congressional
authorization and budget processes.) We think that the deci-
sions made and actions taken in support of the authorization
process, such as establishing authorizations for appropria-
tions and providing views and estimates on the President's
budget proposals on programs, are elements that link the
authorization and budget processes and should be provided
for by the systems and reporting that support the budget
process. We also believe that the basic budget classification
structure should include the authorized programs and activi-
ties (or groups of them). In many cases this would represent
a subdivision of the current appropriation accounts, but in
the case of many smaller accounts it would be a consolidation.

Over the past few years, the needs of the authorization
process have been handled on an ad hoc basis, by the com-
mittees and agencies, often with our assistance. We do not
believe that this is the most effective way to meet what is
a fundamental information need. Therefore, we are disap-
pointed that OMB did not emphasize this need when they imple-
mented ZBB. Hopefully OMB will reconsider its position. We
still believe, as stated in the recommendation, that OMB
should unify or link the zero-base budgeting program/activity
lists with the President's, the agencies, and authorizations
and appropriations committees' lists to the maximum extent
practicable.

With regard to our recommendation to establish firm links
between the phases of the process, OMB noted that its Circu-
lars No. A-115 and A-117 provide guidance on coordinating
budget development with ongoing planning and evaluation sys-
tems and providing evaluation results relevant to the budget
process. In OMB Circular A-115, Section 7a(3), OMB stated
that one item to consider in issuing agency guidance is:

"Coordination of budget development with ongoing
planning and evaluation systems. For example,
department planning that incorporates policy
initiatives can guide the definition of objec-
tives and the ranking process. The results of

recent and ongoing management and evaluation
studies should be used in the analysis of alter-
native methods of accomplishing objectives and
in the analysis of performance."

OMB concluded the section with the statement that:

"(Specific guidance directed to agency management
and evaluation staffs will be included in a new
management improvement and evaluation circular
to be issued soon.)"

The specific guidance and the only reference in OMB
Circular A-117 about providing management improvement or
evaluation information to the Federal budget process are
sections 5b and c which state that, although agency evalua-
tion systems may serve multiple purposes, to be effective
in contributing to management improvement:

"They should assist management in the identifi-
cation of program objectives, in providing explicit
statements of intended outputs relative to the
objectives, and in developing realistic perform-
ance measures to be used in conducting evaluations.

"They should be relevant to the budget process in
that evaluation results should be a major input to
resource allocation decisions."

However, there is no guidance as to what is needed to provide
management improvement or evaluation information in a timely
manner.

Whatever the intent of the guidance in these two
circulars, our observation is that agencies are not handling
the process in phases and are having problems. For example,
they are not able to identify realistic, alternative ways
of carrying out the programs and activities, and evaluations
are not being effectively fed into the process.

We believe that something more than just guidance is
needed to actually institute the kind of changes we have
discussed in this report. Guidance can suggest the changes
required, but OMB needs to demonstrate the necessity of
the changes. For example, if OMB would demand and use
the agencies planning and reassessment information in its
own analysis and decisionmaking, then the changes in quality
and timing would occur as we have suggested. We still
believe, as stated in the recommendation, that OMB should

By Bradford Fitch

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phase the planning, budgeting, and reassessment activities and provide firm links between the phases.

With regard to our views selecting programs for comprehensive treatment OMB says:

"The draft report recommends that OMB and the agencies reach agreement during the spring on the major programs or activities that will receive comprehensive zero-base budgeting treatment during the upcoming zero-base budgeting cycle; develop comprehensive information for policy and program review only on those agreed upon programs or activities; and develop the minimum information necessary on all other programs or activities for comprehensive ranking. In practice, Spring Review is now used to reach agreement between OMB and the agencies on which programs or issues will require special emphasis in the fall and the kind of information that is to be provided. However, ZBB decision packages are required, and will continue to be required for all programs and activities."

We hope OMB will reconsider the ZBB information requirements and allow agencies to develop only the minimum information necessary for comprehensive ranking on those programs which will not receive indepth ZBB review as agreed upon during the spring review. OMB's response, that it wants the agencies to have as much flexibility as possible, is incompatible with its position that all information is required and will continue to be required on all programs or activities. The rules allow no flexibility in amounts of information required in preparing ZBB decision packages. All information must be prepared for all units. We still believe, as stated in the recommendation, that OMB should develop the minimum information necessary for comprehensive rankings on all programs/activities not identified during the spring for comprehensive zero-base budgeting treatment.

