

ZERO BASE BUDGETING (ZBB)

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It is a management technique aimed at cost reduction. It was introduced by the U. S. Department of Agriculture in 1961. Peter A. Phyrr popularized it. In 1979, president Jimmy Carter issued a mandate asking for the use of ZBB by the Government.

ZBB - Definition:

“It is a planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (Zero Base) and shifts the burden of proof to each manager to justify why he should spend money at all. The approach requires that all activities be analyzed in decision packages, which are evaluated by systematic analysis–Peter and rank A. Phyrr.

It implies that-

- ❖ Every budget starts with a zero base
- ❖ No previous figure is to be taken as a base for adjustments
- ❖ Every activity is to be carefully examined afresh
- ❖ Each budget allocation is to be justified on the basis of anticipated circumstances
- ❖ Alternatives are to be given due consideration

Advantages of ZBB:

1. Effective cost control can be achieved
2. Facilitates careful planning
3. Management by Objectives becomes a reality
4. Identifies uneconomical activities
5. Controls inefficiencies
6. Scarce resources are used beneficially
7. Examines each activity thoroughly
8. Controls wasteful expenditure
9. Integrates the management functions of planning and control
10. Reviews activities before allowing funds for them.

PERFORMANCE BUDGETING:

It involves evaluation of the performance of the organization in the context of both specific as well as overall objectives of the organization. It provides a

definite direction to each employee and a control mechanism to top management.

Definition:

Performance Budgeting technique is the process of analyzing, identifying, simplifying and crystallizing specific performance objectives of a job to be achieved over a period of the job. The technique is characterized by its specific direction towards the business objectives of the organization. –The National Institute of Bank Management.

The responsibility for preparing the performance budget of each department lies on the respective departmental head. It requires preparation of performance reports. This report compares budget and actual data and shows any existing variances. To facilitate the preparation the departmental head is supplied with the copy of the master budget appropriate to his function.