I. INTRODUCTION

The budget serves as fuel that keeps the government including all its branches, agencies and instrumentalities running. It is the "government's key instrument in promoting its socio-economic objectives" (Flores, 2014). Eric Kohler (from Steady, 1975, as quoted in Briones, 1996:270) describes budget as "a financial plan which serves as the pattern for and control over future operations (hence any estimates of future costs) and as a systematic plan for the utilization of manpower material and other resources." From this definition, the researchers can link budget to two management functions namely: "(1) budget as a plan indicating requirements of certain factors (e.g. cash, productive capacity) at some future date; and (2) budget as a control, containing criteria of costs or performance which will be compared with actual data on operations, thus facilitating evaluations, and possibly encouraging or even enforcing some measures of efficiency" (Briones, 1996:270). Therefore, in an administrative process, budget plays a significant role of being a mechanism for: (1) planning and mapping wherein a specific path of activities is designed for the achievement of agency's targets and objectives; (2) coordination where all parts of the agency plan are being connected in a harmonious way; (3) controlling wherein measures are taken to ensure the achievement of the agency's targets and objectives; (4) motivating which gives the whole agency encouragement to perform within targeted limits; and (5) evaluation or performance measurement wherein a benchmark is set to assess actual performance and outputs against target outputs" (Flores, 2014).

Meanwhile, savings are determined by getting the difference of the agency's total budget (including its revenue) and expenditure. In this manner, consumptions and/or expenses (e.g. operational costs, payment for goods and services acquired) negatively affects the savings of an organization. Given this relationship between budget, performance and savings, it is not clear whether or not savings can be used as an indicator in evaluating the performance of government agencies. In addition, "there is no bottom line by which the performance of the agency can be measured – measurement of outcomes of public spending is problematic" (Flores, 2014). Because of this reality, the researchers came up with a research problem stating that "The relationship between budgetary savings and performance of the Philippine government at the agency level has not been ascertained; therefore nothing has established whether or not savings can be used as an indicator of agency performance."

The main objective of the study is to ascertain the relationship between budgetary savings and performance, therefore arriving at a substantial conclusion/basis if whether or not savings can and should be established as an applicable and appropriate indicator that can be used in appraising the overall performance of different Philippine government agencies.

The research, focusing on two line and staff agencies namely the Department of Tourism and the Department of Environment and Natural Resources, specifically aims to describe the performance of the agencies in areas of expenditures where there are savings. It also seeks to identify the causes of savings in different areas of expenditures of the agency. Moreover, the study wants to find and explain the relationship between total savings and annual performance of the agencies. Lastly, based on its analysis and findings, this study will forward recommendations on how to optimize the budget of the agencies.

The researchers seek to answer specific questions, to wit:

1. How did the agencies perform in areas where there are savings?
2. How did the savings in different areas came about?
3. How are the total savings and the annual performance of the agencies correlated?
4. How can the budget be optimized to improve agency performance?

The research problem is a case study in nature. The study is relational-quantitive in finding the first and third questions, and descriptive-quantitative in answering the second and fourth questions.

The useful and relevant information acquired from this research would be a great help to the following:

National Government and Agencies

The study would help in the formulation of a more appropriate government appraisal system and can significantly contribute to Performance-Based Budgeting. Also, based on the research findings and results, recommendations will be given which could further assist government agencies (especially Department of Tourism and Department of Environment and Natural Resources) on how they can utilize their budget to an optimum level.

Field, Practice, Future Researchers, and Students of Public Administration

The analysis and findings of the study would serve as a novel contribution to the field and practice of Public Administration. It can supply new information that could fill in gaps in knowledge. Moreover, the research can provide future researchers and Public Administration majors having the same research topic with a logical investigation path and substantial data that they could use in their respective research studies.

Definition of Terms

The following are definitions of concepts that will be used throughout the entire research process:

Budgetary Savings

John Maynard Keynes defines "savings" in *The General Theory of Employment, Interest and Money* (1936) as "the income earned minus the consumption in the same period". This definition is generally accepted and applicable in different fields. In the case of government agencies, 'income' refers to the financial support appropriated in the national budget; while 'consumption' of the agency is the spending they make to deliver mandated and expected outputs.

However, this definition of savings, when related to investments that resulted in better economic output in the future, is broad and mainly applies to macro-economy. In the case of government agencies, especially in the Philippines, savings is not equated to investments as money unspent in programs and projects do not necessarily result in better or more agency output in the future. Savings usually go back to the National Treasury at the end of the year.

Performance- Based Budgeting

In 1949, the Hoover Commission who created the term Performance-Based Budget stated that this type of budgeting technique is characterized by the "…adoption of a budget based upon function, activities, and projects, this we designate as a performance budget" (Briones, 1996:289). The Commission also added that:

> *"Such an approach would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired such as personal services, supplies, equipments, and so on. These latter objects, are after all, only the means to an end. The all important thing in budgeting is the work or service to be accomplished, and what that work or service will cost."*[1]

Similarly, as quoted by Buss (2008:8) from Grifel (1993:404), the central idea in performance-based budgeting is that the basis of all financial resources such as agency's budget and funds is suppose to be the "general character and relative importance of the work to be done or upon service to rendered, rather than upon the things to be acquired." According to t he U.S. General Accounting Office (GAO) (2005) (as cited in Buss, 2008:72), says that in performance-based budgeting, "functions, activities, costs, accomplishments" and "workloads" (Buss, 2005:8) of an agency serves as vital considerations of the budgets. This concept serves as a means to show the relationship between two variables namely: (1) organizational performance; and (2) the organization's financial resources (Buss, 2008:72). This approach in budgeting gives officers such as supervisors and overseers the capability needed to measure the performance and the yielded outputs of an agency since "the object of expenditures are grouped into categories related to specific services or products an institution produces, as against objects it purchases" says Miclat (2005:118). In addition, Flores (2014) says that Performance-Based Budgeting aims to "connect performance information with the allocation and management of resource."

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[1] Cited by Briones (1996:290) from Angel Q. Yuingco quotations in his article, "Performance Budgeting for the Philippine Government," which is largely the basis of Dr. Jose D. Soberano's Chapter 11, "Performance Budgeting," of his cook co-authored with H. Odell Waldby, Philippine Public Fiscal Administration: Reading and Documents (Manila: Graduate School of Public Administration, Univeristy of the Philipine, 1968), p.386.

Budget and Performance Budget

Leonor Briones wrote in her article entitled *"The Theory of the Budget: Application t Developing Countries"* that the word "budget" was related to the *bowgette,* a Middle English term (Webster's Ninth New Collegiate Dictionary, as cited in Briones, 1996:269). On the other hand, Briones, added that bowgette was "derived from Middle French word *bouget,* diminutive of bouge leather bag, which, in turn, was derived from the Latin Bulga, meaning bag or purse" (Webster's Ninth New Collegiate Dictionary, as cited in Briones, 1996:269).