With regard to our recommendation to clearly define the rules for ZBB, OMB says:

"The draft points out that there was frustration on the part of some agency managers who felt that they were required to follow a certain set of rules for decisionmaking while the next higher levels, including the Office of Management and Budget, ignore those rules. It is not clear as to what rules are being ignored. Often

such statements represent a failure to recognize
that higher level managers must take into con-
sideration a wider range of options and are
influenced by a broader range of issues. While a
manager of a program is concerned primarily with
the amount of resources needed to carry out that
program, a bureau head must consider that program
in relation to the many competing programs in the
bureau. Likewise, at each higher level the man-
ager must consider the program in relation to the
many competing programs at that level.

"Ultimately, OMB recommendations to the
President on each program must be made in relation
to all the Federal programs, the impact on the
economy of various programs, and the economic
outlook of the nation. This, understandably, can
lead to frustration on the part of some lower
level managers when their programs receive a
lower ranking in the ZBB process than they believe
proper. Last year OMB did try to rank some pro-
grams across agencies. We did this for all pro-
grams in selected program areas (e.g., toxic
substances) and for all programs within a narrow
margin at the budget totals for the major agencies.
We plan to do this again for the 1981 Budget.

"In summary, we agree with the general thrust
of the report, but we also believe that current
instructions to the agencies provide for a viable
framework that can and should be adapted to in-
dividual agency requirements. We believe that
the addition of more strictly defined rules would
be counter-productive; they would severely limit
the flexibility that we both agree is essential
to the success of ZBB."

We stated in the report that the decisionmaking rules
should be clear to everyone. Section 4 of OMB's Circular
No. A-115 states that "zero-base budgeting should be the
sole basis for the preparation of budget requests." We
recognize, as cited in the OMB response, that a wider range
of options are available at higher management levels and
additional factors influence decisions. However, all of
this information does not have to be limited to only the
higher levels. We are recommending that decisionmaking
rules be clearly defined for all, to prevent confusion about
the rules and the feeling that the decisionmaking rules are
ignored at the higher levels. Such a move would permit lower
level management to better understand their range of options,

thereby eliminating many hours of wasted resources preparing information known to be useless. Thus, we continue to believe as stated in the recommendation that OMB should clearly define the rules for zero-base budgeting.

LOCATIONS VISITED

The study was conducted at the following locations:

FEDERAL GOVERNMENT:

Department of Labor:
    Washington, D.C.
    Arlington, Virginia

Environmental Protection Agency:
    Washington, D.C.
    San Francisco, California
    Seattle, Washington

Department of Housing and Urban Development:
    Washington, D.C.

STATE GOVERNMENTS:

California:
    Sacremento, California
    Los Angeles, California

Idaho:
    Boise, Idaho

Kansas:
    Topeka, Kansas
    Lawrence, Kansas

New Jersey:
    Trenton, New Jersey

New Mexico:
    Santa Fe, New Mexico

Rhode Island:
  Providence, Rhode Island

Texas:
    Austin, Texas

COUNTY GOVERNMENT:

San Mateo County:
    Redwood City, California

INDUSTRY:

American Telephone and Telegraph Company:
    Basking Ridge, New Jersey
    New York, New York

New York Telephone:
    New York, New York

The Boeing Company:
    Seattle, Washington
    Kent, Washington

The Parsons and Whittemore Organization:
    New York, New York

Texas Instruments Incorported:
    Dallas, Texas

United Virginia Bankshares Incorporated:
    Richmond, Virginia
    Alexandria, Virginia

COMMENTS ON THE REPORT

Comments on this report were solicited and received from the 17 organizations participating in the study (see ch. 2) plus the Office of Personnel Management and the Office of Management and Budget. Although the comments differ somewhat, generally they are favorable toward the report, the issues as they are discussed, and the conclusions and recommendations.

Written comments were received from seven of the organizations; oral comments from the other 12. The written comments are printed in appendix III. Because our recommendations are to OMB, our response to to their comments are in chapter 7. Changes as a result of specific suggestions directed at clarifying issues discussed in the report have been incorporated in the body of the report.

Charts displaying our analysis of the comments follow, along with a discussion of the comments.

Since organization officials were asked simply to comment on the report, not all respondents selected the same issues or general areas for discussion. The blanks in the chart mean the respondent did not discuss a particular point made by at least one other respondent.

An overwhelming majority of the respondents (15 with one qualified approval agree with the report, 11 accept the conclusions reached, one accepts the conclusions with a qualifier. One respondent disagrees with the report and the conclusions. OMB accepts the conclusions but argues that it does not need to make any changes in its procedures.

