

Is a Zero-Based Budgeting (ZBB) Resurgence in the Public Sector Realistic?

Michael M. Grayson
Retired

Michael S. Luehlfig*
Louisiana Tech University

ABSTRACT

Zero-based budgeting (ZBB) is traditionally known as a public-sector cost management mechanism/philosophy/paradigm whereby actual and/or anticipated expenditures are critically evaluated on an ongoing basis. ZBB required a lot of time and effort which likely contributed to it falling out of favor—both practically and politically—decades ago. Interestingly, ZBB has experienced a resurgence in recent years, at least in the private sector, thus motivating (1) our historical overview of public sector budgeting (which is grounded in the contributions of the several scholars noted herein) and (2) our various conjectures concerning the overall legal/political environment underpinning public sector budgetary processes.

Key Words: Zero-based budgeting (ZBB), ethics, legal, political, technical rationality

*Corresponding Author

Copyright statement: Authors retain the copyright to the manuscripts published in AABRI journals. Please see the AABRI Copyright Policy at <http://www.aabri.com/copyright.html>

INTRODUCTION

Enthoven (1969, 21) indicates that governmental accounting was grounded in the need for accountability with respect to public funds as early as the “the Nile Kingdoms and to classical antiquity” Since that time, governmental budgeting “has developed in such a manner that it forms one of the bases of, and is closely associated with, economic programing (sic)” (Enthoven, 1969, 22). In this regard, we focus on a more recent governmental budgeting process—zero-based budgeting (ZBB). In essence, ZBB is a budgeting mechanism/philosophy/paradigm which assumes starting from nothing and then constructing a budget for every item, as contrasted with starting with amounts from the most recent previous budget and then adding to it (which is the assumption underpinning the traditional “incremental budget” approach to budgeting).

While Burrows and Syme (2000, 226) traced the conceptual origins underpinning ZBB to Bastable (1892), Texas Instruments alumnus Peter Pyhrr (1970, 1973 and 1977) is typically recognized as the ZBB champion of the 1970’s and thereafter (Schneider and O’Byran, 2018, 11). Admittedly, much of Pyhrr’s recognition occurred when he directed the overall federal government ZBB efforts during the Jimmy Carter presidential administration from January 1977 to January 1981 (Rasegard, 1999, 70). Thereafter, David Stockman directed the discontinuance of the federal government ZBB efforts during the early stages of the Ronald Reagan presidential administration January 1981 to January 1989, “claiming it was cumbersome, and didn’t reduce costs as its proponents claimed it would” (Knutson, 2020, 2).

However, more recently, ZBB appears to be making a comeback, at least in the private sector. Thus, two questions come to mind. First, what are the motivations for this renewed interest in ZBB? Second, what are the possible implications of these motivations with respect to public sector entities? We address these two questions in the remainder of this document, which is organized as follows. First, we summarize the findings of several scholars, in order to better understand the historical underpinnings of public sector budgetary processes with respect to technical rationality. Second, we address the technological as well as the legal/political complexities underpinning ZBB in the public sector. Third, we provide conjectures regarding the legal/political complexities associated with public sector budgeting processes. Fourth, we grapple with an alternative perspective of technical rationality. Fifth and finally, we promote the need for additional research efforts regarding the use of advanced technologies with respect to ZBB in the public sector.

HISTORICAL OVERVIEW

The content of this section is guided by the contributions of Gilbran and Sekwat (2009) and those they cited concerning the technical rationality (explained shortly below) underpinnings of the public sector budgetary environment. To begin, Gilbran and Sekwat (2009, 619) suggest that, near the beginning of the twentieth century, the need for a rational basis for government management grew urgent due to the expansive growth in government which itself was due, in part, to increasing inefficiencies, waste and/or corruption. Given the need for “technical tools and institutions for managing government,” technical rationality became recognized “as a method for approaching the task of public management” (Gilbran and Sekwat, 2009, 620). Interestingly, Adams (1992, 363, as cited in Gilbran and Sekwat, 2009, 620) suggests that technical rationality was grounded in the “scientific-analytic mindset and the belief in

technological progress” during the early twentieth century (as it also does in the early twenty-first century).

Due, in part, to the then growing support for technical rationality (Lewis, 1997, 157-159, as cited in Gilbran and Sekwat, 2009, 620), the “Budgeting and Accounting Act of 1921” was enacted which enabled executive centered line-item budgeting and also established the General Accounting Office (now called the Government Accountability Office) which is an organization tasked with assisting Congress with various technical aspects underpinning public sector budgetary decision-making processes (Gilbran and Sekwat, 2009, 620-621). Unfortunately, line item budgeting more often concentrated on the expenditure itself, not the purpose or function of the expenditure—with little attention being directed at determining the appropriate allocation of resources (Hyde, 2002, 3, as cited in Gilbran and Sekwat, 2009, 621).