Moreover, according to Phillip Taylor (1961, as quoted in Briones in 1996:269), the term budget is:

> *"…the master plan of government. It brings together estimates of anticipated revenues and proposed expenditures, implying the schedule of activities to be undertaken and the means of financing those activities. In the budget, fiscal policies are coordinated, and only in the budget can a more unified view of the financial direction which the government is going to be observed."*[2]

In addition, information about the government revenues, expenditures and activities are all shown in the budget since it represents the financial and master plan of the government (Briones, 1996:269-271).

According to the Hoover Commission, a budget that is "based upon function, activities, and projects" is a performance budget (Briones, 1996:289). The Philippines Budget Commission (n.d.:34) states that "performance budgets are contracts between the legislative and executive branches." Performance budgets give the Congress (1) substantive information needed for an

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[2] As quoted in Briones (1996:269) from Philip E. Taylor, *The Economics of Public Finance,* 3rd edition, (New York: MacMillan Co., 1961) as quoted in Philippine Public Finance, p.71

effective policy determination; and (2) "a basis for exercising more effective control over government services and expenditures", says the Philippine Budget Commission (n.d.:34). The Philippine Budget Commission (n.d.:34) also enumerates the functions of performance budgets in the executive branch, specifically: (1) "a sound basis for planning and for exercising more effective control over operations; and (2) an incentive for reducing costs and improving services" (Philippine Budget Commission, n.d.:34).

Furthermore, performance budgets are also relevant to the citizenry as they provide all of them (1) "a clear and understandable statements and effective conduct of government services; (2) more service for their tax peso; and (3) a framework promoting economy in government" (Philippines Budget Commission, n.d.:35). As a conclusion, the Philippine Budget Commission identifies performance budgets as a mechanism for a "responsible business management in government" (n.d.:35).

Performance Indicators

Smith (1995:193) (as quoted from Smith, 1990) discusses that in United Kingdom, the rationale behind performance indicators is its main purpose of providing public organizations an improved control mechanism. Performance indicators have both the internal and external uses (Smith, 1995:193). In the case of UK's National Health Services (NHS), performance indicators serve as an "internal control scheme" that assesses managerial process itself rather than the organization's outcomes (Smith, 1995:193). This scheme serves as both the basis of NHS's performance review system (Trumpington, 1987, as cited in Smith, 1995:193) and a tool for evaluating the institution's service delivery (Department of Health and Social Security, as cited in Smith, 1995:193).

Performance indicators also function as an external control mechanism which main objective is to further promote and improve accountability as well as social responsibility in public service (Smith, 1995:193). In addition, Smith claim (1995:195) that performance indicators helps promote strategic management of public organizations by upholding the principles of productivity and resourcefulness that involve an economic, cost-effective, just and unbiased allocation resources.

Performance Measurement

Poister (2003:3-4) defines performance measurement as a “process of defining, observing, and using objective and quantitative performance indicators to produce unbiased and relevant information about program or organizational performance that can be used to strengthen management, achieve results, improve overall performance, and increase accountability”. It can also be defined as an information system that uses both objective and subjective assessments to evaluate the performance of both the individuals and the organizations (Jensen & Meckling, 1998:345; Zureikat et al., 2011:159) which is used to quantify the efficiency and effectiveness of an activity (Matthews, 2011).

Orr (1973) organized sets of performance measures in his Input-Process-Output-Outcomes model. Input measures (in from of counts or numerical value) are the easiest to quantify and gather. These measures are grouped into five categories: budget, staff, collections, facilities, and technology. Process measures are focused on the activities that transform resources into services. The analysis of these measures will quantify the cost or time to perform a specific task or activity. Thus, process measures are either a cost per activity or a time per activity measure. Output measures are used to indicate the degree to which services are being utilized. These measures are simply counts to indicate the volume of the activity. Finally, outcomes indicate the effect of the exposure of the services to the customer. They occur first in an individual and then to the larger scales such as the organization and the community. Outcomes allow assessing the effectiveness of the organization conducting the activity (as cited in Matthews, 2011:87).

Performance (in Public and Nonprofit organizations)

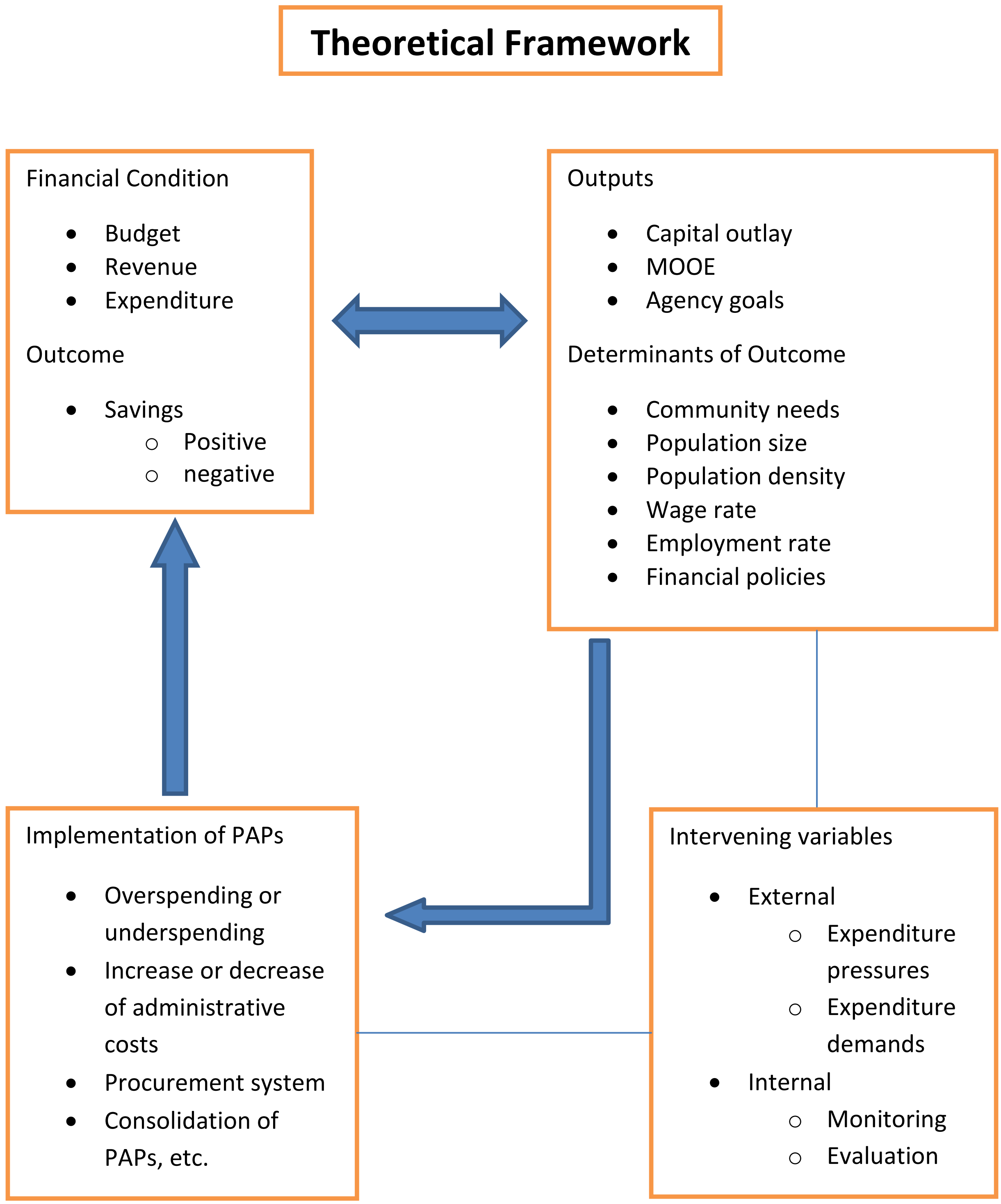
Berman (2006:21) describes performance "as the effective and efficient use of resources to achieve results." This concept revolves on the idea of "effective organizational outputs at the lowest cost" (Berman, 2006:3). This characterization of performance emphasizes the value and magnitude of rendering attention on "both goal attainment (effectiveness) and efficiency of efforts" (Berman, 2006:7).