General comments about the report and its conclusions varied widely. They included respondents who disagreed and respondents who agreed that ZBB can work and should be integrated into the Federal budget process. Of the six who agreed, one qualified his agreement by saying that more paperwork might result. One disagreed, saying ZBB has too much much paperwork connected with it. Three respondents commented that the report presented a balanced study examining strengths and weaknesses of ZBB. One respondent did not think the conclusions were supported by the text and that ZBB is not a process that the Federal sector should use. One respondent said that the report presented a good study, clear, and appropriately skeptical on the right issues.

COMMENTS ON THE REPORT

	GOOD STUDY CLEAR APPROPRIATELY SKEPTICAL ON THE RIGHT ISSUES	AGREE WITH REPORT	DISAGREE WITH REPORT	NO COMMENT	AGREE WITH CONCLUSIONS THAT ZBB CAN WORK AND SHOULD BE INTEGRATED INTO THE FEDERAL BUDGET PROCESS	A BALANCED STUDY EXAMINING STRENGTHS AND WEAKNESSES OF ZBB	CONCLUSIONS SUPPORTABLE BY TEXT	ACCEPT CONCLUSIONS
COMMENTATOR								
OMB		X			YES			YES BUT NOT AS TO OMB
AGENCIES								
A		X			YES			YES WILL IMPROVE ZBB IN THE FEDERAL GOVERNMLNT
B		X						YES
C		QUALIFIED APPROVAL						
D				X				
STATES								
A			X		NO TOO MUCH PAPERWORK		NO	NO
B	X	X			YES	YLS		YES
C		X						
D		X						
E		X						
F		X			YES BUT MORE PAPERWORK MAY RESULT	YES		YES
G		X				YES		YES
COUNTY		X						YES
COMPANIES								
A		X			YES			YES
B		NO OBJECTION					QUESTION THEM	
C		X						YES
D		X						YES
E		X						YES
F		X						YES

*THE COMMENTS BELOW WERE SOLICITED AND RECEIVED FROM THE 17 ORGANIZATIONS PARTICIPATING IN THE STUDY (SEE CHAPTER 2) AND THE OFFICE OF PERSONNEL MANAGEMENT AND THE OFFICE OF MANAGEMENT AND BUDGET

QUESTIONS ON ISSUES

	DOES YOUR ORGANIZATION AGREE WITH THE GAO CONCEPT OF ZBB?	IS ZBB IN THE FEDERAL GOVERNMENT A GOOD IDEA?	SHOULD THE ZBB STRUCTURE BE UNIFIED OR LINKED TO THE CONGRESSIONAL DECISIONMAKING STRUCTURE?	SHOULD AGENCY PLANNING AND EVALUATION FEED INTO THE BUDGET PROCESS?	IS PHASED IMPLEMENTATION A GOOD IDEA?	SHOULD ZBB BE APPLIED TO SELECTED PROGRAMS FOR INDEPTH REVIEW? PROVIDE LESS INFORMATION ON OTHER PROGRAMS?	ARE THERE POLITICAL PRESSURES THAT INFLUENCE THE SETTING OF PRIORITIES AT THE HIGHER LEVEL?	DOES HIGHER LEVEL MANAGEMENT FOLLOW ITS OWN RULES IN THE FEDERAL GOVERNMENT?	CAN YOU USE A MANAGER S PERFORMANCE IN IDENTIFYING AND ACHIEVING EFFICIENCY THROUGH ZBB AS AN INDICATOR OF PERFORMANCE?	ARE THERE SOME RISKS IN USING ZBB IN TERMS OF HIGHER MANAGEMENT COSTS?
COMMENTATOR										
OMB	YES	YES	YES EXCEPT AS TO AUTHORIZING LEGISLATION	YES ALREADY DIRECTED		ALREADY TO IN SPRING PREVIEW BUT NEED FULL ZBB INFORMATION ON ALL PROGRAMS		NOT TRUE ISSUES AND INPUT ARE BROADER		
AGENCIES										
A	YES	YES	COORDINATION WOULD BE DIFFICULT					NOT TRUE ISSUES AND INPUT ARE BROADER		
B	YES	YES	YES UNIFY							
C			YES BUT COORDINATION NOT NOW A PROBLEM			NOT SURE OF MECHANICAL IMPLICATIONS QUESTIONS UTILITY OF ZBB IN PRODUCTION LINE FEDERAL ACTIVITIES			NO GAMES WOULD BE PLAYED	
D		NO								
STATES										
A		NO								
B	YES	YES								
C										
D										YES
E	YES BUT OPENENDED AS USED BY GAO AS A RESULT PERHAPS TOO FLEXIBLE	YES BUT QUESTION THE DEFINITION FOR STATE GOVERNMENTS								
F			YES THEY SHOULD WORK TOGETHER	YES			YES RECOGNIZE POLITICAL REALITIES			
G							YES THEY OPERATE IN A POLITICAL ENVIRONMENT			
COUNTY										
COMPANIES										
A	YES	YES			YES					
B								YES BUT AT THE GRASS ROOTS LEVELS ALSO		
C										
D										
E										
F										

