

Managerial Discretion and Accountability for Performance in Budgeting - Evolution of Spending Authority, Results Oriented Management, Performance Measurement, and Policy Program Evaluation -

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I. WHY REFORM? : Critic on Control-Oriented Budgeting

Budgeting is an important part of the accountability process because it provides judgement of the credibility, lawfulness, and the performance of financial statements and of the manner in which public officials have carried out their responsibilities. By examining the procedures, operations, and management of policies or programs, budgeting can help agencies or organizations improve efficiency and economy. By conducting an evaluation focusing on whether a program was carried out as planned and met its objects or whether a program produced some change, or both, budgeting can also help decision makers improve the effectiveness of public sector operations.

Budgeting reforms imply change for the better; it alludes to improvement, thus according to a value judgement to the process of succession. In effect, budgetary reform would indicate that the progression of change from control to management to planning was such an improvement. According to Allen Schick, budget reform always has three purposes; planning, management, and control(Schick, 1966:244). But he notes:

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Very rarely are planning, management, and control given equal attention in the operation of budget systems. As a practical matter, planning, managing, and control have tended to be competing processes in budgeting with no neat division of functions among the various participants. Because time is scarce, central authorities must be selective in the things they do.

Recently, there is a lot of imperatives toward financial management, accounting, and budgetary reform in public sector. The rationale for these imperatives are to provide some insights in the "planning, results or performance-oriented" management approach. Most of the reasons have come from the problems that the present budgeting system is, mainly, depending on line-item approach.

The line-item or "object" classification was a product of an era in which legislators and the general public distrusted administrators (Burkhead, 1956:128). By establishing detailed listings of things for which public funds were being spent and then linking each category of spending to a specific account, tight control of expenditures could be maintained at the bureaucracy. That was the principal purpose of the system: to control expenditures at the agency and departmental levels and to hold public officials accountable after the fact through an extensive auditing process. This type of budget and accounting system, by detailing the objects of expenditure, greatly reduced the discretionary power of administrators (Schick, 1964).

Any discussion of the management dimension of budgeting properly begins with the budget systems developed through budget reform. In this sense, it is important to remember that the line-item budget itself was a budget reform of tremendous significance. While performance budgeting had been on the scene at the same time as the line-item budget, a certain amount of development or education under the mantle of the line-item was necessary first (Hyde, 1992:323). Line-item budgets codified spending rules, allowed comparisons by expenditure category across organizations, and, most importantly, permanently injected the according dimension into public expenditures. Behind every object of expenditure category, there was a body of rules and regulations that were enforced by the line-item budget. Cured by its critics as mindless, irrational, short-sighted, fragmented, and conservative (Wildavsky, 1981), it nevertheless fulfilled the need of legislative bodies to control public spending.

Although the line-item executive budgets marked a significant advancement in budgetary technology, many public managers had become increasingly dissatisfied with the deficiencies of this process. Perhaps the major criticism of line-item budgeting, with its extensive emphasis on classification by objects of expenditures, was the consequent lack of information about total programs and functions of government. As government programs were expanding, public sector administrators were demanding more

information about management, the service and delivery processes, and the efficiency and/or effectiveness of programs than line-item budgeting was capable of providing.

Lacking information regarding program goals or achievements, line-item budgeting was considered a poor instrument for relating public expenditures to public accomplishment. It might be interesting, even important, to know the salaries of clerk-typists in the engineering department, but that in itself provided no clue as to what those employees were doing. Beyond providing year-to-year comparisons of costs and indicating the maximum amount of funds available, the budget was limited usefulness to managers or policymakers in arriving at programmatic decisions. Nor was it helpful in explaining or justifying government programs to citizens.

Until very recently, the budgeting of Korean government has put its emphasis on financial and compliance budgeting. In other words, it has been assumed that once a policy, a program or a project is made, the policy, program or project will be implemented, and the result will approach the expected goals. Thus under the concept of financial and compliance budgeting, i.e., line-item budgeting, procedures were developed mainly to check the legality of expenditures and insure honesty in fiscal affairs.