Performance is related to establishing socially relevant public organizations which can implement programs and policies that are accessible to everyone regardless of their status quo (Berman, 2006:3). It also aims to (1) cater the basic necessities of all sectors of the society; and (2) provide policies and programs that attend to various societal issues and hardships (Berman, 2006:3).

Performance Evaluation

Newcomer & Wholey (1989:206) assert that performance evaluation "is an essential management function with substantial potential for improved program performance" in the field and practice of public administration. Coelho (2005) (as cited in Nan Chai, 2009:54) defines performance evaluation as "a process to help decision-making regarding an organization's performance by selecting indicators, collecting and analyzing data, assessing information against performance criteria, reporting and communicating and periodically reviewing and improving this process." According to Nan Chai (2009:58), it is a strategic management tool that carries “public accountability” and “performance improvement” as its two core objectives. Similar to the concepts stated above, performance evaluation is symbolically for public interest and common good. Ideally, it intends ensure an equitable use and allocation of resources such as public funds to achieve improved performance as well as societal and public welfare development (Nan Chai, 2009:58). Nan Chai (2009:58) added that in practice, performance evaluation basically is feedback mechanism that [ideally] employs objective assessment to generate significant information that can be used to enhance governments’ performance and service delivery. It is purposively for shaping a government that is accountable and responsive to the people (Nan Chai, 2009:58).

II. THEORETICAL FRAMEWORK



To better understand the research problem and the relationship of the variables under the study we analyze and use three approaches. The relationship between budgetary savings and agency performance has been ambiguous and the three major approaches give some insight on it. The three major approaches used in the study are: Economic approach (revenue and expenditure), managerial approach and cost-benefit analysis.

The setting of the study is that we give importance to the economic effect of the actions of the agency. The economic approach is given much importance in the study since the problem under research is closely associated to it. Financial analysis is one concept that Bern & Schramm (1986) highly examines. Financial condition is a term that will help us understand financial analysis better. Often used by Bern & Schramm, they defined it as the probability that a government will meet its financial obligations, the gap between expenditure pressures and available resources becomes a measure of financial condition. The greater the difference between the two the more the available resources exceed the expenditure needs – the stronger the financial condition of the government. In a simpler sense, one can also say that revenue – expenditure = savings.

The relationship of revenue and expenditure has been defined and studied by many people. Friedman (1978) argues that raising tax would lead to more expenditure in the national level. That increasing tax would not necessarily mean reducing deficit or inciting more savings. To relate this to an agency level, one therefore has to be more efficient in obtaining revenue as there is a causal relationship between them and understanding it is a measure in also relating savings to performance.

To guide us in understanding the framework we put forward basic assumptions, these assumptions also serves to guide any changes in the framework in the future. First, we assume that all pertinent documents and data we need for the research are available in the agency under study. Majority of the data we will need is on financial statements and economic data.

Second, we assume that the approach to the measurement of financial condition can be applied to agencies alone or agencies combined with other overlapping jurisdictions. And lastly, we take into account the intervening variables in our analysis of financial condition. We cannot overlook factors like citizen satisfaction, meeting of obligations, etc. because they are possible measures of performance and important variables in understanding the problem.

Another approach used in the study was Cost-Benefit Analysis, a tool often used to help in decision making. In the framework above, it is important to expound on the relationship between the PAPs and the financial condition of the agency. CBA is a perfect instrument and can be a direct measurement tool. By calculating and comparing benefits and costs of the programs and projects and estimating the strengths and weaknesses of possible alternatives we are able to make the most efficient choices.

Pareto efficiency is a term that can be used in the study, described by Boardman et al. (1996): “An allocation of goods is Pareto efficient if no alternative allocation can make at least one person better off without making anyone else worse off.” It is important to understand that the definition of a well-performing agency is very dynamic and to relate it to savings is even harder. CBA sheds some light on it especially on decision making and possible alternatives.

The last approach used to analyze the study is the managerial approach. Managerial approach focuses on operational issues and problems and the internal goings on in the organization (Bhattacharya, 2000). Processes and producing results are its major concerns. This paper's framework relies on managerial approach, in particular on public management, because of its emphasis on the importance of performance.

The performance of public services is multidimensional. Public organizations are typically required to meet multiple and potentially conflicting organizational goals (Rainey, 2010). Also, public sector performance is judged by a diverse array of constituencies. Most performance measurements are subjective and there is no single measure capturing all the dimensions of performance (Boyne, 2007).

According to O'Toole and Meier (1999), as cited by Andrews et. al. (2012), public organizations are best understood as autoregressive systems which change incrementally over time. This implies that performance in one period is strongly influenced by performance in the past. It is therefore important to include prior achievements in statistical models of performance, to ensure that the coefficients for the other independent variables are not biased.

It is important to note that the programs and projects of the agency is a good evaluation tool on whether agency outputs are aligned with set agency goals. The internal intervening variables as well as past data are all relevant in assessing agency performance and the future PAPs

III. HYPOTHESIS

In line with the goals and objectives mentioned in the introduction part of this paper, the hypotheses considered are as follows:

1. Ho: The agencies performed poorly in areas where there are savings. Ha: The agencies performed well in areas where there are savings.

2. Ho: The poor implementation of programs and projects by the agencies caused savings. Ha: The good implementation of programs and projects by the agencies caused savings.

3. Ho: There is a negative correlation between the total savings and the annual performance of the agencies. Ha: There is a positive correlation between the total savings and the annual performance of the agencies.

4. Ho: Optimization of the budget to decrease budget surplus would not necessarily improve agency performance. Ha: Optimization of the budget to decrease budget surplus would improve agency performance.

IV. STUDY DESIGN

A. Purposive Sampling of Agencies

The researchers are employing typical case sampling as the technique in selecting the Department of Tourism (DOT) and Department of Environment and Natural Resources (DENR) as the agencies to be studied.

