Review

A new approach to budgeting and financial management

Peter A. Phyrr, Zero-Base Budgeting: A Practical Management Tool for Evaluating Expenses, John Wiley & Sons, New York, 1973, 228 pp.

Developing a rational basis for budgeting has long been a problem for educational organizations as well as other government operations. For a time PPBS seemed to be the best solution. However, this attempt at financial accountability seemed to cause more difficulties than it solved. Financial managers in education would do well to consider zero-base budgeting as a process to solve many of the tough problems faced in developing budgets where a scarcity of resources prevails.

Peter Pyhrr appears eminently qualified to write the book **Zero-Base Budgeting: A Practical Management Tool for Evaluating Expenses.** He guided the process in its initial stages for both Texas Instruments, Inc. and the state of Georgia. He has written in a straightforward manner resisting the temptation to be evangelistic about this new approach. The book includes step by step descriptions of each phase of the process and includes many examples from both government and industry.

In traditional practice budgets are developed with primary reference to the previous year's expenditures. The only amounts that receive real scrutiny are increases over the past year. The basic concept of zero-base budgeting is that all budgeted amounts are open to careful review. Every program of the organization must be defended just as if it were being considered for the first time.

The first chapter gives a general overview of the zero-base budgeting process. The development and ranking of decision packages are the two basic steps. A decision package describes a specific activity or grouping of work along with the costs and alternative courses of action. Different levels of effort for each activity must be identified. The minimum level is the least amount of effort needed to keep the organization in operation. Additional levels are identified in separate decision packages along with the total costs involved.

Once decision packages for all the activities of an organization are developed they must be ranked in order of priority. This process requires input from administrators at all levels in the organization. It ensures that vital activities will be funded while those of lower priority will be included only if resources are available.

Chapter two briefly outlines the problems and benefits of implementing zero-base budgeting. The primary problem is the inherent resistance to any new procedure in an organization. The technical aspects of developing decision packages sometimes requires expertise that may be lacking. Ranking process problems also must be dealt with. The author gives specific suggestions for minimizing the problems that inevitably occur. The major benefits of zero-base budgeting include improved planning, follow on benefits, and improved development of the management team.

Chapters three and four describe the development of decision packages in much greater detail. The example of the Georgia Air Quality Laboratory provides an illustration of the budgeting process. The laboratory tests air samples collected throughout the state of Georgia. Three decision packages for different levels of effort were developed. Package A (the minimum) provided for testing of air samples covering 70 percent of the population; package B provided for 80 percent of the population, and package C for 90 percent. Costs were identified for each package. The decision-making process is described in detail along with the format and content of the decision packages.

The very difficult problem of ranking the decision packages is dealt with in chapter five. Unless care is taken this can grow into an impossible task. The initial ranking takes place at the level where the packages are developed. Higher levels of management concentrate on the lower priority packages as the top priority packages would automatically be funded. The author provides a detailed description of various approaches to the ranking process with sufficient illustrations to enable the reader to grasp this complex procedure.

While the first half of the book discusses the specific details of zero-base budgeting, the second half (chapters 6-10) deals with the budgeting process as a part of the management of the organization. A number of policy issues are discussed. In general the author does an excellent job of outlining a specific management problem, listing alternatives, and providing observations to be considered in arriving at a viable solution. In some instances a specific policy is suggested as "the best way to do it." In other cases several alternatives are explored with no specific recommendation. Throughout, organizational and management pitfalls are highlighted.

Since program budgeting was once considered as a solution to budgeting problems in education, it is only natural that PPBS and zero-base budgeting be compared. While program budgeting does have distinct advantages over the traditional approach, there are definitely gaps in the system. Pyhrr suggests that zero-base budgeting can fill these gaps. He proposes a merger of the two systems to provide a truly effective management tool.

In complex organizations such as urban school districts, zero-base budgeting will inherently develop problems of volume. The total amount of paper work could become an overwhelming burden. Properly utilized, the computer can help solve many of these volume-oriented problems. In addition to data storage, the computer can aid in the analysis of decision packages and the ranking process.

Even though the book is filled with numerous illustrations and examples, two appendices are presented with further aids for practical application. The first is a sample zero-base budgeting manual which is provided for managers who will be developing decision packages. The second is a list of decision package topics taken from both government and industry.

Peter Pyhrr has given a detailed account of a complex process. His book is written for managers in both government and industry who are involved in financial decision-making. There is a minimum of theory and a heavy emphasis on practical application. The author has been honest in pointing out the problems to be encountered, and resisted the temptation to overstate the possible benefits. The major disappointment is the lack of information regarding budgeting in the public schools. Maybe this will be the topic of a future book.

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