As public sector program grew in size and complexity, however, the demands made of public managers for additional information also grew, and management performance became a matter of special concern for policy makers, and administrators, since a good policy, program, or project may turnout to be a bad one because of ineffective management

Today, public sector budgeting is no longer concerned entirely with financial operations and compliance matters. In almost all developed countries, the prime concern is whether public sector is managing and utilizing resources entrusted to them in an efficient and economical manner, and whether the intended results or benefits have been achieved. In other words, the necessity of extending budgeting system to the aspect of performance or result-oriented budgeting is a modern trend. It is expected of the public officials and it is the demand of the general public who have a right to know whether government funds are handled properly and whether governmental programs are being conducted economically, efficiently and effectively.

II. ROADS TOWARD RESULT-ORIENTED BUDGETING

1. Performance Budgeting and Efficiency

Budgeting systems concerned with performance work data and efficiency concepts were first developed just before World War I in USA. Then, under the auspices of

the Hoover Commission of 1949, the designation performance budgeting was officially sanctioned as the preferred budgeting. The problems of controlling public expenditure and restoring legislative control of the government budget prompted the first Hoover Commission to raise two basic questions(United States, 1949): (1) What is the desirable magnitude of expenditure on any major government program and the desirable proportion of total expenditure to the gross national product and (2) How efficiently and economically can an approved program be executed or can the same amount of work be performed satisfactorily through other arrangements or through improved procedures at less cost?

The Hoover Commission recommended the introduction of performance budgeting throughout the federal government. The performance budget envisaged by the Commission consisted of these elements: (1) program and activity classification of government transactions, (2) performance measurements, and (3) performance reporting. Here, the most important factor in performance budgeting may be "performance measurement." It was derived from cost accounting and the approaches of scientific management and provided a basis for the use and the cost of manpower and other factors of production, the effectiveness with which they are used, and the accomplishments made in the process. Its approach was to rationalize the cost. Performance measurements implied the specification of yardsticks for efficiency that could be employed to set predetermined standards to observe performance over a period of time or make comparison with other similar organizations.

Under the traditional line-item budget, the focus was on the amounts needed to pay for things: personnel, equipment, supplies, etc. Such a presentation revealed little about what was accomplished as a result of such expenditures. Policies, programs, and activities of the spending units of government were not incorporated into the budget document. Performance budgeting, then, is an attempt to go beyond the money alone and the mere objects being bought and paid for to look at the services being provided and the activities being carried out. Further, it seeks to attach cost figures to those programs and activities. Budgeting takes on a different appearance in response to the need to present information in a different context. Tied to cost-accounting techniques, performance budgets presented managers and policymakers with detailed breakdowns of the unit costs of agency outputs.

While the predominant orientation of performance budgeting was for the purpose of better management and enhanced efficiency, most of its early advocates expressed hope that its associated processes would further executive-legislative budgeting relationships. Indeed, in the U.S., the generally recognized success of performance budgeting was instrumental in obtaining congressional approval of the Budgeting and Accounting Procedures Act of 1950, which gave the president greater discretion over the format

and content of executive budget submissions. Certainly, systematic performance measurement data were more useful to appropriations committees than traditional line-item submission, and better served the purpose of legislative oversight. As a result, performance budgeting sought to establish management's right and responsibility to ascertain how much work was being accomplished, at what cost, and for what results, as measured against specified performance standards(Hyde, 1992:325).

In the total sequence of performance budgeting, where an executive budget system is used, there are two documents. The first document contains the executive proposal of a governmental work program, stated in financial terms with proposed costs and revenues shown in relations to each other. The second document contains the appropriation acts as passed by the legislative body (in one or more parts) authorizing the use of public funds for the programs as modified by the legislature. The second document represents legislative decision on executive proposals, and it is the official budget of the governmental unit it represents.

The performance budget document is prepared on the basis of functions and objectives of the several agencies and departments of government rather than exclusively on the basis of objects of expenditure and organizational units. This presentation is especially important for those who give attention to the budget after it leaves the unit which originally prepares it. Thus, the format and presentation are vitally important to the legislative bodies that pass judgment on the merits of what is presented and that authorize funds for the administration of the substance. Also, the form of presentation is important for responsible citizens or groups of citizens who actively participate in the budget process and who ultimately finance the the programs authorized by the legislatures(Secler-Hudson, 1953:80).