Typical case sampling means using samples because of their typicality. The agencies are selected not necessarily to represent all other government agencies and use them to make generalizations, but to allow the fruition of research findings based on agencies with same or similar characteristics of most of the rest ("Purposive sampling").

DOT and DENR are administrative agencies within the department framwork and under the control of the executive. Both are national agencies headed by officials with the rank of cabinet secretary, and are implementing agencies that spend budget allocations to provide actual goods and services to the public.

B. Relational Design for Savings and Performance

The researchers take the role of observers to find how the agencies performed in areas where there are savings and to see how the savings and annual performance of the agencies are correlated. Pertinent books, reports and records of the selected agencies for the fiscal years 2011, 2012 and 2013 are to be examined, and no experiment is to be conducted, *id est* no manipulation of actual operations of the government agencies is to be introduced.

As the theoretical framework shows, the researchers posit that savings can be an indicator for agency performance. But clearly, the assessment of savings and performance are not used to argue causation, but to undertand and show the relationship between the variables.

C. Descriptive Purpose for Causes of Savings

This research is also conducted to identify, characterize and categorize the elements that contributed in the obtainment of savings by the agencies from the perspective of responsible personnel. The factors that caused savings by contributing positively or negatively in the implementation of programs, projects and activities are to be pursued by conducting structured interviews with agency administrators, project managers, agency budget officers, auditors and other qualified personnel. The interview questions are mainly retrospective in nature.

V. SETTING

Department of Tourism

The Department of Tourism (DOT) is a government agency responsible to "encourage, promote, and develop tourism as a major socio-economy activity to generate foreign currency and employment and to spread the benefits of tourism to both the private and public sector."

The operations under this department are the Domestic Tourism Promotion, the International Tourism Promotion, and the Tourism Services and Regional Offices operated by the Office of the Secretary; the Restoration and Development of Intramuros operated by the Intramuros Administration; and the Parks Development, Beautification and Preservation operated by the National Parks Development Committee.

In the Philippine Development Plan (PDP) for 2011-2016, the plan of the government in the tourism sector is the strengthening of National Brand/Identity Awareness. "A new tourism marketing campaign/ branding shall be developed in consonance with the country's international image and trade promotion thrust, with emphasis given to our country's vast retirement potential and epicurean attraction," as indicated in the Chapter 3 (Competitive Industry & Services Sectors) of PDP. (p. 83) The Philippines, as reported, ranked only sixth among the ASEAN countries in attracting foreign tourist in 2009. (p. 70)

Department of Environment and Natural Resources

The Department of Environment and Natural Resources (DENR) is the responsible government agency for "the conservation, management, development, and proper use of the country's environment and natural resources, specifically forest and grazing lands, mineral resources, including those in reservation and watershed areas, and lands of the public domain."

The operations of this department are the Forest Management, the Land Management, the Protected Areas and Wildlife Management, and the Ecosystems Research and Development under the operation of Office of the Secretary; the Environmental Management and Pollution Control and the Toxic Substance and Waste Management under the Environmental Management Bureau; the Mineral Lands Administration and the Geoscience Development and Services under the Mines and Geo-Sciences Bureau; the Water, Coastal and Land Surveys, the Mapping and Remote Sensing, and the Information Management and Statistical Services under the National Mapping and Resource Information Authority; the Coordination and Regulation of Water Resources Development under the operation of National Water Resources Board; and the Formulation and Coordination of Plans, Policies, and Programs on the Environmental Protection, Conservation and Development of Palawan under the Palawan Council for Sustainable Development Staff.

In the Chapter 10 of the PDP, called Conservation, Protection & Rehabilitation of the Environment & Natural Resources, the assessment of the country is that the major urban centers are polluted; solid waste remains a major source of pollutants; water is becoming scarcer; quality of farm land is deteriorating and forested lands are shrinking; the unique diversity of the country is under severe pressure; the coastal and marine resources are under threat; mineral resource development is delivering mixed results; and the extreme vulnerability to environmental hazards and climate-related risks.(p. 304-313)

By the end of this 2016, there are three main goals that government would like to attain. These goals are the improved conservation, protection and rehabilitation of natural resources, improved environmental quality for a cleaner and healthier environment, and enhanced resilience of natural systems and improved adaptive capacities of human communities to cope with environmental hazards include climate-related risks. (p. 323-332)

VI. MEASUREMENT PROCEDURES

In this study, the researchers opted to use analysis of data and structured interviews as the primary data gathering techniques.

The researchers have managed to come up with four groups of data indicator. These four are the: programs and projects, outputs of the agency, determinants of outcome and the measures of the financial condition of the agency.

Analysis of data on the financial condition of the select agency will be the main role of reviewing the gathered data along with understanding performance targets, employee outputs, plantilla positions, austerity measures, forced savings, sectoral goals and outputs. So that the researchers can establish a correlation study using the data, they have to quantify the targets into ratio targets.

Structured interviews will be used to figure out the data indicator: determinants of the outcome, specifically regarding budget policies, savings as indicator of agency performance and conflicts on operational and fiscal policy. The researchers have proposed a list of authorities in the agency to gather data from: Undersecretaries, Financial officers, Administrators, Project managers, COA auditor.

Through the structured interviews, we will also be able to get data on the implementation of programs and projects and the outputs of the agency. Performance targets and its deviations and the gerneral outputs and outcomes of the agency.

Lastly, the recommendations of the researchers will be based on the analysis of the procured documents and the data gathered during the structured interviews with the proposed authorities.

VII. ANALYSIS OF DATA

The researchers aim to seek the correlation of between the savings of government and its performance according to the outputs in relation to their organization's targets. To achieve this, the researchers propose to use the Pearson Product-Moment Correlation in determining the strength of the relationship between the two variables.

The Pearson coefficient for samples is usually denoted by r, the sample paired data (X_i, Y_i) represents savings in terms monetary value, i.e. Philippine Pesos and the performance measure denoted in percentage in accordance to the achievements with respect to their targets. Y_i

representing savings as the proposed independent variable and X_i representing the performance of a project as the proposed dependent variable

$$r = \frac{\sum_{i=1}^{n}(X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum_{i=1}^{n}(X_i - \bar{X})^2}\sqrt{\sum_{i=1}^{n}(Y_i - \bar{Y})^2}}$$

r = Pearson coefficient, measure of strength of a linear association

X_i = Individual value of Savings

Y_i = Individual value of Performance

X-bar = Mean of total Savings

Y-bar = Mean of total Performance

For a population, the Pearson coefficient is denoted by ρ and referred to as population Pearson correlation coefficient. Its formula is expressed as

$$\rho_{X,Y} = \frac{\mathrm{cov}(X,Y)}{\sigma_X \sigma_Y} = \frac{E[(X-\mu_X)(Y-\mu_Y)]}{\sigma_X \sigma_Y}$$

Where, cov is the covariance, σ_X is the standard deviation of X, μ_X is the mean of X, and E is the expectation.

