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Authority, acceptance, ability and performance-based budgeting reforms

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Abstract Performance-based budgeting (PBB) is a prominent reform around the world, and has been in prominence in the USA for over a decade now. Evidence presented in this article suggests, however, that the reform is commonly implemented in a limited fashion. This raises the questions, "Why do few states adopt PBB meaningfully?" and "What needs to be done to ensure meaningful adoption?". In addressing these questions with reference to case studies of state performance-based budgeting, this article suggests that a three-factor model is useful in thinking about PBB implementation. In this model authority, acceptance and ability intersect to determine the "reform space" a government has for PBB. In most governments this reform space seems rather constrained.

Introduction

Performance-based budgeting (PBB) has been a prominent reform in US state governments for over a decade. A few years ago many budgeters would have been satisfied to claim that the reform had been implemented in their state "if it meant that performance measures are reported in the budget" (Willoughby and Melkers, 2000, p. 208). As more states have developed performance measures, however, such sentiment has changed, with many now arguing that performance measurement is meaningful only if it is tied directly to the budget process (Walters, 1999). Unfortunately, surveys show that few states actually do tie performance information to the budget process, however, leading to the important questions: "Why do few states adopt PBB meaningfully?" and "What needs to be done to ensure meaningful adoption?"

These questions are relevant to all governments attempting to introduce this reform, whether these are national or sub-national entities in developing or in developed countries. One way to answer the questions is to address whether PBB is a practical and appropriate reform for public organizations. While this is a valid line of investigation (and has indeed been the focus of many studies in the last decade (see Joyce, 1999 for example)), the current article takes a more applied line of analysis, attempting to glean information about the factors affecting reform adoption from governments that have actually attempted to implement the reforms. Interestingly enough, the conclusion relates the findings from such analysis to the more specific question of whether PBB itself is practical and appropriate in the public sector.

The US states are the focus of the study because they generally have at least a decade of experience with this kind of reform. These governments provide only an interesting sub-set of governments interested in this reform, however, and governments in many other countries and at many other levels of operation are in process of adopting PBB-type reforms. It is argued that the experience of the states



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with implementing PBB is of interest to the more complete set of reforming governments, primarily because of the relatively long experience with implementation and also because the 50 states create a significant, and relatively comparable, set of observations.

The focus of the analysis of state governments is on whether secondary studies of performance-based budget reform implementation suggest any consistent problems faced by governments. Three factors are so identified, authority, acceptance and ability. The factors are discussed separately and as they relate to Shah's (1998) institutional model of the public sector, providing a framework for analyzing PBB adoption (or lack thereof) in the states. States wanting to adopt PBB meaningfully need to address weaknesses in these three areas, but most particularly in the areas of authority and acceptance, so as to expand their PBB "reform space." Specific ideas are presented by which states and other governments can do this.

Experience with PBB in US states

The current article draws some perspectives on reform implementation experience through reference to evidence presented in other studies in the literature. This secondary evidence takes the form of both case studies and surveys. Combining these two kinds of studies is vital to ensuring some degree of reliability of the evidence and resulting observations. The survey evidence is used primarily to identify the broad patterns of reform progress, while the case study evidence details reasons for the patterns observed.

Surveys of PBB include the Melkers and Willoughby (1998) survey, Florida's Office of Program Analysis and Government Accountability survey (OPPAGA, 1997), the National Council of State Legislatures (NCSL, 1997) survey, the Maxwell School's Government Performance Project (*Governing Magazine*, 1999) survey, and the National Association of State Budget Officers (NASBO) Budget Processes in the States survey of 1999. More descriptive, case-specific studies cover experiences in states across the USA, from Virginia and Florida on the East Coast, through Texas and Louisiana, to California, Washington and Oregon on the West Coast (see, for example, Bowden, 1996; The Florida Commission on Government Accountability to the People, 1997; Cornett, 1998; Tucker, 2000a, b, c; Tucker and Campbell, 2002; Young, 2003).

Patterns of PBB adoption in the states

The surveys show that PBB has been embraced in name in most states. The OPPAGA survey reports that 45 states had performance measures in 1996; Melkers and Willoughby find 47 states had PBB reforms in place in 1997; The GPP and NASBO report that 49 states measured performance in 1999. The surveys show further that performance information is not used by many states. As reported by Melkers and Willoughby and OPPAGA: less than 20 states link performance data to management and planning; less than 15 states actively base budgetary decisions on performance data; and less than ten states have departmental-level performance-based incentive schemes.