2. PPBS : Planning and Effectiveness

The implementation of performance budgeting approach, however, ran into difficulties, in part because its requirements for immense amounts of data from lower levels of management generated a considerable lack of enthusiasm. Furthermore, as government programs continued to expand, budget officials - already faced with a considerable burden of calculation in making resource allocation decisions - were less and less interested in a micro-oriented budgeting system and more inclined to some form of macro-oriented system that would facilitate budgeting in aggregate terms.

In the 1960s, Planning Programming Budgeting Systems(PPBS) took the budgeting world by storm. Widely hailed as an exciting, new approach to rational decision making, PPBS in fact did promise much. It began by insisting that it could interrelate and coordinate the three management processes constituting its title: planning would

be related to programs that would be keyed to budgeting.

To emphasize further the planning dimension, PPBS pushed the time horizon out to half a decade by requiring five-year forecasts for program plans and cost estimates. PPBS placed a whole new emphasis on program objectives, outputs, and alternatives and stressed the new watch world of evaluation: the "Effectiveness" criterion. Finally, PPBS required the use of new analytical techniques from strategic planning, systems analysis, and cost-benefit analysis to make governmental decision making more systematic and rational(Hyde, 1992:325).

The basic elements of PPBS were drawn from previous systems, but it differed from them in that it offered a paradigmatic approach to policymaking involving the specification of objectives, formulation of programs, a critical and systematic examination of alternatives, analysis over the long term, and application of quantitative techniques. The PPBS was formulated the government involved three levels of management. That is(Premchand, 1983:326);

· **Policy Management**

Identification of needs, analysis of options, selection of programs, and allocation of resources

· **Resource Management**

Establishment of basic support systems viz., improvements in basic budget structures, financial management practices

· **Program Management**

Implementation of policies and related operations; accounting, reporting, and evaluation

The basic idea underlying PPBS is that budgetary decisions should be based on output categories (objectives and end products) rather than inputs (personnel and equipment costs). PPBS goes beyond performance budgeting; its narrow concern carries out specific tasks efficiently. It asks, first of all, what the goals are of a government and its various agencies and institutions.

PPBS was largely the contribution of economists. They introduced certain concepts previously ignored into the budget-making process, except in rare and short-lived experiments. These included the systematic consideration of alternative means to accomplish a given take, the comparison at the margins of both program costs and benefits, and the idea of "trade-offs" or substitutions in arriving at policy choices. Basically, there were five crucial elements involved in the PPBS (Pilegge, 1992:76);

(1) A focus on the objectives or purpose of government. Once these fundamental

objectives were identified, then all activities of the government - regardless of their organizational location - could be assigned to broad program categories (i.e., education, national security, health, etc.).

(2) An across-the-board program structure, linking all the activities and their costs to those common programs. The total cost figures would then represent the "budget."

(3) A multi-year program and financial plan. Employing an extended time horizon - usually five years - the future implications of present decisions could be projected in terms of both costs and benefits.

(4) Program analysis. At the heart of PPBS was the use of cost-benefit and cost-effectiveness studies to compare the various programs and projects being considered as alternative means to achieve a given objective or carry out a stated purpose.

(5) Budget aggregation. Summing the total costs of program decisions resulted in the creation of the budget.

If performance budgeting was efficiency oriented, program budgeting fixed its sights on effectiveness. Given a set of agreed-upon goals, it presented policymakers with available alternatives, both in terms of objectives and the means by which to achieve them. Cost-benefit analysis (or cost-effective analysis) was employed to cast alternative policy choices in quantitative terms. By displaying both the long-term benefits as well as the total costs of various proposal, this form of marginal analysis was intended to produce "new way of thinking about policy making" (White, 1982).

3. Management By Objectives (MBO) : Effective Management

Although it was a product of the Kennedy-Johnson years, PPBS continued in use through the early days of the Nixon administration. In 1971, however, the technique was formally abandoned as a requirement for federal agencies. In its wake, reflecting a new emphasis on management at MBO, came another approach borrowed from the private sector (Pilegge, 1992:77).