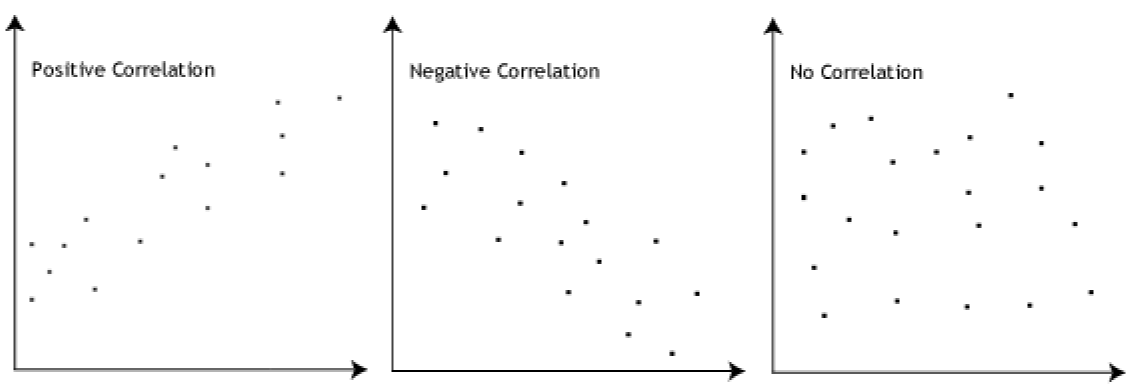
To able to use the Pearson Product-Moment Model the following conditions must be met;

1. The variables are in interval or ratio scale of measurement
2. A linear relationship is suspected
3. The variables must be approximately normally distributed

4. Outliers are either kept to a minimum or removed entirely

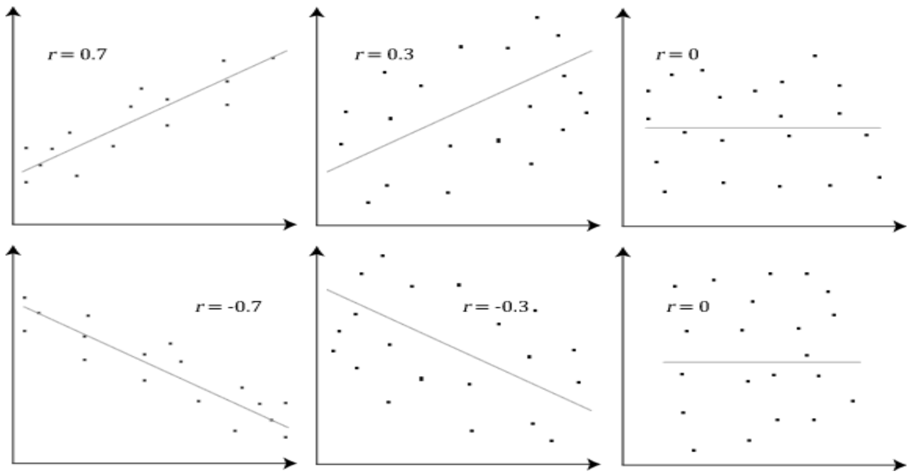
In line with this, the researchers can proceed as the variables examined are determined to be ratio variable as value of zero savings or zero performance indicates an absence of the variable. A linear relationship is also suspected following the trend of previous studies and findings. It must be noted however that in this model the variables can have different units, the researchers chose this model as it was designed such that the units of measurement do not affect the calculation. The Pearson product-moment correlation does not take into consideration whether a variable has been classified as a dependent or independent variable. It treats all variables equally.

The Pearson correlation coefficient, *r*, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0



indicates a positive association; that is, as the value of one variable increases, so does the value of the other variable. A value less than 0 indicates a negative association; that is, as the value of one variable increases, the value of the other variable decreases. This is shown in the diagram below:

The stronger the association of the two variables, the closer the Pearson correlation coefficient, *r*, will be to either +1 or -1 depending on whether the relationship is positive or negative, respectively. Achieving a value of +1 or -1 means that all data points are included on the line of best fit - there are no data points that show any variation away from this line. Values for *r* between +1 and -1 (for example, *r* = 0.8 or -0.4) indicate that there is variation around the line of best fit. The closer the value of *r* to 0 the greater the variation around the line of best fit. Different relationships and their correlation coefficients are shown in the diagram below:



The researchers propose these guidelines in interpreting the Pearson Product Coefficient

	Coefficient, *r*	
Strength of Association	Positive	Negative
Small	.1 to .3	-0.1 to -0.3
Medium	.3 to .5	-0.3 to -0.5
Large	.5 to 1.0	-0.5 to -1.0

VIII. STRUCTURE OF THE REPORT

Abstract
Chapter 1

A. Statement of the Problem
B. Objectives of the Study
C. Hypothesis
D. Background of the Study
E. Relevance of the study
F. Definition of Terms
G. Scope and Limitations

Chapter 2

A. Theoretical Framework
B. Review of Related Literature

Chapter 3

A. Background of Agencies
    i. Department of Tourism
    ii. Department of Environment and Natural Resources

Chapter 4

A. Study Design and Methodology
B. Measurement Procedures
C. Setting

Chapter 5

A. Analysis of Data
B. Findings

Chapter 6

A. Research Summary
B. Conclusions
C. Recommendations

Appendix

i. Interview Questionnaire
ii. Interview Schedule
iii. Bibliography

IX. PROBLEMS AND LIMITATIONS

The researchers recognize that there is no perfect research design and that problems and limitations are inevitable even after meticulous planning.

One limitation of the research is that the researchers fail to directly take into account the plausibility of lag time in relating performance and the savings. In the private sector, lag time or response lag is the time difference between when corrective actions are done and when the action is felt or noticed. It translates roughly on which action, or in this context, which year does one account the performance of an agency.

A problem the researchers must face as well is the scope of the research; it is to cover all aspects of two government agencies and not just specific programs or policies. It may result in a very difficult time constraint given that the research must be done in one semester.

X. WORK SCHEDULE

GANTT CHART FOR RESEARCH FIELD WORK: DATA GATHERING, DATA PROCESSING AND RESEARCH WRITING

No.	Activity	December	January	February	March	April	May	Output
1	Research Proposal Presentation	x						Proposal Powerpoint
2	Editing of Interview Questionnaire	x	x					Edited Interview Questionnaires
3	Letter Writing	x	x					Request for Interview Appointments
4	Preparation for Field Work	x	x					Appointments
5	Documents Gathering		x	x	x			Documents Needed for Statistical Analysis (e.g. Annual Financial Reports, Annual Auditing Reports)
6	Literature Researches		x	x	x			Secondary Sources
7	Interviews		x	x				Primary Sources (Data)
8	Data Processing & Analysis			x	x	x		Process Data and Analysis
9	Paper Writing			x	x	x		Research Paper
10	Research Presentation						x	Research Paper Presentation
11	Paper Revision						x	Revised Research Paper
12	Final Research Paper Submission						x	Final Research Paper

XI. CODE BOOK

Item/Question	Variable Code	Description	Codes	Level of Measurement
A	govag	Government Agency	1 – DOT 2 – DENR	Categorical Nominal
B	year	Year of the Data	AS	Numerical Interval
1	budget	Budget	AS	Numerical Ratio
2	expe	Expenditure	AS	Numerical Ratio
3	savngs	Savings	AS	Numerical Ratio
4	pertar	Performance Targets	AS	Numerical Ratio
5	permea	Performance Measures	AS	Numerical Ratio
6	perf	Performance (per cent)	AS	Numerical Ratio
7	noemp	Number of employees	AS	Numerical Ratio

XII. APPENDIX

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A. REVIEW OF RELATED LITERATURE

Introduction

This review of related literature looks at the fundamental concepts of budget and performance relevant to the study and rationalize the multiple concepts into a manageable amount as to limit the scope of our study and conduct it within reason. In addition, the review takes into account the the weaknesses of previous implementation, from the United States up to the South African model. Finally, this review also highlights the recommendations mentioned in the executions of performance based budgeting and management in the South African and United States implementations to determine what can be feasible done for improvement and what can be used to further the field of study and theory of evidence-based management.