THE COMMENTS LISTED BELOW WERE SOLICITED AND RECEIVED FROM 17 ORGANIZATIONS PARTICIPATING IN THE STUDY (SEE CHAPTER 2) AND THE OFFICE OF PERSONNEL MANAGEMENT AND THE OFFICE OF MANAGEMENT AND BUDGET

Some comments addressed specific issues in the report.
The most frequently mentioned issue was whether ZBB is a
good idea in the Federal Government. Six respondents said
yes, and one said no. One of the yes respondents questioned
the application of the GAO definition to State governments.
On the issue of whether the respondent agrees with the GAO
concept of ZBB, six said yes. One yes respondent pointed
out that the concept as used by GAO was open-ended and as
a result, perhaps too flexible.

The issue most frequently discussed by the Federal
agencies was whether the ZBB structure should be unified
(not necessarily in a one-to-one correspondence as was
emphasized in OMB's comments) with the congressional
decisionmaking structures. The responses were: yes, unify;
yes, but coordination is not now a problem; coordination
would be difficult; yes, except as to authorizing legislation;
and one State said yes, they should work together. One of
the agencies took a position similar to that taken by OMB
as mentioned earlier in chapter 7.

OMB and one Federal agency both commented that higher
level management does follow its own rules in the Federal
Government. They said, however, that issues and input are
broader at that level. Again, OMB and one Federal agency
commented on the question of whether ZBB should be applied
to selected programs for indepth review and less information
should be provided on other programs. OMB stated that during
the spring review it already identifies programs and issues
which will require special emphasis in the fall but that ZBB
decision packages are required and will continue to be on
all programs or activities. One Federal agency commented
that it was not sure of the mechanical implications of such
a practice. In addition, the utility of ZBB for certain
activities, for example, "production-line" Federal activities
was questioned.

Three respondents, one company and two states, discussed
the question of political pressures at the higher levels.
The company responding pointed out that politics are present
at the grassroots levels also and should be recognized. OMB
and one State agreed that agency planning and evaluation
should be tied into the budget process. OMB believes that
it gives adequate guidance to the agencies in this area.

One company agreed that phased implementation is a good
idea. One agency questioned being able to use a manager's
performance in identifying and achieving efficiency through
ZBB as an indicator of performance, saying that games would
be played. And, one State said that there are some risks
in using ZBB in terms of higher management costs.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D C 20503

JUL 5 1979

Mr Harry Havens, Director
Program Analysis Division
U S. General Accounting Office
441 'G' Street, N W.
Washington, D C   20548

Dear Mr Havens

Thank you for the opportunity to comment on the draft GAO
report on zero-base budgeting (ZBB) entitled, "Benefits
Seen in Streamlining ZBB"

Based on a review of the use of ZBB in Federal and State
governments and private corporations, the report identified
the following factors that should be considered in stream-
lining the ZBB process

   -- zero-base budgeting information should be available
      in a form corresponding to decision structures used
      in these organizations,

   -- planning, budgeting and reassessment should be done
      in phases, and

   -- the process should be adapted to the specific
      organization's needs as shown by experience in
      organizations that successfully use ZBB

We have always considered these factors important in
designing the Executive Branch's ZBB process and agree
that they should continue to be taken into account as
the agencies evolve toward a more streamlined process
However, we cannot agree with some of the recommendations
in the report

For example, the draft recommends unifying the ZBB structure
with the President's, the agencies', and authorizing and
appropriations committees' structures to the maximum
extent practicable   It also recommends that agencies
redesign their accounting systems to support the adopted

zero-base budgeting structure   We believe that current OMB
instructions to the agencies represent a more balanced
approach than this specific recommendation because it takes
into consideration the need to adapt the process to the
specific agency, which the draft acknowledges is necessary
to use ZBB successfully   OMB Circular No A-115 specifies
that

> "A decision unit normally should be included within
> a single account, be classified in only one budget
> subfunction, and to the extent possible, reflect
> existing program and organizational structures that
> have accounting support " (emphasis added)