The strength and durability of the budget process served principally its close identification with the allocation of resources among competing claims and, to a lesser extent, from its association with the planning and evaluation functions. Taken together, these applications provide one of the most significant mechanisms for structuring and channeling information throughout an organization. Thus by logical extension, it should be possible to utilize this mechanism for other purposes that also rest upon the same requirements for structured and systematic information - specifically implementation of a "management by objectives (MBO) system" (Fuller & Hyde, 1978:513).

Although MBO is a familiar management tool in the private business sector, it had

been used sparingly in the public sector prior to being introduced at the United State Department of Health, Education, and Welfare(HEW). The department turned to MBO as means of coping with a veritable explosion in the size and scope of its operations. During the 1970s, MBO is installed in numerous private companies and its premises are familiar to many business managers. The strength of these premises lies in their simplicity(Brady, 1973: 198-199):

- The clearer the idea of what one wants to accomplish, the greater the chances of accomplishing it.
- Real progress can only be measured in relation to what one is trying to make progress toward.

Although the premises of MBO have been tested and proven in the private sector, it has taken the public sector considerably longer to effectively incorporate them. Reacting to one of the chronic complains levied against PPBS - that it generated too much paperwork - advocates of MBO played down the new system's manpower and paperwork requirement.

With its primary focus on managerial aspects of program implementation, MBO placed less emphasis on long-range planning and program evaluation. Where PPBS tried to force the comparison of programs across organizational boundaries, MBO respected those jurisdictional lines. Where PPBS had a centralizing, top-down orientation, MBO promised a more participative approach, with line managers heavily involved in the setting of agency objectives.

Operationally, management by objectives consists of a three-part cycle(Brady, 1973). First managers and subordinates agree on a list of measurable, results-oriented objectives and link them to the departmental budget request. Second, milestones to be achieved en route to the objectives are established and periodic progress reviews are scheduled. These management conferences, scheduled bimonthly or quarterly throughout the year, assess the status of each objective and, if necessary, permit the objectives themselves to be changed to conform to new initiatives. Third, the results are evaluated, each manager submitting to the department head a year-end report describing successes and failures in meeting the objectives set earlier.

Like PPBS, management by objectives relied, for success, on the ability to clearly define goals and objectives. Like performance budgeting, it demanded an ability to measure performance against specific, quantifiable standards. Unlike its two predecessor, however, MBO failed to establish itself as an activity essential to budgeting. While a few agencies made an attempt to link MBO to the budget process, most were unable to make the connection(Pilegge, 1992:78). As Lynch(1990) explains, such linkage can be accomplished by using matrix table juxtaposing agency objectives and budget activities. In this way, the amount of money needed to carry out a given

objective during the budget year would be highlighted.

4. Zero-Base Budgeting and Political Relevance

The distinctive and essential hallmark of ZBB is its focus on the total budget request. The current spending level is not regarded as an inviolate base, immune from detailed scrutiny. Existing activities are examined along with proposed new activities. ZBB places a premium on offering decision makers a range of choices among alternative funding levels(Taylor, 1977:272).

Theoretically, zero-base budgeting drew on the insights of Verne B. Lewis(1952) and others who had argued that decision makers should consider more than a single recommended level of spending for various programs. In this sense, ZBB was a form of "alternative budgeting." It required managers to consider not only alternative levels of funding and service output, but alternative means for achieving objectives. In this, it shared some of the conceptual ground previously occupied by PPBS and MBO.

In the early 1970s, experiments were made in the variants of ZBB in the private sector. In extending that experience to government, it was recognized that the weaknesses of the PPBS were that it did not provide an operating tool for managers, or consider the impact of various funding levels, and was not significantly equipped to force continual evaluation of ongoing programs. Conceptual silence has been a boon in the implementation of ZBB. Precisely because it appears to exhaust itself in technique, ZBB can be engineered to suit any budgetary approach. In pure ZBB, that is, in ZBB strictly oriented to managerial efficiency, the budget as submitted by the manager - a person in the bowels of organization responsible for getting a job done and spending public funds - retains its identity thorough the budget process(Schick, 1978).

ZBB focused on the concept of priorities, which was much more than the elaboration of the consideration of alternatives proposed by V. Lewis. It reflects a concern that, among its options, governments should choose only the most important to act upon. Also, it continues the progressive concern with the criteria for management evaluation. In examining public programs, administration first stressed accountability, then efficiency, then effectiveness and impact, and now relevance; the most significant and critical problems are those that should be addressed (Hyde, 1992:327).