Concepts

Budgetary Savings

John Maynard Keynes defines "savings" in *The General Theory of Employment, Interest and Money* (1936) as "the income earned minus the consumption in the same period". This definition is generally accepted and applicable in different fields. In the case of government agencies, 'income' refers to the financial support appropriated in the national budget; while 'consumption' of the agency is the spending they make to deliver mandated and expected outputs.

However, this definition of savings, when related to investments that resulted in better economic output in the future, is broad and mainly applies to macro-economy. In the case of government agencies, especially in the Philippines, savings is not equated to investments as money unspent in programs and projects do not necessarily result in better or more agency output in the future. Savings usually go back to the National Treasury at the end of the year.

Performance- Based Budgeting

According to the U.S. General Accounting Office (GAO) (2005) (as cited in Buss, 2008:72), in performance-based budgeting, "functions, activities, costs, accomplishments" and "workloads" (Buss, 2005:8) of an agency serves as vital considerations of the budgets. This concept serves as a means to show the relationship between two variables namely: (1) organizational performance; and (2) the organization's financial resources (Buss, 2008:72). This approach in budgeting gives officers such as supervisors and overseers the capability needed to measure the performance and the yielded outputs of an agency since "the object of expenditures are grouped into categories related to specific services or products an institution produces, as against objects it purchases" says Miclat (2005:118). In addition, as quoted by Buss (2008:8) from Grifel (1993:404), the central idea in performance-based budgeting is that the basis of all financial resources such as agency's budget and funds is suppose to be the "general character and relative importance of the work to be done or upon service to rendered, rather than upon the things to be acquired."

Performance Budget

The Philippines Budget Commission (n.d.:34) states that "performance budgets are contracts between the legislative and executive branches." Performance budgets give the Congress (1) substantive information needed for an effective policy determination; and (2) "a basis for exercising more effective control over government services and expenditures", says the

Philippine Budget Commission (n.d.:34). The Philippine Budget Commission (n.d.:34) also enumerates the functions of performance budgets in the executive branch, specifically: (1) "a sound basis for planning and for exercising more effective control over operations; and (2) an incentive for reducing costs and improving services" (Philippine Budget Commission, n.d.:34).

Furthermore, performance budgets are also relevant to the citizenry as they provide all of them (1) "a clear and understandable statements and effective conduct of government services; (2) more service for their tax peso; and (3) a framework promoting economy in government" (Philippines Budget Commission, n.d.:35). As a conclusion, the Philippine Budget Commission identifies performance budgets as a mechanism for a "responsible business management in government" (n.d.:35).

Performance Indicators

Smith (1995:193) (as quoted from Smith, 1990) discusses that in United Kingdom, the rationale behind performance indicators is its main purpose of providing public organizations an improved control mechanism. Performance indicators have both the internal and external uses (Smith, 1995:193). In the case of UK's National Health Services (NHS), performance indicators serve as an "internal control scheme" that assesses managerial process itself rather than the organization's outcomes (Smith, 1995:193). This scheme serves as both the basis of NHS's performance review system (Trumpington, 1987, as cited in Smith, 1995:193) and a tool for evaluating the institution's service delivery (Department of Health and Social Security, as cited in Smith, 1995:193).

Performance indicators also function as an external control mechanism which main objective is to further promote and improve accountability as well as social responsibility in public service (Smith, 1995:193). In addition, Smith claim (1995:195) that performance indicators helps promote strategic management of public organizations by upholding the principles of productivity and resourcefulness that involve an economic, cost-effective, just and unbiased allocation resources.

Performance Measurement

Poister (2003:3-4) defines performance measurement as a "process of defining, observing, and using objective and quantitative performance indicators to produce unbiased and relevant information about program or organizational performance that can be used to strengthen management, achieve results, improve overall performance, and increase accountability". It can also be defined as an information system that uses both objective and subjective assessments to evaluate the performance of both the individuals and the organizations (Jensen & Meckling, 1998:345; Zureikat et al., 2011:159) which is used to quantify the efficiency and effectiveness of an activity (Matthews, 2011).

Orr (1973) organized sets of performance measures in his Input-Process-Output-Outcomes model. Input measures (in from of counts or numerical value) are the easiest to quantify and gather. These measures are grouped into five categories: budget, staff, collections, facilities, and technology. Process measures are focused on the activities that transform resources into services. The analysis of these measures will quantify the cost or time to perform a specific task or activity. Thus, process measures are either a cost per activity or a time per activity measure. Output measures are used to indicate the degree to which services are being utilized.

These measures are simply counts to indicate the volume of the activity. Finally, outcomes indicate the effect of the exposure of the services to the customer. They occur first in an individual and then to the larger scales such as the organization and the community. Outcomes allow assessing the effectiveness of the organization conducting the activity (as cited in Matthews, 2011:87).

Performance (in Public and Nonprofit organizations)

Berman (2006:21) describes performance "as the effective and efficient use of resources to achieve results." This concept revolves on the idea of "effective organizational outputs at the lowest cost" (Berman, 2006:3). This characterization of performance emphasizes the value and magnitude of rendering attention on "both goal attainment (effectiveness) and efficiency of efforts" (Berman, 2006:7).

Performance is related to establishing socially relevant public organizations which can implement programs and policies that are accessible to everyone regardless of their status quo (Berman, 2006:3). It also aims to (1) cater the basic necessities of all sectors of the society; and (2) provide policies and programs that attend to various societal issues and hardships (Berman, 2006:3).

Performance Evaluation

Newcomer & Wholey (1989:206) assert that performance evaluation "is an essential management function with substantial potential for improved program performance" in the field and practice of public administration. Coelho (2005) (as cited in Nan Chai, 2009:54) defines performance evaluation as "a process to help decision-making regarding an organization's performance by selecting indicators, collecting and analyzing data, assessing information against performance criteria, reporting and communicating and periodically reviewing and improving this process." According to Nan Chai (2009:58), it is a strategic management tool that carries "public accountability" and "performance improvement" as its two core objectives. Similar to the concepts stated above, performance evaluation is symbolically for public interest and common good. Ideally, it intends ensure an equitable use and allocation of resources such as public funds to achieve improved performance as well as societal and public welfare development (Nan Chai, 2009:58). Nan Chai (2009:58) added that in practice, performance evaluation basically is feedback mechanism that [ideally] employs objective assessment to generate significant information that can be used to enhance governments' performance and service delivery. It is purposively for shaping a government that is accountable and responsive to the people (Nan Chai, 2009:58).

