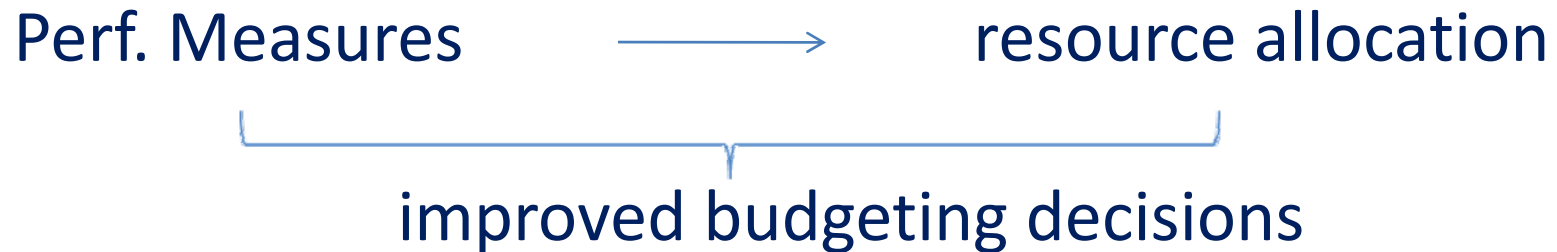


***Performance-Based Budgeting: A Case Study About
the Effects of Performance Measures on the
Agency Budgeting Process in West Virginia State
Government***

Nisa YAZICI

Performance Based Budgeting (PBB) System



Reward → high performing agencies

Punish → low performing agencies

Past Research

- Survey based studies:

Performance measurement results

- do not change budget outcomes
- are used for managerial purposes

Jordan & Hackbart (1999); Wang, (2000); Willoughby & Melkers (2000); Melkers & Willoughby (2001); Melkers & Willoughby (2005); Jordan & Hackbart (2005); Lu, (2007)

Past Research

- Studies analyzing only total spending:

States implementing PBB have higher per capita expenditures than states that do not implement PBB

Klase & Dougherty(2008)

This Research

- *Agency level* budgeting in the state government is studied by focusing three main budget stages
- Budget data for agency request, governor's recommendation and legislative appropriation (FY 2007 to 2009)
- *Individual agency performance measurement results (FY 2005 to 2008)*

The Influence of Politics on Budget

- Determination of the objectives
- Determination of the performance measures
- Performance data collection
- Interpretation of the results

Hypothesis

“Performance measurement results *do not* have any influence on the decisions of the main budget actors.”

Expected Result from This Research

Budget actors are guided by the previous year’s budget decisions and the decisions of the most recent budget actor (Otto, Dempster and Wildavsky, 1966; Ryu et al, 2008).

Models

Δ Decision Outcome = $\beta_0 + \beta_1 \Delta$ most recent decision + $\beta_2 \Delta$ Lagged Agency Request + $\beta_3 \Delta$ Lagged Governor's recommendations + $\beta_4 \Delta$ Lagged Legislative Appropriation + $\beta_5 \Delta$ Performance Change + β_6 Year Dummy

- *Decision Outcome Variables:*

- 1- Agency Budget Request

- 2- Governor's Recommendation

- 3- Legislative Appropriation

- *Performance Change Variables:*

- Performance Δ 1 = Δ from 3 years past to 2 years past

- Performance Δ 2 = Δ from 3 years past to 1 year past

- Performance Δ 3 = Δ from 2 years past to 1 year past

Dependent Variable: Agency Request Δ

	Perf. Δ 1		Perf. Δ 2		Perf. Δ 2	
R Square	.253		.232		.251	
Indep. Variables	B	P	B	P	B	P
Intercept	-.461		-.313		-.184	
Lag. Ag. Request Δ	-.090		-.107		-.092	
Lag. Gov. Recom. Δ	-.060		-.038		.067	
Lag. Leg. App. Δ	.451	***	.397	***	.432	***
Performance Δ	.017		-.061		-.053	
Year 2009	2.708		2.580		1.868	

of cases = 108, 112, 107

*** significant at .00; ** significant at .05; * significant at .10

Dependent Variable: Governor's Recommendation Δ

	Perf. Δ 1		Perf. Δ 2		Perf. Δ 3	
R Square	.644		.631		.645	
Indep. Variables	B	P	B	P	B	P
Intercept	-.264		-.390		.042	
Δ in Ag. Req.	.856	***	.871	***	.876	***
Lag. Ag. Request Δ	.513	***	.434	***	.491	***
Lag. Gov. Recom. Δ	-.491	***	-.407	***	-.469	***
Lag. Leg. App. Δ	.038		.026		.034	
Performance Δ	.144	*	.031		.057	
Year 2009	1.983		2.731		2.315	

of cases = 108, 112, 107

*** significant at .00; ** significant at .05; * significant at .10

Dependent Variable: Legislative Appropriation Δ

	Perf. Δ 1		Perf. Δ 2		Perf. Δ 3	
R Square	.332		.277		.351	
Indep. Variables	B	P	B	P	B	P
Intercept	-3.167		-.018		-2.790	
Δ in Gov. Recom.	.566	***	.573	***	.608	***
Lag. Ag. Request Δ	-.051		.039		-.042	
Lag. Gov. Recom. Δ	.286	*	.183		.269	*
Lag. Leg. App. Δ	-.273	**	-.217	**	-.295	***
Performance Δ	.183		.046		.071	
Year 2009	5.520	*	1.012		4.462	

of cases = 108, 112, 107

*** significant at .00; ** significant at .05; * significant at .10

Results

- Results confirm previous research findings
- Performance measurement results do not influence agency or legislative budget decisions
- Performance measurement results are used by the governor in making decisions about management
- Budgeting process of West Virginia show incremental tendencies

Limitations / Future Research

- Generalizability
- Control for experience in PBB
 - Follow-up research
 - Comparative study
- Control for political support for PBB

Thank you ...

Nisa YAZICI