These findings and more recent multi-state analyses suggest that the degree of PBB adoption decreases (and the difficulties of adoption increase) from left to right in Figure 1 (see, for example, Joyce and Sieg, 2000; Willoughby, 2003; Young, 2003), which shows "parts" of PBB adoption[1].

Figure 1 shows that most governments are able to generate performance information through measurement and performance (as shown by the solid arrow indicating generally effective adoption), but fewer governments use the performance information (as shown by broken arrows). Information use appears to be higher in management and planning decisions than in allocation decisions and the development of results-oriented incentive schemes, but generally fewer governments use information than generate it. This article asks why and what can be done to facilitate a more complete PBB adoption.

Explaining PBB adoption in the states: limited “reform space”

Recent attention to governance and reform success has spawned ideas about factors influencing reform adoption and governance quality. One such set of ideas is provided in Shah’s institutional model of the public sector. An adjusted version of this model emphasizes three factors influencing reform adoption: Authority, acceptance and ability. References to the detailed case studies of performance-based reform in the US states suggest that this kind of model, and the three factors identified in it, is an appropriate vehicle for examining why reform implementation has been “incomplete”. The case studies show that issues relating to all three factors commonly arise to influence PBB reform implementation. Furthermore, the studies show that the interaction of these three factors determines the “reform space” in which PBB is adopted.

The ability to adopt PBB

One of the “usual” suspects of ineffective reform is capacity, or organizational ability. Case studies and commentaries on PBB adoption suggest that three aspects of organizational ability are central to complete PBB adoption: performance evaluation ability, personnel ability and technical ability:

Performance evaluation ability

The ability to measure performance affects all stages of PBB adoption (Kettl, 1992; Foltin, 1999). If states lack the ability to measure performance in a way that people find useful, PBB is guaranteed to fail. At the same time, many governments find that developing outcome and output measures is difficult and time consuming – and indeed many governments are still clarifying what outcomes and outputs are, and which of the two they intend to measure. One finds variation in this factor between states (with states that still ask basic questions being the least developed in terms of PBB adoption) and within states (where some agencies and departments produce services that are not easily evaluated, limiting PBB adoption). In some instances it is probable that problems with performance measurement negate the potential of PBB altogether, but these instances are likely to be few—with a large performance measurement industry having developed to solve measurement problems and provide necessary abilities in states.

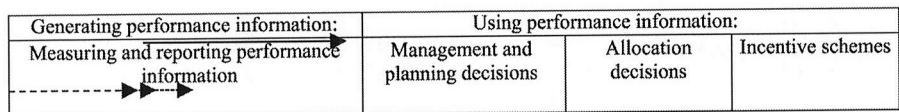


Figure 1.
The parts of PBB adoption



The problem is much more focused on the question of whether governments can develop “good” performance information. Even if information is generated, one has to ensure that it is accurate and relevant. William Tomlinson from Georgia comments, for example, on the importance of generating accurate data:

I want you to emphasize the importance of improving the quality of the data with your staff. If the RBB data is not accurate, it is of limited use to OPB, the Governor, agency managers and the General Assembly (Scotland Finance Committee, 2003, p. 1).

Personnel ability

Studies also emphasize the importance of ensuring that key personnel competencies exist when adopting PBB. The competency requirements differ from experience to experience and relate to all stages of PBB adoption. Dedicated staff are needed in the executive budget agency to drive the PBB process, with specific skills in measuring performance and maintaining and managing databases. Within the executive and legislative budget agencies, analysts are required to work with agencies in setting performance targets, ensuring communication between information users, and monitoring performance. Agencies need to develop abilities to identify and measure relevant performance, and to use performance data in a constructive way (Foltin, 1999). Personnel shortfalls are most evident in state legislative budget agencies, where support staff often lacks the necessary skill in analyzing performance and in relating such to legislators.

Technical ability

State experience with PBB adoption also reveals the importance of certain technical abilities. Particular technical requirements relate the need to collect performance information and provide a commonly available database in which performance information is readily available, in appropriate formats, to a variety of users. This has been a major lesson of Virginia and Florida’s experiences and is also more broadly referenced in relation to a variety of states examined by the National Governors Association, which found in 2001 that, “Most state and local government data systems are not established to collect data on results or to collect useful information on performance across systems”[2]. The database must be compatible with a variety of other systems providing the basis for government accounting, monitoring, and reporting.