Variables

Budget savings as independent variable

In trying to ascertain its linkage with agency performance, the mere act of defining savings as a budget surplus of the government would be insufficient (Arnold, 2008:). Savings can be realized in many ways such as: (1) reduction of administrative costs (Settoon and Wyld, 2006:99); (2) policy reforms (Holtz-Eakin and Ramlet, 2010:1136); (3) procurement system (Kashiwagi and Byfield, 2002:103); (4) budget process reform (Lynch and Lynch, 1996:255); (5) consolidation of programs (Wingo, 1977:239); (6) restructuring of organizations (Capaldi, 2009:19); (7) aversion from short-term expenditures on medical services; and (8) welfare and nutritional services (Forrest and Singh, 1990:6).

According to Hood (1991:3), discipline in resources boils down to the expectation to do more with less. However, it can be misleading to cite savings from interventions which raise quality because of uncertainty about effectiveness and about costs in different situations. A review on health service providers by Øvretveit (2009:3-19) found that many studies which reported ‘savings’ did not assess the cost of the intervention, left out some costs, or did not use actual cost data from the service. Savings depend on the financial system and on who bears the costs that are distributed between different stakeholders.

Spending and revenue options would produce budgetary savings, either by cutting spending or increasing receipts. Snyder (1999:4-5) says budgetary savings could be used to maintain budgetary discipline. Rationales for budgetary savings include limiting overall size of the government, restructuring programs to achieve policy goals at lower cost, or improving the efficiency of programs to reach performance goals. It may also be used to eliminate narrow tax preferences or promote greater economic efficiency.

Given that the reasons behind the savings are related to the accomplishment of outputs and outcomes of the agency, observation and analysis of agency savings can give the researchers and other interested parties clues on the agency performance. Savings, therefore, can be used an indicator variable for performance.

Performance as the dependent variable

Ideally, performance measurements such as indicators should always be objective. However, in reality, they are considered as an active variable which can be subjected to manipulations of various individuals and stakeholders who want to put forward their own personal interests or gain advantageous benefits (Smith, 1995:197). The underlying notion in performance measurement is that rewards like incentives and bonuses are directly related to performance. Hence, the assumption is that performance measurement, evaluation and/or indicators have either a positive or negative effect on employees' behavior (Smith, 1995:197). Smith (1995:193) stated in his article that "increased provision of information about outcome will lead to improved public service." Once properly interpreted and widely disseminated, this performance data generated through performance indicators and evaluations may have positive implications on public organizations' performance and services. Smith (1995:213) findings suggest that "although presented as a strategic control instrument, the indicator is being given increased emphasis in performance review… and that here are strong reasons to believe that some of the expected behavioural responses have started to occur." For this reason, we can observe a positive correlation between performance and performance indicators.

Performance measures are often used internally and externally within organizations, meaning they are used in two points, internal and external. Burningham (1990:173) states that performance measures have a crucial role in that they identify classifying opportunities for helpful action and that they are part of the learning cycle in a process of intervention and management change to improve performance. Jackson (1988:9) observes that: a framework that will aid policy and priority formulation, implementation, monitoring and control and will enable a methodical approach to problem solving is vital to an effective management.

Performance indicators pose risks to individuals and organizations as whole. It can affect how managers seek to achieve target measures, if only a limited number of performance targets is set, managers might sacrifice wider aspects of service delivery. It can also change an individual's conduct and motivation if they are utilized incorrectly (Gardner, 1998:192). These are among only a few of the many problems on performance indicators.

However, Smith (1995:213) also emphasizes that "there is a strong possibility that dysfunctional consequences will arise if excessive reliance is placed on an outcome-related performance indicators in the control system." Too much dependence and reliance on outcome-related performance indicators can possibly yield potential distortions (Smith, 1995:213). This shows evidence of a negative correlation between performance indicators and organizational performance. Consequently, performance measures and indicators significantly affect organizational performance making the latter a dependent variable.

The progress of performance-based management presents special difficulties for the public service. People are more inclined to focus on measurement, but that ignores the way quality should be judged in the public realm. The evaluation of performance, when values can conflict, is necessarily a matter of judgement. Recognizing the imperfections and limitations of measures is necessary and to use them as a means of supporting politically informed judgement. The practical pitfalls identified must first be addressed and overcome for the system to work (Gardner, 1998:193-194).

Critiques of the Literature

Budget Deficit

Dwyer Jr. and Hafer (1998:42-50) argue that a budget surplus or deficit is not an adequate summary of how government spending and taxes affect the economy. A surplus or deficit is a result of choices concerning spending and taxation, choices that have substantial implications for the allocation of resources in the economy. Any analysis of fiscal policy that neglects spending, taxes, and tax rates is woefully deficient. Surpluses can be seen as mainly reflecting taxes paid now to finance expected increases in spending on Social Security in the future.

According to Diokno (2008:29), there are similarities and differences between public sector deficits in the early 1980s and those in recent years. Looking at macroeconomic factors, the deficits of the early 1980s and recent years occurred during periods of high oil prices. The two periods differ in that the early 1980's had higher prevailing interest and inflation rates compared to recent years. The Bureau of the Treasury (2014) reported that the deficit of the Philippine Government for 2013 amounted to 164 billion pesos.

According to Matthew (2005), problems still exist even in situations where traditional and new budget approaches exist side by side. The potential of mixed budgeting systems is limited to affect the achievement of a true performance-based accountability system.

The South African Model

Financial reforms, as generally adopted in South Africa and other similar settings, are still problematic in three main areas; and these weaknesses have profound impact on results. (Mathew, 2005)

1. Budgets still do not provide a clear link between performance and allocation, limiting any results-oriented accountability connections in budgets.
    - It deemphasizes the importance of results which is the core focus of the budget.
    - It limits any kind of results-oriented incentives associated with allocation behavior

- It results in the entrenchment of a specialization and separation culture common in governments. i.e. Personnel working on monetary allocations lack incentives to engage with personnel working on performance management issues

2. Performance measures are especially problematic and do not constitute an effective basis for results-identification, measurement, and management.
   - Unreliable measures fail to create a results-oriented bottom line that is relevant to the activities and mission of the organization, that can be measured, and that can be enforced.
   - Managers lack the incentive to produce results because the results identified are weak, often unrelated to activities, and poorly detailed.
3. The budgets still fail to identify who is responsible for performance and resource use, and no one is identified as having the role of holding agents accountable.
   - These factors make it impossible to hold anyone accountable for results.

Despite the criticisms, the South African model is still considered of the best practices due to the success of its generic models and the wisdom of the sequencing of reforms in order to achieve it. Suggestions to solve these problems by building a results-based accountability culture or results-oriented incentives for the managers, implementors and the key decision makers, as well as steps to foster the development of the culture and perpetuate its implementation.

