

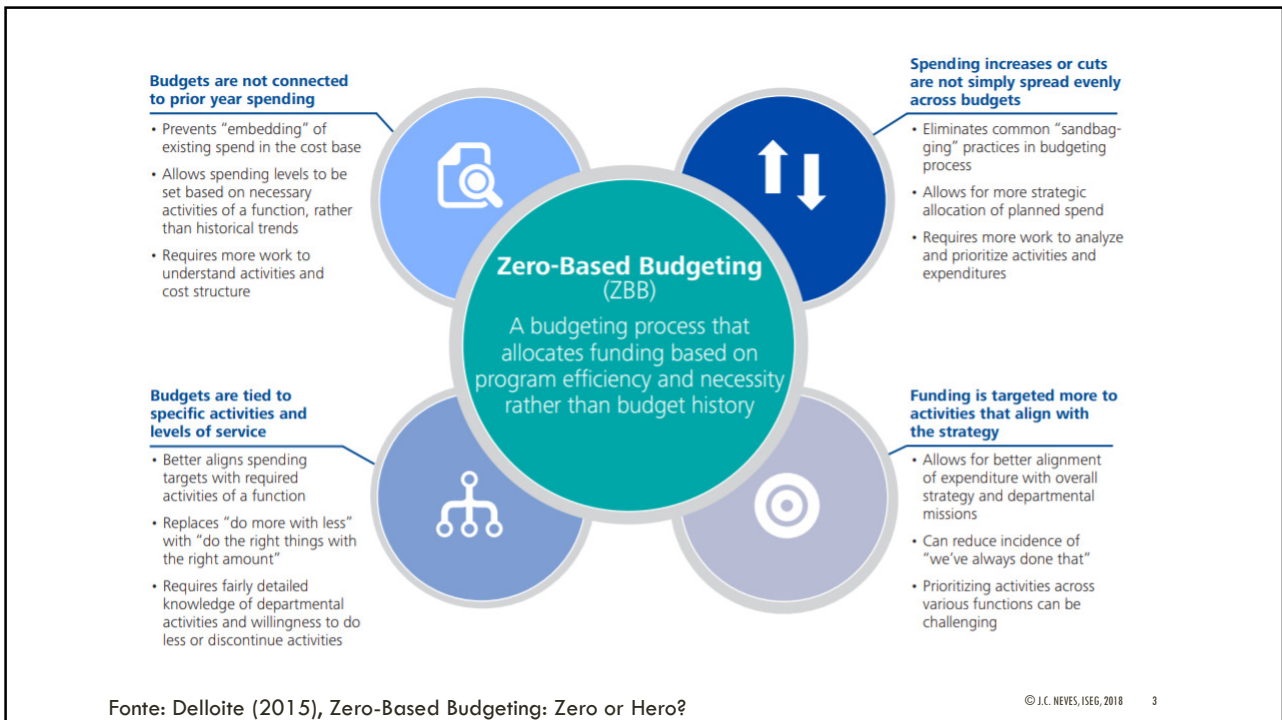


ORÇAMENTO BASE ZERO (ZERO BASE BUDGETING)

João Carvalho das Neves
Professor
Management Control, Corporate & Real Estate Finance
jcneves@iseg.ulisboa.pt

PORQUÊ O ORÇAMENTO BASE ZERO?

- Num processo orçamental temos de dar duas respostas
 - Onde e como podemos gastar o nosso dinheiro mais eficazmente?
 - Quanto devemos gastar?
- Preparar orçamentos com base em orçamentos anteriores e despesas observadas em anos anteriores não é desejável. Isso deixa sem resposta duas perguntas importantes:
 - Até que ponto as atividades atuais e não avaliadas são eficientes e eficazes?
 - As atividades atuais devem ser reduzidas a fim de financiar novos programas mais prioritários ou para se aumentar os lucros?
- Há quem critique o OBZ (ZBB) pelo excess de trabalho e burocracia. E foi abandonado muitas vezes por esse motivo.
- Mas há agora um ressurgimento do ZBB no setor privado



HISTORY OF ZBB

- Though the private sector uses ZBB (for example Texas Instruments as the first user), it rose to prominence in government during the 1970s financial crisis.
- Faced with mounting public pressure, U.S. President Jimmy Carter promised to balance the federal budget and reform the federal budgeting system using ZBB, which he had used while governor of Georgia. Though initially well received, ZBB proved not only complicated and time consuming, but also ineffectual, as it was Congress and the executive branch that were ultimately responsible for deciding whether to keep or eliminate a program. Additionally, the president's budget office used a variant of ZBB as agencies were asked to rank their programs within funding limits. This forced the agencies to assign priorities and identify possible reductions. However, this meant that rather than starting from a true zero base as ZBB would suggest, the agencies would start from a "priority base" (e.g., 80-85% of the current year).⁹
- President Reagan abandoned the system after his election in 1980.¹⁰ Since then, ZBB's use in both the public and private sectors has been limited due to its high level of complexity and large requisite investment that can hinder its execution.

Fonte: Deloitte (2015), Zero-Based Budgeting: Zero or Hero?

RESURGENCE OF ZBB

- ZBB has recently experienced a resurgence of interest in both the public and private sectors. In the public sector, this stems largely from contemporary fiscal constraints precipitated by the 2008 recession. Facing budget cuts and increased public scrutiny, government agencies have been using alternative budgeting methods such as ZBB instead of more traditional budgeting methods such as line-item and incremental budgeting.¹¹ A survey by the Government Finance Officer Association (GFOA) shows that over 20% of respondents are using ZBB or ZBB components, which represents a 50% increase compared to the period just before the 2008 recession.
- Though cost reduction is a historically common tactic for private corporations seeking to free capital for investment in growth opportunities, restrictive budgeting practices have also witnessed an uptick in the private sector. For the 85% of CFOs who report above average levels of volatility and uncertainty since the 2008 recession,¹³ restrictive budgeting, including ZBB and its components, represents an opportunity to mitigate risks by using aggressive cost reduction to support growth¹⁴ while reassessing both shorthand long-term strategies.