As you know, this was done to allow agency officials, who
understand the unique suborganizational structures and
programs within their agencies, to apply their specialized
knowledge in identifying units and to allow for year-to-
year adjustments to the units   Our emphasis upon having
program managers identify decision units is, we believe,
a fundamental aspect of the zero-base budgeting system
and one that is key to its success

Our position has not changed   We still believe that to
require that the ZBB structure correspond to the congres-
sional budget decisionmaking structure would place
undesirable restraints on the management of the agencies
Nonetheless, when zero-base budget decision units were
designed for use in the Executive Branch budget decision-
making structure, primary effort was given to designing
the units to be as compatible as possible with the two
primary congressional budget decisionmaking structures
(a) the appropriation account structure used by the
Congress in considering appropriation and other budget
authority requests, and (b) the functional classification
system used by the Senate and House Budget Committees in
reporting concurrent resolutions on the budget

The two congressional budget decisionmaking structures do
not correspond to the congressional authorizing legislation
decisionmaking structure on a one-for-one basis   Nor are
they easily linked   The linkage between these structures
is very complex, mainly because they are based on the dif-
ferent needs of the congressional decisionmakers in each
process   The ZBB decision units are undoubtedly more

compatible with the congressional budget decisionmaking
structures than with the authorizing legislation decision-
making structure

The draft report also recommends that agency planning,
budgeting, and reassessment phases be firmly linked and
timed   It states that OMB guidelines pay little or no
attention to the need to link and time the planning,
budgeting, and assessment phases so that the results feed
into the decisionmaking process   In fact, OMB Circular
No A-115 requires that one of the considerations in
establishing agency policy and guidelines should be

> "Coordination of budget development with ongoing
> planning and evaluation systems   For example,
> department planning that incorporates policy
> initiatives can guide the definition of objectives
> and the ranking process   The results of recent
> and ongoing management and evaluation studies
> should be used in the analysis of alternative
> methods of accomplishing objectives and in the
> analysis of performance "

In addition, there is guidance in OMB instructions on the
role of evaluation in overall management improvement and
the budget process   OMB Circular No A-117 recognizes
that, although agency evaluation systems may serve multiple
purposes, to be effective in contributing to management
improvement

> "They should assist management in the identification
> of program objectives, in providing explicit state-
> ments of intended outputs relative to the objectives,
> and in developing realistic performance measures to
> be used in conducting evaluations "

> "They should be relevant to the budget process in
> that evaluation results should be a major input to
> resource allocation decisions "

Although we agree that planning and evaluation should feed
into the budget process we have carefully avoided dictating
an inflexible schedule that might not be suited to a
particular agency's operations

4

The draft report recommends that OMB and the agencies reach
agreement during the spring on the major programs or
activities that will receive comprehensive zero-base
budgeting treatment during the upcoming zero-base budgeting
cycle, develop comprehensive information for policy and pro-
gram review only on those agreed upon programs or activities,
and develop the minimum information necessary on all other
programs or activities for comprehensive ranking   In
practice, Spring Review is now used to reach agreement
between OMB and the agencies on which programs or issues
will require special emphasis in the fall and the kind of
information that is to be provided. However, ZBB decision
packages are required, and will continue to be required
for all programs and activities

The draft points out that there was frustration on the part
of some agency managers who felt that they were required to
follow a certain set of rules for decisionmaking while the
next higher levels, including the Office of Management and
Budget, ignored those rules   It is not clear as to what
rules are being ignored   Often such statements represent
a failure to recognize that higher level managers must take
into consideration a wider range of options and are influenced
by a broader range of issues   While a manager of a program
is concerned primarily with the amount of resources needed
to carry out that program, a bureau head must consider that
program in relation to the many competing programs in the
bureau   Likewise, at each higher level the manager must
consider the program in relation to the many competing
programs at that level

Ultimately, OMB recommendations to the President on each
program must be made in relation to all the Federal programs,
the impact on the economy of various programs, and the eco-
nomic outlook of the nation   This, understandably, can lead
to frustration on the part of some lower level managers when
their programs receive a lower ranking in the ZBB process
than they believe proper   Last year OMB did try to rank
some programs across agencies. We did this for all programs
in selected program areas (e g , toxic substances) and for
all programs within a narrow margin at the budget totals
for the major agencies   We plan to do this again for the
1981 Budget.