The aforementioned problems call for solutions through the acknowledgement or critique of relevant literature and the conduct of new studies. There is a need to address the said issues and fill in the gaps in knowledge because of their significant bearing on performance.

Performance Based Budgeting

The United States Model

In 2002, the Bush Administration executed the Program Assessment Rating Tool (PART) in rating the performance of Federal programs. The PART evaluation is focused on four major areas: purpose and design, strategic planning, management, and results and accountability. This has been seen as the most "conceptual" model of evidence based management linking the performance, management and budgeting in an approach to running the State (Buss, 2011:142). After the term of President G.W. bush, Jeffery Zients, Barack Obama's head of management at the OMB, criticizes the PART before Congress on October 29, 2009: "Congress doesn't use it. Agencies don't use it. And it doesn't produce meaningful information to the public. Most of the metrics used are process-oriented and not outcome based. We don't track goals that cut across agencies. Overall too much emphasis has been placed on producing performance information to comply with a checklist of requirement instead of using it to drive change."

The criticism of the PART by Zients points to one of the flaws of performance based-budgeting. Performance Based budgeting requires much managerial interaction and participation across all levels, from the managerial, the implementors, to the key decision makers that in reality participation between them was not equal nor reciprocated. In some cases the performance information obtained is not used at all or that the statistics show that good management in certain departments did not necessarily lead to good performance. This leads to the first limitation of a performance based budgeting system, good performance is not necessarily good management. Buss points out this may be to a number of factors but the most prominent being that the PART does not allow for variation due to program context or circumstance. (Buss, 2011:147)

The second flaw of the PART according to Buss states that Rigorous Program Evaluation is absent. (Buss, 2011:147) The literature states that only 60 percent of the programs during the implementation of the PART was available, and that lest the half of the produced noteworthy results. The PART lacking a rigorous evaluation system thus provided only information on whether a program achieved outputs and no targets for the outcomes of the certain project or program. Not only does it show that information that can not be utilized by the public as pointed out by Zients as it is without context in terms of outcomes to society; it also not adequate performance information that can be used to provide comprehensive assessments.

The last criticism of the PART, undoubtedly is also the most noteworthy, Buss states that there is a weak correlation between Performance and Budgeting. He provides that program spending is mandatory due to appropriations and that discretionary spending is politically protected. Under the PART model, decision makers are willing to launch new projects without much evidence as to whether it would be fruitful (Buss, 2011:147)

Summary of Main Points

In searching for the correlation of the budgetary savings and the performance, the researchers find few points from the literatures. Looking back from the concept of performance measure, Orr (1973) indicates that the budget is one of the categories of the input measure. Thus, the way the agency spend its budget can be measured to its performance. We also found out the budgetary savings can be realized through the spending and revenue option of the agency. The way that savings appeared may help in analyzing the activity of agency on how they manage their budget. It is our job, in this research, on how the savings and performance can be linked.

The reviewed literature has provided the researchers, with the necessary foundations as to where to start to the research and provided the knowledge base need to progress further. We have also acknowledge that even within the literature, few areas have been lacking in terms of where we want to bring our research or focused on minor points.

The first of these limitations was the scope of the budgetary savings referred to the literature. It refers primarily on the national level or otherwise within the scope of the central government. On the few sources where it discusses savings on the agency level, it was mostly in corollary with performance management and given the focus of discussion The focus of the research was primarily on the agency level and as such the reviewed literature provided to large a perspective.

The second limitation of the literature, was the lack of emphasis on how the time frames of the projects and programs implementations affected the performance indicators and the overall performance evaluation. It is also noteworthy to point out, that under the Budgeting process used today, planning and formulation greatly takes into account the previous year's performance targets and accomplished outputs. It is not stated nor addressed if the previous year's performance was attributed the immediate projects implemented or long standing projects providing their return in investments. The literature was not clear on the linkage between the implementation of programs and projects and the expected delay on when the outcomes would first be observed. The literature provide no premise on whether the outcomes were the result a previous time frame or one much earlier than that. As such the researchers have reviewed the literature on the assumption that the projects and programs implemented is immediately reflected on the following time frame, i.e., next year.

Finally, the most noteworthy limitation of the literature was that between the two models discussed, it concludes that for their implementation there was a weak correlation between budgeting and performance. The South African model elaborates that budget removes emphasis from the results which should in theory be the core of the budgeting process, the reality of the process greatly shifted from the theoretical ideal. The United States model on the other hand postulates that the current budgeting process undermines the performance management of the projects and programs as most of the program spending is already locked in the appropriations law while the discretionary nature of the budget remains in the hands of the political actors.

Gaps in Knowledge and Practice

There is a lack of performance based budgeting studies within the Philippine context, The researchers recognize that newer approaches of budgeting within the Philippines have been developed over the past decades such as the Zero-Based Budgeting approach but we believe that this does not remove the merit of the performance justification characteristic of the performance based budgeting system. As such, we believe that further study along this model may provide to be fruitful not only in the academic field of Public Administration but also within the practice.

The researchers can find no recent studies of performance based budgeting within the National or Agency level of government. This research aims to provide a recent study on the Performance Based Budgeting System within the Philippine setting to either support or weaken the findings of the international models. It aims to show a correlation between the savings of an agency to its overall organizational output.

B. INTERVIEW QUESTIONNAIRE

Interviewees:

1. Project managers
2. Department Heads
3. Budget officer
4. Resident auditor from COA

Interview Questions:

1. From your position as project manager, administrator has there been any notable deviations from the annual performance targets and what are your insights from the matter?
2. Has there any been deviations from the budget polices in the recent years? What does count as situations where deviation is justifiable?
3. What are actual target outputs and outcomes of the agency from 2011 to 2013? In comparison to the budget appropriated would say that the targets were still attainable or feasible to pursue? Should it not become feasible, how would you proceed?
4. What are the areas of expenditure of the agency from 2011 to 2013? Has there been any sectorial focus for the past years? Key locations given priority over others? Or has the budget been distributed proportionally according to operational needs?
5. What do you see as the main causes of savings in key areas of expenditure from 2011 to 2013?
6. From your managerial perspective what is your initial assessments on the total savings of the agency from 2011 to 2013?
7. How is the annual overall performance of the agency from 2011 to 2013?
8. Can savings be an accurate indicator in assessing agency performance? What about the factors that affect the savings? Do you see it as having positive or negative relation ot he performance of the agency?

9. How much does the agency take into account savings when planning for the target outputs and outcomes? Are you constrained to what is planned or has there been any assumption that the budget may be stretched or further constrained?

10. How many Projects and Programs are operating under budget? Are they proving to be performing efficiently? How many are operating above budget? Are they also performing according to targets?

11. From the management, are there any conflicts with operations and the fiscal policy? How do you address these issues of conflict?

12. What measures can the agency take to optimize the budget in relation to achieving agency target outcomes?

13. Is budget surplus necessary to provide flexibility in the planning and implementation of programs and projects?

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