Fonte: Delloite (2015), Zero-Based Budgeting: Zero or Hero?

© J.C. NEVES, ISEG, 2018 5

ADVANTAGES AND DISADVANTAGES

Advantages

- Resulting budget is well justified and aligned to strategy
- Catalyzes broader collaboration across the organization
- Supports cost reduction by avoiding automatic budget increases, often resulting in savings
- Improves operational efficiency by rigorous challenging of assumptions

Disadvantages

- Costly, complex, and time consuming as budget is rebuilt from scratch annually, whereas simpler and faster traditional budgeting requires justification only for incremental changes
- May be cost-prohibitive for organizations with limited funding
- Risky when potential savings are uncertain
- Execution challenged by budget cycle timing constraints
- Typically requires specialized training or personnel to accomplish, and requires more resources in general
- May be disruptive to the organization's operations
- Could harm organizational culture or brand

Fonte: Delloite (2015), Zero-Based Budgeting: Zero or Hero?

© J.C. NEVES, ISEG, 2018 6

ADJUSTMENTS NOWADAYS

In response to these challenges and constraints, both private corporations and federal agencies can and do mitigate the risks of a full ZBB cycle by adopting aspects of ZBB on a select function basis.

In the public sector, having a team comprised of consultants, advisors, and government personnel can accelerate the ZBB process by breaking down barriers, translating program-related information, and gathering data. The ZBB process can also be optimized by leveraging the established processes for the regular program reviews a government agency already conducts. For example, agencies can add a ZBB component to annual or periodic program reviews instead of performing a separate review.

Another way private corporations and federal agencies can utilize ZBB is choosing to use only components of ZBB (such as requesting priority packages for executive evaluation) or applying ZBB irregularly or only in select departments.

TRADITIONAL VS ZBB PLUS (ATKEARNAY)

	Traditional ZBB	ZBBplus
Targets	Targets are imposed top-down, based solely on external benchmarks	Targets are also defined bottom-up and horizontally across the organization, with clear action pathways that earn buy-in
Scope	Scope is narrowly focused on simple SG&A	Scope is sweeping, providing a true end-to-end view of what drives value, including cross-functional interactions
Governance	Governance is primarily by executive mandate, which loses power over time	Governance is active and comprehensive, including <i>Work Governance</i> , <i>Resource Governance</i> , and <i>Decision Governance</i> to guide cost-reduction projects and sustain cost gains

<https://www.atkearney.com/documents/10192/7664847/Zero-Based%2BBudgeting.pdf/86c5e16a-eb6f-42e9-8dfe-fd37e7acc826>
Source: A.T. Kearney analysis

ROLAND BERGER METHODOLOGY

Other waves if needed, depending on project scope

Vague 1

1 Transparency Cost drivers analysis

● 4 weeks

Functional approach, building robust cost base (HR and spend)

- > Data collection and modeling ("cube"), clarification of the cost and resource structure and drivers
- > Indicative benchmarking

Operational approach: understand and share cost base status with managers

- > Mapping of Decision Units (~40 to 50 FTEs each) and tasks (~50 to 100 tasks per DU), identification of internal clients, assessment of service levels
- > First level assessment

2 Ideas generation Savings potential

● 4 weeks

Cost savings idea generation with DU managers (weekly workshops)

- > Systematic review of activities and costs, identification of optimization levers (simplify, stop, automate, empower, outsource)
- > Assessment of related savings (spend and HR)

Quantification and allocation

- > Conversion of savings in hard cash gains/ ramp-up
- > Comprehensive view for management arbitration

3 Validation of ambition Implementation plan

● 4 weeks

Selection and clustering of savings

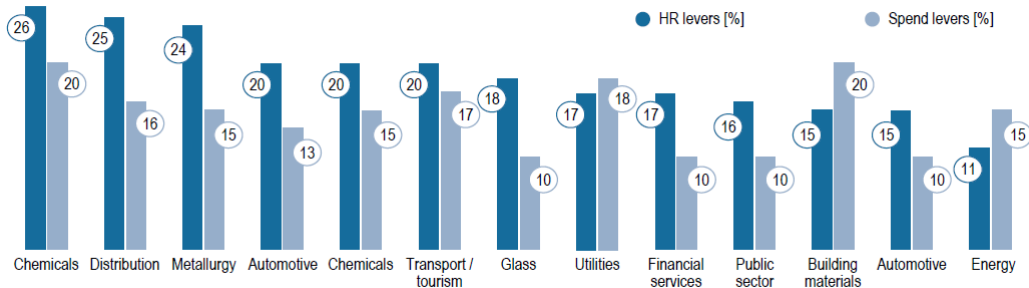
- > Classification of effort level and complexity of implementation
- > Scenario building
- > Roadblocks and resistance mapping

Arbitration with COMEX

- > Formal validation of level of ambition
- > Implementation roadmap
- > Budgeting

© J.C. NEVES, ISEG, 2018 9

EXAMPLES OF SAVINGS ACHIEVED ROLAND BERGER CLIENTS [% OF ADDRESSED COST BASE]



Source: Roland Berger (September 2016), Accelerated Zero Based Budgeting

© J.C. NEVES, ISEG, 2018 10