5

In summary, we agree with the general thrust of the report, but we also believe that current instructions to the agencies provide for a viable framework that can and should be adapted to individual agency requirements We believe that the addition of more strictly defined rules would be counter-productive, they would severely limit the flexibility that we both agree is essential to the success of ZBB

We are not convinced that changes to the guidance are required.

Sincerely,

W Bowman Cutter
Executive Associate Director
  for Budget

TEXAS INSTRUMENTS
INCORPORATED
POST OFFICE BOX 6015 • DALLAS TEXAS 75222

Equipment Group

20 June 1979

In reply refer to
231-109-0202
Mail Station 228

Mr Harry S Havens, Director
United States General Accounting Office
Program Analysis Division
Washington, D C   20548

Subject   Comment on Draft Report entitled
                            "Benefits Seen in Streamlining ZBB"

Dear Mr Havens

I want to congratulate you and your staff on the way they addressed a very
difficult subject   As we discussed during the GAO team visit to Texas
Instruments some months ago, proper implementation of ZBB concepts in any
organization requires a great deal of effort after the concepts are well
understood by at least the key managers involved in the process   This is
especially true in an organization as large and complex as the Federal
Government

To the careful reader I feel your report captures the essence of an important
ZBB concept   It must be woven into the management fabric of the using
organization and used as a catalyst for change/improvement   It is not an
end unto itself   Chapters 4 and 5 address this conceptually in several
perspectives

Since your visit to Texas Instruments, I have reflected on the challenge of
effectively incorporating ZBB into the Federal Government process   I agree,
I think it can be done and done effectively with the dedicated investment of
time and effort   It may not, however, prove effective for all segments at
the Federal level - at least not in the same way   The phased implementation
technique your report recommends in Chapter 7 should improve understanding of
the concept and remove at least some of the apprehension which currently per-
vades ZBB application when it is perceived only as a non-participative cost
cutting technique

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Page 2   231-109-0202
20 June 1979

We appreciate the opportunity to comment on the draft report which we are
returning herewith   If we can be of furthei service in this regard, please
contact me

Sincerely,

W L Benfer
Manager
Contract Services/Government Affairs

WLB hlh

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON D C 20460

JUN 26 1979

OFFICE OF
PLANNING AND MANAGEMENT

Honorable Henry Eschwege
Director, Community & Economic
 Development Division
United States General Accounting Office
Washington, D C   20548

Dear Mr. Eschwege

The Environmental Protection Agency (EPA) has reviewed
the General Accounting Office (GAO) draft report
entitled "Benefits Seen In Streamlining ZBB" and
would like to furnish the following comments on its
contents

We found the report to be enlightening and valid as
applied to EPA experience with ZBB and concur with its
recommendations to "streamline" the federal budgeting
process. We strongly support and urge adoption of
the report's recommendation to "unify" the activity listings
against which agencies justify their budgets to the Office
of Management and Budget and the Congressional appropriation
and authorization committees.

Thank you for the opportunity to review this draft report

Sincerely yours,

William Drayton, Jr.
Assistant Administrator for
Planning and Management

U S Department of Labor   Inspector General
                                   Washington D C 20210

JUN 2 5 1979

Mr. Gregory J. Ahart
Director
Human Resources Division
U S. General Accounting Office
Washington, D.C.   20548

Dear Mr. Ahart

Thank you for the opportunity to review the draft General
Accounting Office report, "Benefits Seen in Streamlining
ZBB"

Enclosed are the Department's comments on this draft report
These comments indicate that the Department feels the ZBB
process represents an improvement over previous budgeting
techniques, but given time, could be improved upon by in-
corporating some of the report's suggestions.

Sincerely,

MARJORIE FINE KNOWLES
Inspector General

Enclosure

U S. Department of Labor
Comments on the Draft GAO Report·
Benefits Seen in Streamlining ZBB

The Department of Labor is now into its third year of
using Zero Based Budgeting As would be expected with
any new process, early experiences have left both positive
and negative impressions. In certain respects ZBB has been
a qualified improvement in the preparation and analysis of
budgetary material, for example in the ranking of programs
and in the setting of minimum levels for each program All
in all, it is still too soon to determine the overall value
of ZBB as a method of budget presentation and analysis.

The report pointed out several criticisms of ZBB which
deserve further comment. One problem cited is the frustra-
tion of some managers who feel that they are required to
follow a certain set of rules for decision making and then
higher level managers ignore those rules. This perception
is evident in the Department of Labor. However, it must be
realized that higher level managers do not disregard their
own rules, but, instead, must consider a wider range of
options and are influenced by additional factors. While
a program manager is concerned primarily with the amount
of resources needed to carry out his program and attain
certain specific goals, the higher level manager must
consider that program in relation to the many competing
programs within the Department. Given a limited amount
of resources, he must then decide which have priority
and get full funding, and which programs do not.