If performance information data are separated technically from other budgeting and accounting operations, it is highly likely that PBB will not penetrate the decision-making processes associated with these other operations. An example is Florida, where the use of performance information in decision making was slowed by the poor compatibility of the legacy accounting system. If accounting systems are based on input-oriented data, they simply do not facilitate performance-type reform (Cornett, 1998; Willoughby and Melkers, 2000). It appears that many states are still in the process of evaluating technology needs related to PBB adoption, and many lack systems relating performance data to varying user needs or to the financial management processes underlying decision making. Some authors identify the main problem as the influence of established, poorly suited systems (as in Florida) while

others argue that the problem is not the influence of existing systems, but a lack of financial resources needed to develop new systems that relate to the old ones.

The authority to adopt PBB

A second factor affecting PBB adoption relates to authority mechanisms in governments. If budgeters lack the authority to adopt PBB at either of its stages, adoption will be hindered. There are three important aspects of authority: legal authority, procedural authority, and organizational authority.

Legal authority

Formal budgeting processes are often tightly legislated. New reforms (or reform elements) cannot be adopted if they conflict with such legislation. For PBB this problem arises at all stages. In some states the potential for using performance measures in budgets is limited by human resource legislation, for example (with employees protected from unwarranted performance evaluation). Most states legislate how agencies, departments, and individuals can be rewarded or disciplined, for example, with an emphasis on discipline for rule avoidance, and usually strict limitations on any gainsharing, discretion, or staff compensation rewards associated with performance incentives. (Experience in states from Florida to Texas show that it is difficult to structure performance-based incentives around complex conditions of service legislation.)

Some states also experience problems with legislation regarding the use of performance information by management, with requirements that budgets be organized and managed around inputs rather than outputs and outcomes. The primary problem for using performance information in many states is that the law requires that budgets be organized in terms of line items, not potential results. In Maine, for example, the "Minimal use of performance information" has been partly explained by the fact that the "Budget bill [is] enacted without performance information" (Harris, 2001, powerpoint presentation).

A number of states have attempted to counter these issues by explicitly legislating in favor of PBB, and these states appear to be more advanced than others. Even in these states, however, non-budgeting legislation binding human resource management and procurement are often overlooked when implementing PBB-oriented laws. If agency heads have little ability to procure goods at preferential rates or in creative ways, or to hire, fire and reward employees in efficient ways (according to legislation binding private organizations, not the more restrictive public personnel legislation) they simply have little authority to meaningfully improve performance. These "unrelated" laws and procedures can limit the use of performance information to make decisions and structure personnel incentive schemes (as in Texas, where a statute limiting the potential for monetary rewards made performance-based incentives an impossible option for many years).

Procedural authority

Performance measurement and potential uses of performance information are often grafted into existing budget processes. These existing processes are characterized by established procedures that act as rules binding budgeting behavior. Successful reform adoption requires compatibility of the reform model with these rules and procedures

(Xavier, 1998, p. 115). In many states, the rules and procedures regulating budget management emphasize budgeting according to inputs, with strict line-itemization requirements. The processes often negate the potential roles of performance information; managers, legislators, and others are required first and foremost to budget by inputs, and do not have the procedural authority to do otherwise. In California, for example, the limited use of performance information by legislators is directly related to the continued influence of pre-existing budget systems: "Many remnants of the traditional budgeting approach have remained despite the best efforts to get decision-makers to use PBB-generated information and data" (Young, 2003, p. 30; for larger discussion see Andrews and Hill, 2003).

Established processes in Montana have also limited the shift to a new system of budget authorization and procedure. The Montana budget is incremental and the 1993 performance budget pilot was discontinued because, in the words of one official, "They (budgeters) just flat-out didn't know what to do with those budgets" (*Governing Magazine*, 1999). A 1998 study opined similarly that Connecticut's performance measurement system contributed little of value to managing agencies and programs, evaluating agency operations and programs and analyzing agency and program budgets in large part because the established budget process continued to "allocate(s) and account(s) for funds on a line-item basis"[3]. The report indicated that the established budgetary approach created a procedural tension and also eroded the managerial "will" for reform:

This process contributes to a commonly held view among state agency managers that the collection and reporting of performance information is a "bother," and the results are widely ignored by executive and legislative branch budget analysts.

Established budgetary processes in most US states typically formalize procedures that de-emphasize and constrain the role of performance information in decision-making. This makes it extremely difficult to establish a new performance orientation as the pre-eminent approach to budgeting.