Thereafter, the Hoover Commission reassessed the public sector budgeting environment during the late 1940’s and, in turn, it recommended that performance budgeting be adopted (Gilbran and Sekwat, 2009, 622). In essence, the focus of this technical budgeting approach was on cost control and improving efficiency in government activities (Pilegge, 1997, 74-75, as cited in Gilbran and Sekwat, 2009, 622). Unfortunately, like line item budgeting, performance budgeting did not emphasize the broader context of the role of budgets and did not address the desired or undesired behaviors potentially associated with public sector budgeting processes (Gilbran and Sekwat, 2009, 622).

During the 1960’s, the federal government implemented a new public sector budgeting approach known as program budgeting which “was premised on the notion that budgetary decisions should be based on the goals or outputs of governmental activities rather than the inputs to the production of government goods and services” (Gilbran and Sekwat, 2009, 622). While more technically advanced than previous budgetary regimes, program budgeting was still (arguably) preoccupied with improving the technical rationality underpinning budgetary decision-making processes—and (again, arguably) perhaps to a lesser extent concerned with the broader objectives of government spending (Pilegge, 1997, 75, as cited in Gilbran and Sekwat, 2009, 622).

As indicated in the previous section of this document, ZBB was introduced at the overall federal government level during the 1970’s. Grounded in a framework of rather technically oriented decision units, ZBB was developed to support decision-makers in their efforts to achieve program objectives at optimal levels of spending (Pilegge, 1997, 79, as cited in Gilbran and Sekwat, 2009, 622). While conceptually appealing to many, ZBB “required a level of detail and clarity that was difficult for policy makers and budget officials to” achieve, implement and sustain (Gilbran and Sekwat, 2009, 622).

Admittedly, it is somewhat ironic that ZBB (as a technically rational approach to public sector budgeting) was essentially abandoned by the federal government due, in part, to the lack of efficient and effective technologies needed to support ZBB decades ago. For example, Bohn (2019, 3) indicates that “ZBB was slow to gain traction, in part, because, until relatively recently, budgeting processes have been primarily paper-based.” However, even to the extent that recent technological advances explain the recent resurgence of ZBB (at least in the private sector), and that those technological advances were either the cause of or a contributing factor to the resurgence of ZBB, can these same technological advances be successfully implemented in the current public sector budgeting environment, and, if they can be, are they likely to be successfully implemented?

TECHNOLOGICAL ADVANCES VERSUS LEGAL/POLITICAL DECLINES?

After a period of relative dormancy, ZBB's more recent implementations seem to parallel economic occurrences or tribulations such as the COVID-19 Crisis (von Funck, Austin, Wunderlich and Schenk, 2021, 1). However, while the use of ZBB as a reactive response to an actual or perceived crisis may be temporarily fruitful, private sector companies as well as governmental entities may also need to proactively consider ZBB as a mechanism to strategically reallocate funds to help assure the funding of potential transformative change endeavors (Potoschnik, Austin, Inglesby and Graham, 2019,1). Interestingly, much of the more recent interest in ZBB is "linked to the activities of a hedge fund" known as 3G Capital (Coyte, Messner and Zhou, 2022, 3147). Admittedly, strategic transformational change endeavors for a hedge fund with a portfolio of businesses are likely to be different than strategic transformational change endeavors for a single stand-alone business entity. Similarly, strategic transformational change endeavors for the U.S. federal government are likely to be different than strategic transformational change endeavors for a stand-alone quasi-governmental entity.

While recent technological advances may have facilitated the resurgence of ZBB (at least in the private sector), the legal/political underpinnings of the public sector budgeting processes have (arguably) not necessarily experienced much overall positive change since the late 1970's and might have actually experienced overall negative change as evidenced by multiple budget crises. Admittedly, if the budget problems were due to political rather than technical factors, then these recent technological advances may not necessarily be "allowed" to facilitate the potential resurgence of ZBB in the public sector. Stated otherwise, even to the extent that recent advanced technologies are available to support and/or enhance public budgeting decision-making activities, do one or more key members of Congress and/or a presidential administration budget director have the legal skills, political capital, and political will to champion the acceptance of these advanced technologies, in general, and with respect to ZBB specifically? Admittedly, even to the extent that Congressional staffers provide evidence to support such an initiative, there is no guarantee that members of Congress will actually act on the initiative.