The basic feature of the system is that it requires examination of programs at various levels of resource allocation and performance. More specifically, there are three basic elements in ZBB(Premchand, 1983:335): (a) Decision Units; objectives have to be formulated for each agency, (b) Analysis of Decision Units and the Formulation of Decision Packages; the activities of each agency are converted into decision packages -

that in essence are broadly the same as program categories in previous systems - which are developed to show performance at various resource levels such as "minimum," "intermediate," "current," and "enhancement" levels, and (c) Ranking; the decision packages are then evaluated and arranged at each level of management in raking order. The ranking order enables the agencies to define the minimum effort and to indicate the incremental levels of effort above the minimum for each program. The levels of effort are then arranged in a decreasing order and a cut-off point is established.

There have been two main reasons for ZBB's strong insistence on managerial participation(Schick, 1978). The first arises out of the conviction that managers cannot genuinely take responsibility for programs unless they make financial decisions. In order for a manager really to be in charge of a program and its finances, he must invest time and attention in making the budget decisions for it.

Secondly, ZBB is grounded on the assumption who has not been given adequate incentives and opportunities to opt for more efficient operations. The budget process conventionally confronts managers with the uncomfortable risk of a loss of funds if they try to purge inefficiencies from their agencies. By taking the incremental way out, that is, by according preferred treatment to expenditures decided in past budgets, managers can pursue program objectives by seeking budget increases without eliminating wasteful practices. ZBB aims to overcome this predicament by compelling managers to submit non-incremental budgets and enabling them to propose the terms under which their budgets are reviewed at all stages of administrative consideration.

A principal advantage claimed for ZBB was that it generated previously unavailable information that could be used in both managerial decision making and broader, higher level policymaking(Pilegge, 1992: 80). By offering decision makers multiple options it broke with the traditional "one best way" of presenting agency requests. To the extent that legislative bodies accepted the zero-base format, it allowed them to view the probable consequences of providing different incremental levels of funding for various programs.

5. FMP : Australian Results-Oriented Management

(1) Background

In the Australian public sector, the 1980s have seen an unprecedented series of financial management, accounting, and budgetary reform. The rationale for these reforms, their progress to date, and the challenges they pose for the future are to provide some insights into the "results or performance-oriented" management approach adopted by the Australian federal government.

Previously, the ethos of Australian public administration tended to be characterized as focusing primarily on compliance with rules and procedures designed to control and limit departmental use of resources rather than being concerned with results. The reform challenges started from the critic of deficiencies of traditional approach (McDonald, 1990:193):

- little need to consider the purpose or objective of spending;
- accountability was more closely related to control of expenditure- detailed appropriations than to results achieved from expenditure;
- more concern with analyzing changes from previous periods than with making forward projections and planning ahead; and
- no ready capability for determining the full cost of specific programs.

The financial management and budgetary reforms were designed specifically to address these deficiencies. The major focus of the Australian government's reform package had been the Financial Management Improvement Program(FMIP), which was started in April 1984 to promote and encourage efficient and effective resource management.

(2) Managing For Results

Developing a system of "managing for results" had been a key thrust of the FMIP. It can be characterized as providing the tools that will enable departments and agencies to take advantage of the changing environment. Four separate elements of this approach might be identified: corporate management, program management and organization design, management information, and program evaluation(McDonald,1990: 195-201).

Corporate Management : It dealt with primary management issues that are fundamental to the effective performance of the organization. It established the basic rationale for the organization and its broad direction of development and provides the strategic focus for the three other elements for results. The central concerns addressed in the corporate management approach were:

- the determination of the broad mission and strategy;
- the establishment of a program structure based on the corporate goals and objects;
- the setting of priorities and determination of resource allocations among programs; and
- the development of the overall management and staff communication framework.

The results-oriented role for managers in the public sector was intended to mirror that of profit-seeking managers in the private sector, although there was a recognition within the FMIP that the former were required to take into account other important objectives such as equity, equality, access, justice, probity, and security.