Organizational authority

Lines of organizational authority also influence PBB adoption, being especially influential when it comes to using performance information. PBB appears to be most effectively adopted when discretion is devolved, allowing administrators to make decisions about staffing, budgeting, reporting, and so forth. Authority lines need to allow for such creative discretion. Regularly, however, "organizational structures develop their own constituencies that are hard to uproot" (Kettl, 1992, p. 74). Organizational authority lines also affect the use of performance information by political representatives. Budgetary allocation decisions are often made within political authority structures that do not favor the use of performance information, with general reform failure resulting. Most states are still exploring how to devolve authority to managers to allow for effective use of performance information, while the limits on political performance information use remains unsolved and largely unmentioned in the performance-based reform movement. The reality is that politicians and administrators are not always free to use information on results, which limits information use.

The acceptance required to adopt PBB

The final factor regularly mentioned in the literature on PBB adoption is acceptance. Resistance to reform on the part of public officials, department heads and employees may be the biggest obstacle to the implementation and use of performance measures (Kline, 1997; Foltin, 1999). If PBB is accepted by these groups (or if these groups have incentives to accept the reform), PBB will likely be adopted, as indicated in a 2001 National Governors Association review: "Government leaders, administrative managers, and direct service personnel need to become convinced that results-based budgeting is worth the effort in terms of cost savings, and the long-term interests of children, families, and communities"[4]. Three aspects of "acceptance" are discussed further here: political acceptance, managerial acceptance, and incentive compatibility.

Political acceptance

The measurement and use of performance information has consequences for elected, appointed, and career officials. A number of articles emphasize that politicians often resist using performance information in allocations decisions because such information increases their vulnerability to constituencies (especially with regard to long-term programs that might not perform well in the short-run). Performance information also presents a threat to the "political" aspect of budgetary decision making (what discretion do politicians have in using performance information?), and increases the information density of budgetary decision making (information can make a document longer and more difficult to evaluate).

The problem of political acceptance is being tackled in some states by linking PBB motivation with short-term political success (especially where there is a social demand for performance-based government), ensuring that performance measures matter to politicians (what Governor Barnes of Georgia called "kitchen table measures"), and developing critical competencies and appropriate technology to maximize the political value of performance information (Walters, 1999). All these efforts aside, political decision making remains largely untouched by performance data, and there is generally poor political acceptance of the potential role such data could play. The short-termism common to many political decisions (especially in states with term limits) complicates the issue even more, with many politicians not willing to support a reform that offers limited gains in the immediate time period.

Managerial acceptance

The literature shows that PBB acceptance among managers is also critical to PBB adoption, especially related to the use of performance information in managerial decision making and in the creation of incentive schemes:

A major challenge lies in convincing program managers of the value of strategic plans and performance measures (Carter, 1999, p. 26).

The problem of managerial acceptance involves two issues:

- (1) if agencies feel that legislators will use performance information to reprimand agencies more often than reward them, they will probably not support the initiative; and
- (2) if agencies do not see performance information as useful in impacting decisions, they will not support PBB.

Consider the experience in Minnesota, where “agency staff . . . said that agencies have viewed performance measurement as an idea that was not relevant to decision makers and would not outlive each existing administration”(Minnesota Office of the Legislative Auditor, 1994, p. xi). In Maine the poor use of performance information has been explained as partly the result of the fact that, “Some agencies still think this might go away” (Harris, 2001, powerpoint presentation).

To increase managerial acceptance of PBB, some states allow agencies to develop their own measures, hold strategic briefings to show how performance information relates to mission, and require performance data in budget publications. More managers use performance information than do politicians, but insufficient acceptance of reforms is still proving a problem for reform adoption. The acceptance issue is perhaps most evident when considering State attempts to attach rewards and punishment to performance (performance incentives). Many managers accept that performance information might add value in their decision-making process, but do not trust a performance-based incentive scheme, limiting the ability of governments to develop such. Consider a comment from a Texas case study, for example, where “Agencies said that they did not think that a system of rewards and penalties should be used because many factors that would impact their ability to hit targets are out of their control”[5].

Incentive compatibility

The budgetary process is replete with incentives. Politicians and administrators alike have incentives to use specific types of information, and to behave in certain ways. The literature suggests that the process-oriented, input-focused budgetary systems in place in most states create incentives that run counter to a results-oriented approach to government. As long as these incentives are incompatible with reforms, it is unlikely that PBB will be effectively adopted. In relation to this, Willoughby and Melkers (2000, pp. 107-108) argue that there is a lack of leadership and acceptance in many reforms as well as “a lack of incentives or an inappropriate use of disincentives related to the conduct of performance measurement,” which “often shelve such reform attempts prematurely”. These authors call for an “incentive strategy for the use of performance-based information.” Essentially, incentives must be part of the PBB plan, but current incentives generally motivate people to action that runs counter to PBB.

