# AN EVALUATION OF BUDGETARY SLACK IN PUBLIC INSTITUTIONS IN ZIMBABWE

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**Abstract:** This study sought to evaluate the budgetary slack in Zimbabwean public institutions. The study suggests that the propensity to create budget slacking is mainly a systems perspective, in view of the communication feedback and the design of the processes in budgets. Bureaucracy in the budgeting process and delays in the approval and submissions of funds from central government provides opportunities for budget holders to put reliance on experience and personal judgement, thus resulting in budget gaming. Sound management procedures must be put in place to enhance efficiency for the benefit of both internal and external stakeholders.

**Key words:** Budgetary Slack, gaming, bureaucracy

## Introduction

Mott (2007), describes a budget as a technique for setting the organisation's priorities by allocating scarce resources to those activities that are considered most important. The budget also acts as a tool for directing activities and the efforts of the employees towards a common objective.

A budget is used as a device intended to provide greater effectiveness in achieving organisational efficiency by limiting spending and preventing overspending by allocating scarce resources and providing choices between potential items of expenditure. The decision of what to spend the money on involves a process in which individuals or groups play a part in the decision making and the decisions are coordinated before the resources are allocated. The budgeting process shows who has power over the budget decisions, how the decision is made, how much information is provided, what kind of decision rules are used and the comparison between the proposed expenditure (Rubin 1997:192). Ultimately organisations often have tight budgets and strong budgetary control measures to ensure the effective use of resources and adherence to an approved budget.

## The Concept of Budgetary Slacking

Waller (1988) defines budgetary slack as the excess of resources over and above those required to complete a task. Young (1985), contends that budget slack is the way managers intentionally build excess requirements for resources into a budget by underestimating revenues, overestimating costs, or underestimating performance capabilities in order to make a budget target more easily achievable. Managers overestimate expenses and underestimate their productive potential to relief work pressure from tight budgets. Tight budgets have the effect of causing undesirable behaviour on managers because of work pressure to achieve set targets.

## Nature of Budgeting in Public Institutions in Zimbabwe

The performance of a budgetary system is affected by the behaviour of budget holders and the subordinates in an organisation. When the budget fails as a tool to control resources, the interests of stakeholders of the organisation are affected by lack of a provision of an affordable service to the desired quality. In profit making organisations some managers are known to use the organisational budget to achieve personal advantages at the expense of the organisational goal. This line of thought is consistent with the agency theory, in which managers may put their personal interest first ahead of those of the organisation and this may cause a crisis in the allocation of resources. The result may be putting the resources where the need is minimal at the expanse of those areas that make the core functions of the organisation. In educational institutions, students, lecturers and non-academic staff may fight over each other over meagre resources and this may create disharmony in the running of institutions.

Such budgetary behaviour in public sector institutions may have far reaching implications especially to state institutions like universities, which have a critical role of nurturing the intellectual capital of a nation. Public institutions in Zimbabwe suffer from resource support and budgeting becomes critical in containing costs to make education and training affordable to deserving citizens in the country. Earlier evidence from research indicated that 93% of the budget allocated to educational institutions from the national budget goes to cover salaries leaving a paltry 7% for operating expenses (Nziramasanga Commission, 1999). Recently the Zimbabwean government has had to introduce the concept of cost sharing between the government and parents in order to sustain the operations of universities and colleges.

On average universities in Zimbabwe obtain 75% of their operating budget from the central government, leaving the difference to be generated from internal operations. The resources are allocated through a budgetary system which uses the committee system, a system that encourages group effort and collective decision-making. In spite of the openness of the budgetary system, there seem to be dissatisfaction from budget holders and heads of departments in the allocation of resources. The lecturers complain of the inadequacy of teaching materials such as overhead projectors and transport to assess students on industrial attachment, whilst the non-academic staff complain of inadequacy of resources allocated to their departments. This scenario creates the likely-hood of a propensity to cause budget slacking in the budget process.

Each Zimbabwean public institution is run by a Council composed of members from the public who in turn appoints members of the Finance Committee from among themselves and employees, to look into the financial issues of the Institute. At the Institute level there is the Budget Committee which recommends to the Finance Committee which then reports to the Council on the financial affairs of the institute. The committee system of management therefore, promotes participation and democracy in the management of the financial affairs of a public institute.

There is however, a growing outcry by internal stakeholders in the final resource allocation both in terms of quantity and quality citing bias on the part of management. It is this perceived bias of resource allocation and usage by employees that appear to create budget slacking.

**What prompts budgetary slack?**

According to Golembiewski (1997), individuals reject tight budgets in view of the psychological effect of failure even in instances where they could exceptionally do well. Yuen (2007) further suggests that tight budgets have the effect of causing undesirable behaviour on managers because of work pressure to achieve the set targets. The undesirable behaviour is exhibited by managers overestimating expenses and underestimating their productive potential to relief work pressure from tight budgets.

Managers may create budgetary slack to satisfy personal aspirations in good years, and only later convert the slack into profit during the bad years. This means that managers in most cases try to hedge against unexpected adverse circumstances. Budgetary slack may account for as much as 20% of the budgeted expenses of a cost centre in a public organisation.

Waller (1988) found that workers' risk preference is an important determinant of budget slacking in performance pay induced schemes. This assertion is consistent with the equity theory, as the perceived fair and/or unfair distribution of inputs and outcomes has a relational impact on the behaviour of employees in an organisation. According to Yuen (2007) the use of budgets in performance evaluation has also a potential effect to cause slacking in budgets. When workers are adequately compensated, budget slack decreases for risk neutral workers but the same cannot be said for risk averse workers. Accounting literature, therefore points at poorly designed budgetary procedures, organisation's reward structures and uncertainty in the environment as factors for slack creation by managers.

Information in balance between parties in a budgeting team during the budgeting process or between the subordinates and the managers is one way in which budget holders can create slack. One party in a budgeting team may have relevant or better information than the other which is withheld from other negotiating parties. This information asymmetry motivates individuals to build slack by misrepresenting or withholding some vital information which needs to be considered in the budget formulation. Information asymmetry can be used by subordinates to agree on a position in budget setting favourable to the subordinates. The information will be important for decision making and disclosure may result in an alternative decision.

Over-estimation on forecasts in public sector organisations seem to be a culture done as a way to avoid bureaucratic delays faced when requesting for supplementary budgets during the course of the year. Budget gaming provides safety nets to cover expenditures not anticipated in the original plan.

**The effects of budgetary slack**

Budget slacking may distort the fair distribution of resources, thereby impacting on job satisfaction. Unfair distribution of resources as a result of slacking in budgets may lead to shortages in one unit or department. Reserves may be created in some units or departments which may be used on expenditure ranking lowly in terms of priority needs of the organisation. Budget surpluses accrued through budget slacking may result in wastages. University faculties are observed going on a spending spree and holidaying at the end of each financial year in an attempt to exhaust their block allocations.

**Conclusion and Recommendations**

The findings of this study suggest that the propensity to create budget slacking is mainly a systems perspective, in view of the communication feedback and the design of the processes in budgets. Bureaucracy in the budgeting process and delays in the approval and submissions of funds from central government also provides opportunities for budget holders to put reliance on experience and personal judgement in compiling budgets and thus resulting in budget gaming.

Budget slacking as a practice inherent and common with public sector organisations is counterproductive when surplus resources are used for purposes that add no value to the organisation. It distorts the fair distribution of resources thereby impacting negatively on job satisfaction, efficiency and effectiveness.

Sound management processes and procedures must be put in place to enhance efficiency through the maximization of resource usage for the benefit of both internal and external stakeholders.

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