Program Management and Organization Design These interacted closely in management to achieve corporate goals. Program management sought to focus attention on results and the achievement of objectives within identified government policies, corporate priorities, and resource levels. It could be said to be an approach to planning, budgeting, implementation, and evaluation was structured with the focus on result and resource consciousness throughout the process.

On the other hand, organizational design was essentially concerned with dividing the work and responsibilities of an organization as coherently as possible to obtain best performance from individuals and the organization as a whole. Once an organization had worked out its goals, strategy, and program structure, the interest essentially centered on ensuring that organizational design brings these aspects to life in departmental management by:

- translating the program structure into roles and responsibilities for people within the organization;
- establishing effective channels of communication and decision making; and
- devolving authority and accountability to managers.

Management Information : The emphasis on managing for results has significant implications for the information needs of both internal and external users. In turn, changes in those information needs implied a requirement to change the existing management information systems. Major issues being addressed by various departments and agencies in developing information systems tailored to individual needs were developing common standards; encouraging economy of effort linking resource usage and performance; and integrating different types of management information.

Program Evaluation : The final, and critical, element of managing for results was program evaluation. It is the link between what had been and was being done and what should have been done. Recognizing the importance of evaluation, the Australian government required agencies to plan for evaluation and to include "sunset clauses" and evaluation strategies in all new policy proposals.

(3) Reforms of the Budget Process

Significant changes in the budgetary process had taken place since the publication of the White Paper on budget reform in 1984(McDonald, 1990:206). They aimed at improving resource allocation procedures and encouraging results-oriented management. Specifically, the budget reforms were designed to improve the overall efficiency of the public sector by, on the one hand:

- providing greater autonomy for ministers and departmental managers to set their own priorities within an environment of tight fiscal limits set by the government;
- reducing the Department of Finance's involvement in the minutiae of departmental resource issues; and
- providing greater stability for medium-term planning by departments;

but, on the other hand by

- expanding the concerns of both the Department of Finance and the departments with program effectiveness and efficiency and accountability;
- maintaining the Department of Finance's responsibility for aggregate expenditure control; and
- increasing its responsibility to probe vigorously where additional funds are sought.

III. REVIEW ON THE KOREAN CASE: Problems & Development of Budgeting System

1. Overview on the Development of Korean Budget System

The Korean budgetary authorities had introduced in 1967 a formal system of annual planning device known as the "overall resources budget(ORB)". This annual plan was designed to facilitate the yearly implementation of the five-year plan by improving the budget-plan coordination. It reset the plan targets for each year, provided the major content and size of government budget as well as sectoral investment programs, and also intended to match the macro-economic policy with the budget policies.

The Korean budget was, and has been modelled on the so-called line-item budget, which is classified by objects of expenditures(Kim, 1992:70). It is designed, described above, mainly for administrative control under limited fiscal resource. It has the tendency to follow the previous year's, aggravating the inflexibility of the budget and,

there by, hampering the effective allocation of resources. Furthermore, there has been no effective linkage between planning and budgeting. Continuous government efforts, such as attempts to introduce PPBS, ZBB, were made throughout the 1970s and 1980s to eliminate these kinds of problems.

In 1971, The Ministry of National Defense (MOND) initiated to plan to launch the PPBS and organized the PPBS Research Committee. The objective of the plan was to build the foundation of a management system on which the self-reliance of the national defence is realized rather than attempt to transplant the American system to Korea without modifications. The efforts for introducing the PPBS were continued in 1974-75 at the preparation state and 1976-78 at the implementation stage. Major documents were compiled in 1980 by MOND.

On the other hands, the Bureau of Budget in the Economic Planning Board reported to the President the plans for improving the budget system based on ZBB and acquired the presidential support in 1981. The plans were designed to break away from the convention of following the previous year's budget, to eliminate waste and ineffectiveness in the budget allocation, and thus to achieve a more flexible budget operation. The 1983 budget was known to be compiled partially based on the ZBB approach. Since then, even though the precise and formal procedures of the ZBB approach have never been adopted by the EPB, the spirit of this approach has been always emphasized at the budget preparation stage.