In some states (like Virginia) details of the PBB process are made publicly available, allowing citizens access to information about government commitments and performance in timely fashion (especially through the internet). At the same time agency allocations (in agencies like the Virginia Retirement Scheme) are being tied to such performance. In both instances the government is trying to transform the incentives budgeters face, to make them more responsive to citizens (who are expected to have greater interest in results than in input controls and process) and to make them more aware of the results they produce (Andrews and Hill, 2003).

Authority, acceptance, ability and PBB: moving ahead

The motivating questions behind this paper are focused on explaining why PBB reforms have not progressed to the point where governments are becoming increasingly performance-based. In keeping with a recent paper by Shah, three factors

have been presented to explain the limits evident in PBB experience. These factors combine into a framework where the interaction of authority, acceptance and ability are seen to form a “reform space” in which governments develop reforms like PBB.

Figure 2 shows the reform space framework, in which the three factors constitute intersecting circles. The area of intersection is akin to a reform space where ability, authority and acceptance merge to facilitate reform adoption. The model on the left-hand side shows that, where the three factors are poorly developed, they create only a small reform space (which allows for the basics of reform, like the first part of PBB – performance measurement and generation). In order to expand to more demanding elements of performance-based reform, it is important to expand one or more of the three factors and thus create a larger reform space (as in the model on the right-hand side).

This framework is meant to provide a vehicle for reformers to better understand why PBB interventions are having muted effects and to evaluate how best a reform program should be developed. The essence of the model is that PBB can only be developed from its formative stages when governments expand their reform space to facilitate new ideas, processes, and concentrations into their financial management systems. As shown in the evidence, most governments lack an effective combination of ability, authority or acceptance to reform (relegating their reform reality to the smaller space on the left-hand side of the figure).

Each government needs to consider which factor plays the biggest role in frustrating reform, and then to tackle that factor to expand the reform space and capacity of their organization. At the same time, it is vital that governments pay attention to the interaction of all three factors, as improving one does not mean that the reform space will increase. Having the ability to develop performance measures, for example, can actually impede reform progress if procedures fail to inform how such should be used (or there is a lack of acceptance of their importance). This problem was evidenced in a few states which published their performance measures before anyone had been instructed on how to use them, which bought the PBB process to a grinding halt in terms of meaningful usage among decision-makers (Bales and Matwiczak, 2001; Young, 2003).

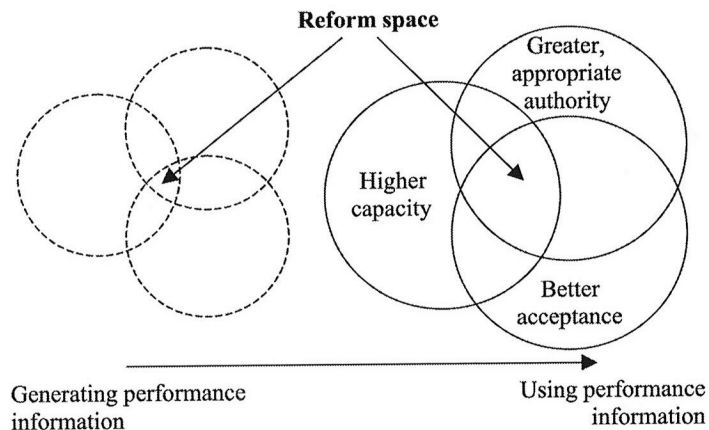


Figure 2.
A framework of “reform space” and PBB adoption

While it is beyond the scope of this article to develop fully, it seems apparent that changes in one factor could affect the other factors. In particular, one could expect that paying attention to problems of acceptance could have extremely positive spin-offs for ability and authority issues. When political and managerial support for a reform is high, surely these officials will ensure that authority mechanisms favor its adoption? Similarly, when political and managerial reform support is high, and officials face incentives to actually adopt a PBB approach, one can expect demand-led ability improvements that facilitate reform. In this line of thought, could one shift the “primary suspect” label from poor ability to poor acceptance when explaining reform failure? Such a shift would create a new challenge for reformers: “You need more than a good idea (like PBB) to get a reform to work . . . you need to get buy-in to the reform idea, and ensure people have an incentive to adopt it!”