LEGAL/POLITICAL COMPLEXITIES AND PUBLIC SECTOR BUDGETING

Arguably, Gilbran and Sekwat (2009, 617) employ a normative (what should happen) perspective motivated by the overall budgetary concerns of Key (1940) while Dirsmith and Jablonsky (1979, 556) utilize a positive or descriptive theory perspective motivated by potential as well as actual incongruous ZBB characteristics which "may lead to the wrong decision." Specifically, Gilbran and Sekwat (2009, 617) suggest that Key (1940) lamented that public sector budgeting methods (as of 1940) were mere mechanical processing methods for distributing funds and that these budgetary methods did not address critical issues from a broader societal and political perspective. In contrast, Dirsmith and Jablonsky (1979, 555) address ZBB through two lenses—ZBB as a management technique and ZBB as a political strategy.

Although well intended, the aspirations of Key (1940) are unlikely to presently be feasible in reality/practice given the political nature of laws and regulations (as suggested in the previous section of this document). While not specifically delineated earlier in this document, technical rationality arguably represents (to varying degrees) a rather fundamentally realistic/practical (albeit imperfect) comprehensive approach to maximize compliance with the existing laws and/or regulations. In contrast, ZBB would arguably be limited to primarily

discretionary spending options—given the inherent constraints associated with mandatory spending obligations which would (again arguably) have limited spending options, if any (Congressional Budget Office, 2021, 2). Similarly, to the acceptance of advanced technologies (as addressed in the previous section of this document), to address critical budgetary issues from a broader societal and political perspective, government officials must have the political will and ability to both enact and enforce adherence to (preferably/arguably comprehensive) laws and regulations to address and fund potential solutions for identifiable societal needs.

While sympathetic to the need for broader societal and political perspectives with respect to budgetary processes, Dirsmith and Jablonsky (1979, 562-3) ask the following question: “Is it possible to divorce politics from the commitment of scarce resources to various federal programs when it is likely that knowledge of cause/effect is lacking and when preferences among outcomes cannot be objectively ranked...?” It appears probable to the authors that the answer to this question is either highly unlikely (at best) or absolutely not (at worst)—especially given the complex relationship between management practices and political realities.

In the context of this document (as implied earlier in this section), normative theory focuses on what the role of government should be, in contrast to positive or descriptive theory which focuses on the realities of actual government actions. Arguably, the aspirations of Key (1940) may have actually been motivated by (grounded in) critical theory, which addresses the desire “to understand and to help overcome the social structures through which people are dominated and oppressed” (Britannica, 2024). While not providing any specific examples, Enthoven (1969, 22) suggests that certain accounting practices may not be supportive of the economic development of emerging countries. Admittedly, this assertion regarding the efficacy of certain accounting practices might also be applicable to certain legal/political practices underpinning municipal/regional/state as well as federal governmental budgetary processes—not just the budgetary processes of emerging countries.

TECHNICAL RATIONALITY—AN ALTERNATIVE PERSPECTIVE

A public sector budget is a statement of the spending priorities of a governmental entity (Long, 1996, 153). Arguably, ZBB in the 1970’s might have been a political fad which faded away due to paper-based inconveniences or ineffective results—or by potentially/actually being too effective in its ability to identify possible/actual administrative evils grounded “in a culture of technical rationality” (Adams, 2011, 284). Admittedly, to the extent innovation is subject to “the politics of its social context” in terms of power, rationality and ethics (Avgerou and McGraph, 2007, 300), we believe that technologies already/currently exist (are in use/operation) in numerous governmental entities and that, if desired, these governmental entities could employ (may have already employed) ZBB approaches with little or no obvious/external political fanfare. Specifically, we believe that the current availability of ABC (activity-based costing), MRP (materials resource planning), and ERP (enterprise resource planning) systems, suggest that appropriate budgeting and/or other systems either exist or could be created to enable relatively easy implementation of ZBB or other useful systems, perhaps even using multiple budgeting and/or other accounting and financial systems simultaneously. Admittedly, whether the governmental budgetary process is paper-based or grounded in advanced technologies or how well the budget was prepared, the primary question is whether governmental funds ought to be spent at all.

IMPLICATIONS AND FUTURE RESEARCH CONSIDERATIONS

Given that the technical rationality approach to public sector budgeting was, in essence, legitimized with the passage of the Congressional Budget and Impoundment Act of 1974 (Dirsmith and Jablonsky, 1979, 563), it appears that technical rationality is an available approach with respect to the public sector budgetary environment. However, while ZBB is grounded in technical rationality, its future in the public sector likely depends on political will, not just rational technologies such as digital budgeting tools (Bohm, 2019). In turn, we hope that the information summarized in this document will further motivate future research efforts regarding the technological and legal/political complexities underpinning the potential adoption and/or expansion of ZBB in the public sector.