During the early 1980s in the economic recession, the objectives of the five-year plan and some of the related development projects were inevitably reduced because of limited budget support. In fact, the annual budget did not carry the plan forward to the point where implementation of the plan was feasible. Budgetary decisions required a longer time period as a frame of reference, and the development of a longer term fiscal outlook was, therefore, considered highly desirable.

Then, a new scheme called the "medium-term fiscal plan" was introduced to minimize the discrepancy between planning and budgeting by providing planned projects with the necessary annual budget support. This new approach was aimed at improving the single-year budgeting practice by incorporating a multi-year fiscal outlook for mobilizing and allocating government resources. It called for more realistic estimates of government expenditures than those projected in the five-year plan. Under this system, the fiscal plan is to be a rolling plan during the five-year plan period, being revised each year in accordance with Korea's recent economic performance and the new outlook for fiscal revenues.

2. Uncured Problems in Korean Budget System

Since 1960s, Korean government has always tried to improve modern budget system and also tried to follow the advanced budgeting reform trends during the past three decades. Due to such continuous efforts, the Korean budget system has basically become rationalized. Since the late 1980s, the rapid transition toward political liberalization has created mounting pressures for more efficient and equitable decision making in the budgetary process. Therefore, the goals of budget reform naturally come out the productivity of government budget, rather than improving the budgeting process.

In spite of continuous efforts to improve the Korean budget system as a whole, the system is facing with some problems under the rapid change in political and economic circumstances. One of the problems of the Korean budget system is the inadequate, unreliable, and untimely financial & budget information. Moreover, the budget process does not create management incentives, and it is unrealistic, inflexible, and unnecessary burdensome. The budget structure, which is regarded as so-called "allocator of scarce resources," result in political conflicts and organizational strains in overall budgetary system. The annual budget tends to have managers focus on short term goals and political negotiations rather than long perspectives, which has led to poor budget policies and practice.

IV. RECENT ISSUES ON RESULT-ORIENTED BUDGETING IN KOREAN GOVERNMENT

In 1995, there was an advisor report on reform which titled as "a Plan to Improve the Budgeting and Auditing System. The report which was prepared by Budget Office in Finance and Economy Board and "the Presidential Committee on Administration Reform" suggested that the budgeting and auditing reform should be to increase productivity of governmental output and responsiveness to the change in political and economic circumstances.

It contained twelve items as follows, which included eight short term plans and four long term plans. It can be interpreted that the goal of the reform ideas was to encourage autonomy of spending authority, results oriented management, performance measurement, and policy program evaluation.

- ① Increasing the autonomy in budgetary implementation
- ② Rationalizing the budgetary unit costs
- ③ Improving local financial transfer systems
- ④ Specializing the technique for budget preparation

- ⑤ Simplifying the required documents for budget review
- ⑥ Linking the budget with middle- & long-term planning
- ⑦ Simplifying the system of budgetary resource allocation
- ⑧ Reforming for special account and public fund
- ⑨ Introducing an evaluation system for budget performance
- ⑩ Providing incentive for cost-saving implementation
- ⑪ Introducing the total budgetary allocation system to government agency
- ⑫ Introducing the multi-fiscal year system and improving the system of budget carrying forward

1. Introducing an Evaluation System for Budgetary Performance

One of the major obstacles which prevent efficient budget allocation is the fact that the systematic evaluation is not taken into serious consideration in annual budget allocation process. Under such a situation, the new year's budget tends to depend largely upon previous year's budget. Despite of the continuous efforts for improving budget performance evaluation, some technical problems still remain in the stage of institutionalization; how to carry out the objective performance, how to reflect the evaluation outcomes etc. In an effort to solve these kinds of problems, the budget authority has a plan to set up a new entity "an Adviser Committee for Performance Management" including a variety of related professionals.

The major task may lie in restructuring the framework for evaluating performance and reflecting its results in the budget appropriating process. The framework should reflect not only short-term efforts aiming at minimizing cost, maximizing the rate of return, and ensuring liquidity, but also long-term prospective achievements with respect to technological, managerial, and economic development. The budgeting framework should recognize the characteristics of each governmental department and also have some stability so that each agency can put them practice over a number of years.