This kind of multi-factor model has relevance for all kinds of budget reform, but possibly with different variations in each. It is likely, for example, that the kinds of personnel abilities required for zero-based budgeting differ from those required for PBB, but weak capacity in both is sure to limit reform progress. Similarly, if one looks at the writing of authors like Wildavsky and Schick during the US PPBS reforms in the 1960s and 1970s, it is apparent that political and managerial acceptance were major influences on reform success, and that entrenched organizational structures and role relationships were also vital factors affecting implementation. Beyond applications to different kinds of reform, the model is also argued to have wider application to different kinds of government – again, with varied areas of emphasis. In a Parliamentary system, for example, it is likely that political and managerial acceptance issues will be more closely related than they are in the US states (where Governor-led administrations operate with greater separation from the legislature).

Conclusions

The three-factor model suggested here is intended only as a first attempt at explaining the kinds of factors that influence PBB reform implementation. The idea of the model is that governments need to focus on more than just the technical side of these reforms when they implement them, and attend to issues of ability, authority and acceptance to expand their reform space. One may ask if it is possible to identify the dominant factor affecting PBB implementation in the model, and to suggest a possible way of improving the effectiveness of PBB reforms? A responsible answer to both questions is no, primarily because case studies of reform implementation in even the relatively homogenous group of state governments suggests that the precise steps to effective reform implementation are contingent on the specific situations in governments.

This conclusion seems to side-step the core focus of the article. It also seems to suggest that the article provides nothing new to the debate on how PBB reforms can be made more useful. To the contrary. In most settings reformers take one of two approaches to adopting PBB-type initiatives. Either they start with the basics of budget management (and hope that these facilitate progress to a performance-based approach) or they copy whatever is “best practice” in performance-based reforms. In both instances the reforms tend to have a technical, one-dimensional focus, and take the shape of reproduced initiatives from other settings. According to the model presented here, these reforms are almost guaranteed to fail. While not facilitating step-by-step suggestions of the exact affect of implementation factors in each setting,

the model certainly makes a solid argument against reproduction of any kind in any setting, and emphasizes the design and shaping of reforms to specific governmental situations – and the complex, multi-factor influences that are bound to influence reform adoption.

In all settings, thus, governments should be asking at least three questions when they design their PBB reforms:

- (1) What “ability” issues are likely to arise when we attempt the reform? How do we deal with specific technical and personnel capacity requirements, as we can expect them to arise?
- (2) What “authority” issues can we expect to arise? Do we have the appropriate legislation for the reform? How do we adjust organizational structures and procedures to ensure that the new reform requirements become the “authorizing” mechanisms in the budget process?
- (3) How do we generate the necessary political and managerial acceptance of reform, at the relevant levels and at the various points of implementation? Do we have appropriate incentive structures for reform implementation?

These kinds of questions get one to address some of the key organizational and political and bureaucratic qualities of governments, and should in many instances lead reformers to address the question alluded to in the introduction to this article: “Is PBB even appropriate and practical in the public sphere of many countries?” Sequencing and other reform design issues now center on the factors affecting the size of the reform space, rather than the technical elements of the reform.

One can easily see how contradictions and tensions emerge within and between the factors identified. These raise questions about the viability of progressing very far with PBB. The limits to certain abilities, authorizing mechanisms and acceptance levels in the public sector may make it very difficult to move much further than measuring and reporting on performance information, for example. How can one allocate resources based on performance when the law (often for good reason) has specific controls on the kinds of “rewards” civil servants can receive, and civil servants themselves lack trust in the approach, and there is no practical means for making such reward decisions in budget processes that are regularly still predominantly political processes (do poor performers get more or less money, and who makes such decision)?

With limitations on reform space potentially arising because of complications arising from factors that are difficult to change (and perhaps should not change), it would be more appropriate for many governments not to speak about introducing PBB in an explicit sense, but rather to speak of a limited version of the reform, something akin to “performance informed budgeting” – indicating not only that which is more pragmatic and possible but that which is more suited to the public sector in their settings? To paraphrase a recent study, governments should “focus on budget reforms, such as PBB and its various components, which seem right for the needs and wants and reform space of the government’s particular set of circumstances ...” (Gordon, 2003, p. 17).

Notes

1. The break-down of performance information uses is common in the literature (Carter, 1999; Willoughby and Melkers, 2000).

2. This quotation was taken from a Web site: National Governors Association (2001).
3. This quotation was taken from a Web site. The Connecticut General Assembly (1999).
4. This quotation was taken from a Web site. National Governors Association (2001).
5. This quotation was taken from the following Web site: Gallego (1999).

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