REFERENCES

- Adams, Guy B. 1992. Enthralled with modernity: The historical context of knowledge and theory development. *Public Administration Review*, 52 (4): 363-372.
- Adams, Guy B. 2011. The problem of administrative evil in a culture of technical rationality. *Public Integrity*, 13 (3, Summer): 275-285.
- Avgerou, Chrisanthi, and Kathy McGraph. 2007. Power, rationality and the art of living through social-technological change. *MIS Quarterly*, 31 (2, June): 295-315.
- Bastable, Charles F. 1892. *Public Finance*, MacMillan, 1892.
- Bohm, Wigbert. 2019. Zero-based budgets get a second look. *McKinsey on Finance* 69, 1-6.
- Britannica. Critical theory. 2024 <https://www.britannica.com/topic/critical-theory> Retrieved 20 April 2024.
- Burrows, Geoff, and Barbara Syme. 2000. Zero-base budgeting: Origins and pioneers. *Abacus*, 36 (2): 226-241.
- Congressional Budget Office. 2021. Common budgetary terms explained. (December): 1-6.
- Coyte, Rodney, Martin Messner and Shan Zhou. 2022. The revival of zero-based budgeting: Drivers and consequences of firm-level adoptions. *Accounting & Finance*, 62. 3147-3188.
- Dirsmith, Mark W. and Stephen F. Jablonsky. 1979. Zero-base budgeting as a management technique and political strategy. *Academy of Management Review*, 4 (4, Oct): 555-565.
- Enthoven, Adolf J.H. 1969. The changing role of accountancy. *International Monetary Fund* 16-22.
- Gibran, Joan M., and Alex Sekwat. 2009. Continuing the search for a theory of public budgeting. *Journal of Public Budgeting, Accounting & Financial Management*, 21 (4, Winter): 617-644.
- Hyde, Albert C. 2002. The development of budgeting and budget theory: The threads of budget reform. In Albert C. Hyde (Ed.), *Government Budgeting: Theory, Process, Politics* (1-6). Toronto: Wadsworth.
- Key, V.O. Jr. 1940. The Lack of a Budgetary Theory. *American Political Science Review*, 34 (6): 1137-1140.
- Knutson, Ted. 2020. Zero-based budgeting makes a comeback, but it's different this time. *CFO DIVE. Industry Dive*: 1-3.
- Lewis, Carol W. 1997. The Field of Public Budgeting and Financial Management. In Jack W. Rabin, Bartley Hildreth & Gerald Miller (Eds.), *Handbook of Public Administration* (145-211). New York: Marcel Dekker.
- Long, Norton E. 1996. Public administration and the goals of rationality and responsibility: Further reflections. *Public Administration*, 56 (2, Mar/Apr): 152-154.
- Pilegge, Joseph C. 1997. Budget reforms. In Jack W. Rabin, Bartley Hildreth & Gerald Miller (Eds.), *Handbook of Public Administration* (67-94). New York: Marcel Dekker.
- Potoschnik, Luke, Mark Austin, Jackie Inglesby and Julie Graham. 2019. Why zero-based budgeting—and why now? *BCG Insights*. Boston Consulting Group: 1-6.
- Pyhrr, Peter A. 1970. Zero-base budgeting. *Harvard Business Review*, 48 (6, Nov/Dec): 111-121.
- Pyhrr, Peter A. 1973. *Zero-Base Budgeting: A Practical Management Tool for Evaluating Expenses*. New York: Wiley, 1973.
- Pyhrr, Peter A. 1977. The zero-base approach to government budgeting. *Public Administration Review*, 37 (1, Jan/Feb): 1-8.

- Rasegard, Sven. 1999. Some aspects of the usefulness of living systems theory in a municipal organization. *Systems Research and Behavioral Science*, 16 (1, Jan/Feb): 57-80.
- Schneider, Karen G., and Charles O'Bryan. 2018. Zero-based budgeting in a cutback scenario for a small academic library. *Library Leadership & Management*, 32 (2): 1-16.
- von Funck, Karin, Mark Austin, Donat Wunderlich and Christina Schenk, 2021. To make zero-based budgeting work, change behavior. *BCG Insights*. Boston Consulting Group: 1-5.

ACKNOWLEDGMENTS

For this project, Michael S. Luehlring received funding through his George E. Breazeal Family Endowed Professorship which is made available through the State of Louisiana Board of Regents Support Funds.