In designing budgeting framework for practical use, particularly for performance indicators, several concepts which play an important role in measuring scale should be taken into account: reliability, validity, and meaningfulness. Each concept provides means to evaluate a different facet of the relationship of some measure to a particular attribute of some object. Reliability addresses the question of the degree of error inherent in the measurement. The question of validity of measurement has to do with whether that measure does indeed measure the conceptually defined property it is intended to measure. Meaningfulness can best be expressed by asking the question, "Does the logical validity of a numeral statement hold up if an alternative scale is

used?"

Objectives of Public Sector and Specification of Targets : Evaluation presumes the existence of *ex ante* objectives. Since the absence of objectives implies a lack of clear understanding of their role, the evaluation of public sector performance can not be objectively and appropriately carried out without clarification of the goals and objectives. In order to evaluate public sector for budgeting purpose, therefore, goals and objectives must be naturally formulated and specified. Also the performance function of the government and citizens for each objectives should be revealed in as specific manner as possible (Premchand, 1983: 463-464).

The numerous objectives that are expressed as guidelines for public sector performance can be generally classified into three types. First, there are those which are financial, in that deal with the revenues and costs of the budgetary relationship between private sector and public sector. Second, there are economic objectives that are related to efficient allocation of the country's scarce resources and to the net contribution of the public sector to the output and growth of the economy in general. Third, public sector has social objectives including distributional objectives. These objectives are generally closely interrelated and should be viewed as three stages of an overall evaluation of public sector performance.

2. Introducing the Total Budgetary Allocation System to Each Organization

Under the present budgeting system, the Budget Office reviews the budget requirements and documents sent by all other public departments, according to each expenditure items in budget preparation stage. However, there are some problems; it will be impossible for the Budget Office to review all the projects thoroughly, because of its overloaded works and insufficient given time; while the implementation departments tend to overestimate its needed resource amounts, the Budget Office usually put their efforts on cutting back the budget required for each agency. Under this situation, there may be some problems in re-adjusting the priorities in the overall government sectors, systematically. The more differentiated and specialized in public activities, the more difficult to adjust the priorities within only one budget authority as well as within a shorter period.

Here, for devolution of spending authority and result-oriented expenditure, it is considerably to introduced the so-called total budget allocation system. In other words, it is designed to provide each department with more autonomous authority of budget allocation at the initial budget process. The fundamental idea of "the total budget allocation system" is to overcome the limitation of typical project-oriented approach. The project-oriented approach is based on an assumption that the efficiency

and effectiveness of each project will naturally lead to the efficient and effective performance of each public sector as a whole. As far as each agency carries out a single project, this approach is useful in evaluating its overall performance. But this approach does not tell precisely the overall performance of each agency when it carries out two or more projects simultaneously.

Budgeting is increasingly oriented toward the overall performance of an entire organization. In this respect, the role of budget authority should become more concerned with achievement of the objectives of the target public sector. Such an effort may encourage decision-making participants to do their jobs with more systematic sense and broader scope, and make more contribution to the improvement of the overall performance and organization development.

3. Increasing the Autonomy in Implementation

There are two major ideas for this approach. First, reducing the number of line items for expenditure category will increase the autonomy at implementation stage. During last several years, the Budget Office has tried to consolidate similar items and abolish overlapping items as table 1. in order to reduce the weaknesses incorporated in traditional line-item budget system with control-orientation.

Second, the Budget Office has tried to have each department and agency expand its discretion of budget appropriation at the implementation stage with less tied to the initial budget. Such a develop is expected to lead to removing the strict limitations imposed on budget appropriation at the agency level, and contributing to efficient resources allocation at the budget implementation stage.

<Table 1> Consolidated or Abolished Items (unit : No.)

	1991	1992	1993	1994
No. of items	111	112	113	46

Several efforts for increasing autonomy at the department level imply that the budgeting reform should be focused on improving budget performance as a result and efficient goal attainment rather than legal process. Budgeting participants should be in position to specify the results of target projects at programs, and judge how efficiently and effectively the projects and programs are achieved. This type of viewpoint may be termed "result-oriented budgeting." Measurement of the degree of goal attainment and cost-benefit analysis will be widely used in order to guarantee the efficiency and effectiveness of the results.

However, the recent development for the budget reform should be accompanied by National Assembly and Board of Audit and Inspection which have been traditionally more concerned with strict legal accountability.

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