The Office of Management and Budget is also subject to
a variety of influences that are not present within the
Department of Labor. This can lead to the perception of
upper level managers that OMB is ignoring its own rules
When OMB makes its decisions, Department of Labor programs
must be considered in relation to the programs of the entire
Federal government. In addition, OMB is influenced by such
factors as Presidential initiatives, the impact on the
economy of various programs and the likelihood of Congres-
sional approval.

Another problem cited was the substantial increase of
paperwork required accompanying the implementation of
ZBB While the Department made every effort to limit
the information needed to formulate its first Zero
Based Budget, experience has shown that some information
originally requested was not useful As a result, the
Department has periodically studied the ZBB submission
in order to further refine that information needed and

- 2 -

to delete any information which is not essential. In
addition, efforts are now underway to use existing
automated data processing resources and OMB computer
programs in order to computerize much information that
is required in the ZBB submission.

Finally, when considering the criticism Zero Based Budgeting
has received, it must be remembered that its introduction
has been accompanied by an executive policy of budgetary
restraint. As a result, much criticism of ZBB is not so
much a result of shortcomings of the process as it is a
reaction to budget reductions. If the budgets of recent
years had been less restrictive, it is likely that there
would be less criticism of ZBB

However, this fiscal climate has pointed out one of the
advantages of ZBB in that, if budget reductions must be
made, lower level managers are able to influence where
those reductions are taken. This is obviously better
since the process provides for more informed judgments
about resource levels.

With regard to the recommendations of the report, the
Department agrees that the points raised can result in
improvement of the Zero Based Budgeting process. As the
Department gains greater experience with ZBB, the process
can be refined so as to provide a better basis for plan-
ning, budgeting and review of agency activities. However,
it must be pointed out that unification of ZBB program/
activity lists with the requirements of the authorizations
and appropriations committees will require considerable
time and coordination.

STATE OF KANSAS

DEPARTMENT OF Administration

DIVISION OF THE BUDGET

Room 152 E State Capitol   Topeka Kansas 66612
                                                         913 296 2436
June 4, 1979   KANS A N 561 2436

Mr Harry S Havens, Director
Program Analysis Division
U S General Accounting Office
Washington, D C   20548

Dear Mr Havens

    I have reviewed the draft of a proposed report "Benefits in Stream-
lining ZBB " I think the report is an excellent one and have no suggestions
for modification of the report   My review is perhaps prejudice because I
believe firmly that the strict process approach to ZBB will fail and yet
there are many useful aspects of ZBB analysis which should be utilized in
our budget systems

    I would be most interested in receiving the final report and particularly
in knowing what the reactions of the Office of Management and Budget are to
the report   I appreciate very much your courtesy in allowing me to see the
draft   I was impressed with the gentlemen who visited my office   They con-
ducted their interviews in a most professional manner

                                        Sincerely yours,

                                        James W Bibb
                                        Director of the Budget

JWB beo

Legislative Division of Post Audit

June 8, 1979

Mr. James W. Bibb, Director
Division of the Budget
Department of Administration
1st Floor, State House
Topeka, Kansas 66612

Dear Mr. Bibb:

    Thank you for the opportunity to review and comment on
the U S General Accounting Office's draft Report <u>Benefits
Seen in Streamlining ZBB</u>   The Legislative Division of Post
Audit agrees with the findings and conclusions regarding
the development and implementation of a zero based budgeting
system. We feel that the goals and objectives of this type of
system are both desirable and necessary for improved account-
ability and more informed decision making at all levels of
government. This draft report adequately notes some of the
difficult issues which must be resolved for such a system to
be effectively implemented

    If you have any additional questions regarding this
matter, please feel free to contact me

                              Yours sincerely,

                              RICHARD E BROWN
                              Legislative Post Auditor

REB bp

DEPARTMENT OF FINANCE
SACRAMENTO

June 8, 1979

Mr. Harry S Havens, Director
Program Analysis Division
United States General Accounting Office
Washington, D C   20548

Dear Mr. Havens

Thank you for your letter of May 25, 1979, providing me with
a copy of your proposed draft report on Zero Base Budgeting.

