Chapter 28

Public Financial Information Management for Benefits Maximization:
Insights From Organization Theories

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ABSTRACT

Information management is an essential part in the public budgetary process. This paper analyzes the theoretical basis, tools, and consequences of information management throughout a budget cycle. Budgeters and decision makers need necessary financial data related to all types of revenues and expenditures, economic conditions, and agency needs, among other factors. From an organization theory perspective, budget agencies face a great number of uncertainties and constraints throughout each phase of a budget cycle. Using appropriate budgeting techniques and approaches, they collect, analyze, and use necessary information to make rational budgetary decisions regarding revenue raising and resource distribution. They intend to attain such goals and objectives as cutting inefficient expenditure, achieving more output and outcome with less input, and attaining oriented societal consequences. Extensive efforts in budget reforms have resulted in considerable productivity in government administration, but at a low level. Continuous efforts are needed for further improvement of performance.

INTRODUCTION

In the public sector, resources are allocated through the government budgetary process, which consists of budget preparation, budget appropriations, budget execution, and auditing and evaluation, to determine what kind of goods and services and at what level government should produce or finance (Finkler, 2005). In each phase of the budgetary process, a variety of information is needed for decision-making concerning the amount of money to allocate, the programs to establish, outputs to measure, performance to evaluate, and goals and objectives to accomplish. When their budgets are prepared, agencies need

financial data including those related to all types of government revenues and expenditures, economic conditions, agency needs, and services to provide. After a budget is adopted or approved, different types of information are needed, including monthly financial information, to execute the budget or to take any corrective actions. Then, in the final phase of the budgetary process, financial data are audited; and other data are used for program evaluation and auditing. Evaluation data will be fed into the first three phases of the process. Figure 1 shows information that flows to each phase of the budgetary process. This budget process presents a universal, fundamental structure of government budgeting agenda throughout the world. Strictly speaking, the rigorous four-phase budgetary making process applies to political systems where the executive branch prepares budget request; and the legislative branch is constitutionally authorized to review and approve the executive budget request. This process is typically implemented in the United State, Canada, the European Union, South Africa, India, and Argentina, among other countries.

As the budget preparation and budget appropriations phases require critical decisions, for the purpose of this paper, we merge these two phases into one, which is called the budget decision phase. In the budget decision process, the executive branch submits a budget request with necessary information as a support; and the legislative branch, when reviewing budget request submitted by the executive branch, not only examines information provided in budget request, but also weighs other factors other than information in the budget request to make final budget allocations for the entire government. Legislative budget decisions are driven by legislators' and voters' preferences, which may not be based on a rational basis as justified in budget requests. This has led to the existing perception of fiscal bias.

In accordance with budgeting theories (Cleveland, 1915; Downs, 1960; Shick, 1966; Willoughby & Melkers, 2000) and organization theories (Edwards, 1967; Forester, 1984; Zey, 1992), all relevant information needs to be collected and used for rational budget decisions. In reality, however, it is mostly a myth that a rational individual or an organization can make decisions completely in a logical manner because of incomplete and imperfect information as well as other complicated factors (Simon, 1957; Simon, 1997; Lindblom, 1959; Perrow, 1986). Despite this, administrators, budget officials, and chief executives exert every effort to conduct analyses of revenues, expenditures, economic development, to make plans for future programs and services, and to decide on goals and objectives as well as performance measurements. From a political perspective, legislators who represent different groups of people and political parties, especially in state and federal government, analyze revenue and expenditure policies that may be tied to their voters' interests while making decisions on allocating scarce resource among competing needs (Mitchell, Hughes, & Campbell, 2014). Driven by their interests and goals, both administrative actors and legislative actors intend to maximize the benefits of scare public resources by

Figure 1. Information used in the budgetary process
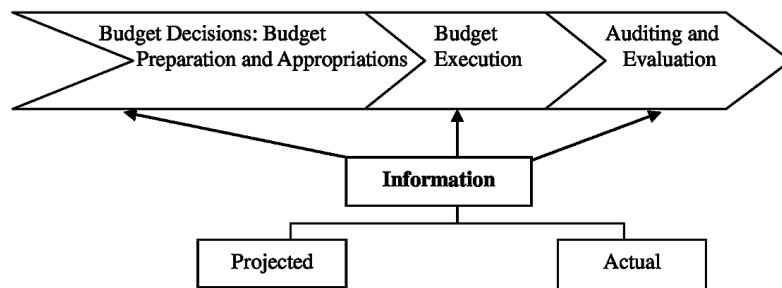
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