I have reviewed the report and have no specific corrections or
additions to add to the report   However, I must be honest,
when I finished reviewing the proposed report, I could not
convince myself that your conclusion was supportable from the
narrative of the text   For you to conclude that you see benefits
to be accrued from streamlining the zero base budgeting concept
and further to make recommendations for improvements in the federal
government is not, in my opinion, supported by the weight of evi-
dence in the report

Specifically, the following sentences taken verbatum from your
study, or condensed to capture the essence of the contents of
several sentences in the text, condemn, not endorse, ZBB   You
have prepared your own definition of ZBB   ZBB takes an exorbitant
amount of time from the operating activities and instead of manag-
ing programs, managers find themselves caught up in the details of
budgeting   The data being generated offers too much to handle
The budget seems to stay the same even after ZBB   (Emphasis added)
Budget officers and analysts become full-time trackers of forms
and numbers and there is little or no time for budget analysis
The process begins to take over and becomes and end in itself   In
a few of the successful cases studied, officials brought in ZBB
simply because they recognize inaccuracies in the current system
(this doesn't mean ZBB is good or better than other techniques)
ZBB cannot deal with complex budget issues that change frequently,
for any time budget assumptions are changed, all benefits estimated
in the budget decision have to be recalculated   Both private and
public agencies trying ZBB have had to add staff and/or have recog-
nized a 100 to 300 percent increase in workload and paper

In addition, another conclusion seems to be that one should develop
a sophisticated planning process because it facilitates the ZBB
process   And, most of all, throughout the study there is a theme

Mr Harry S Havens   -2-   June 8, 1979

**quite clearly stated that ZBB has created little change in ultimate
budget decisions**

As you know, California conducted a controlled experiment with
four major departments and the results were subjected to a
rigorous examination   We concluded in our report to the Legis-
lature that zero base budgeting is but another tool in the arsenal
of budget techniques to be used selectively as circumstances and
programs permit   We do not endorse the broad application of ZBB
to the total budgeting process

Based upon the information presented in your study, in my opinion,
you cannot come to the conclusion that zero base budgeting has the
advantages or benefits which you are attributing to it

I think public administration would be better served if your study,
with the status a GAO report commands, were to clearly conclude,
as your findings indicate, that ZBB is not a magic budgeting cure-
all, it creates massive paperwork, it is costly in time and staff
and there is little, if any, change in budget outcomes   This
might avoid further attempts by those unfamiliar with ZBB to make
a broad application of zero base budgeting to all budgeting
situations

Sincerely,

Charles /E Gocke
Assistant Director

(920690)

State of New Jersey

DEPARTMENT OF THE TREASURY

STATE HOUSE
P O BOX 2447
TRENTON NEW JERSEY 08625

DIVISION OF
BUDGET AND ACCOUNTING

EDWARD G HOFGESANG
DIRECTOR

July 5, 1979

Ms Donna Heivilin
Program Analysis Division
U.S General Accounting Office
Washington, D C   20548

Dear Ms Heivilin

This is in response to your recent phone requests for a review of the draft titled "Benefits Seen in Streamlining ZBB"

In general, the draft presents quite completely the advantages and disadvantages of ZBB and how the system may be improved   The draft is already rather lengthy, perhaps from the double spacing, but possibly a little more emphasis on the following points may be of some value

   Planning precedes the budget process and should serve to limit
      agency effort, paperwork and requests to support of the top
      level objectives

   Planning should recognize political realities and limit analyses
      and paperwork to programs which have a reasonable chance of
      passage

   Program evaluation should be performed during the year to deter-
      mine what might happen if certain programs are discontinued
      This could reduce paperwork during budget preparations in cases
      where programs are no longer justified

   Minimum funding levels should be challenged in detail, but not
      every year unless the new minimum levels exceed greatly any
      inflationary costs

   Reassessment and/or program evaluation is usually performed some-
      what independently by the agencies, the Budget Bureaus and legis-
      lative offices   If the three or more entities could work as a
      team when gathering data, the agencies should be spared consid-
      erable time and paperwork

78

- 2 -

Scheduling should be strict as there is a tendency for all parties in the budget process to postpone action and decisions which cause bottlenecks and delays in producing the final budget document.

Forms used in the ZBB process should be reviewed each year with persons who prepare and use the forms Requests for information which is not used should be discontinued

Decision units should be reviewed during the year to determine when it might be feasible to combine with other units to reduce paperwork loads

It may appear that the above suggestions are aimed solely at reducing paperwork, but this should make the system more saleable and more effective as a management tool I realize that most suggestions are contained in the draft but in different wording and perhaps with somewhat different meaning

Sincerely,

Allen J. Wiseman

AJW mw

920690