

An Analysis of Budget Planning in Public Hospitals in Limpopo Province: South Africa

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ABSTRACT---- *Budget planning is a challenge regarding the delivery of cost-effective health services in public hospitals. Budget planning is part of broader planning process in the organisations. The purpose of this article is to analyse budget planning in public hospitals in the Limpopo Province of South Africa. The research approach used for the study is quantitative research design. The sample size of 20 public hospitals was drawn from the population of 40 public hospitals. A survey questionnaire was used as the primary data-gathering instrument. The findings of the research show that budget planning is a management challenge for non-finance managers in public hospitals. The result for this is ineffective budget management in public hospitals. The study recommended that non-finance managers be capacitated on the alignment of budget with a strategy to improve budget management in public hospitals.*

Key words: Strategy, Budget, Planning, and Public hospitals

1. INTRODUCTION

Budget planning is part of broader planning process in the organisations. The purpose of this study is to analyse budget planning in public hospitals in the Limpopo Province of South Africa. The budget is a tool to deliver health services in public hospital. Blocher, Chen and Lin (1999:283) state that budget is a quantitative plan of operations for an organisation, it identifies the resources and commitments required to fulfil the organisation goals for the budgeted period. Blocher et al. (1999:283) further state that budget includes both financial and nonfinancial aspects of the planned operations. The budget has been described as a financial plan estimating future expenditure and serving as a blueprint for and control over future utilisation of financial resources (van der Waldt et al. 2002:10). A budget is a business plan expressed in terms of monetary value. Therefore, a budget is a plan which seen as a crucial input in the delivery of health services by public hospital. It is important for the managers within public hospitals to understand budget planning. The submission of budget inputs is the responsibility of managers. These managers are the chief executive officer, the clinical manager, the nursing manager, the allied health manager, the corporate services manager. and the finance manager provide technical expertise in financial management. The non-finance managers are responsible for budget planning. In the section which follows, a brief review of the literature on the strategic planning and budgeting planning. Thereafter, the research methodology is presented, followed by results and discussion, as well as conclusion and recommendation.

2. STRATEGIC PLANNING

Strategic planning is defined as a management process that combines four basic features: (1) the clear statement of the organisation's mission; (2) the identification of the departmental external constituencies or stakeholders, the determination of their assessment of the department's purpose and operations; (3) the delineation of the department's strategic goals and objectives, typically three-to-five-year plan; and (4) the development of strategies to achieve them (Berry, 1994:323). Strategic management is a process which institution is managed to adapt to a new environment and that during the process decisions are made consistently (van der Waldt et al., 2002:239). Schwella, Burger, Fox, and Muller (1996:113), strategic planning is viewed as the process divisible into three phases namely: strategy formulation,

strategy implementation, and strategy evaluation. Strategic planning can be described as a map to achieve organisation's objectives. The vision, strategic objectives and targets must be achieved through this map. Pauw, Woods, Van der Linde, Fourie and Visser (2008:90-91), the following are specific reasons why it is necessary to apply strategic management in government institutions:

- It improves decision making about future opportunities and threats facing an institution.
- It stimulates the development of appropriate aims and objectives that serve as strong motivation and incentives.
- It promotes communication, coordination, and participation in an institution.
- It enables an institution to carry out actions proactively on its influence on its environment. and
- It ensures an objective basis for management decision-making – more effective decision-making leads to greater achievement of objectives, effective resourcing, and personal motivation.

Mintzberg (1994: 108) maintains that strategic planning, as has been traditionally practised, has really been strategic programming, articulation and elaboration of strategies, or visions, that already exist. Berry (1994:323) point out that due to strategic planning managers have been moving away from traditionally, hierarchically managed departments towards a management style which highlights responsiveness to citizens, excellent quality services, employee empowerment in the workplace and an on-going strategic planning process emphasising the organisation's mission and values. Strategic planning is an important element in public hospital. Public hospital engages this process every year. Failure to plan may result in the public hospital unable to achieve the objectives.

3. BUDGET PLANNING

The first step in the budgeting process is to develop and communicate a set of broad assumptions about the economy, the industry, and the organisation 's strategy for the budget period (Marshall, McManus & Viele, 2007:533). Horngren, Bhimani, Datar and Foster (2005:488), argue that budgeting process is useful when done as an integral part of an organisation's strategic analysis. According to Van Rensburg et al. (2005:188), the budgeting process usually includes the formation of a budget committee, determination of the budget period, specification of budget guidelines, preparation, of the initial budget proposal, budget negotiation, review and approval and budget revision. In public hospitals the budgeting process starts in June with the submission of inputs for budget that will commence in the financial year which is April. The heads of sections should prepare and implement the budget, while the finance managers are responsible for providing technical support on financial matters.

The budgeting planning discussed hereunder include – performance budgeting, Activity-based budgeting, zero- based budgeting and incremental budgeting:

3.1. Performance budgeting

Performance budgeting, a conceptualisation from the early 1900s was first real attempt at addressing key shortcomings of traditional line-item budgeting, by classifying expenditures according to activities (Moeti, 2014:98). Performance budgeting entails clarifying and quantifying different levels of activities that must be completed to meet objectives for which the institution exist (Moeti, 2014:99). According to Shan and Shen (2007:154), performance budgeting is a system of budgeting that presents the purpose and objectives for which funds are required, the costs of proposed programmes and associated activities for achieving those objectives, and outputs to be produced or services to be rendered under each programme. Roussel, Swansburg and Swansburg (2005:288) explain performance budgeting focuses on the activities of a cost centre such as indirect care and quality monitoring. Each activity has objectives with specific financial resources, and the focus is on what needs to be achieved. Arnold (2008:3) state that performance budgeting was a shift from the traditional method of budgeting for inputs, to a system of budgeting for what is to be produced – outputs - and for the results of those outputs –outcomes. Performance budgeting is based on organisation objectives, activities, outputs, and outcomes. Therefore, there is a need for managers to have knowledge and skills for performance budgeting in order improve budget management in public hospitals.

3.2. Activity-based budgeting

Activity-based budgeting focuses on the budgeted costs of the activities necessary to produce and sell products and services (Horngren, Datar & Foster, 2006:196). The natural extension of activity-based costing is to use an activity-based budgeting approach to budgeting future costs (Horngren et al. 2006:196). Conkins (2006:213) states that this approach, called activity-based budgeting, recognises that the need for financial resource originates with the demand-pull triggered by customers and users of organisation's services and capabilities. Conkins (2006:213) further states that many of today's managers correctly believe that the budget should flow backwards from the outputs. The biggest problem with activity-based budgeting is that it requires an entirely new budget model, as well as a new chart of accounts in which to store the budget information (Bragg, 2007:113). This approach can be used for linking budget with a strategy. Therefore, there is a need for managers to have knowledge and skills for activity-based budgeting in order improve budget management in public hospitals.

3.3. Zero-based budgeting

Zero-based budgeting requires every organisation to make all its budgeting decisions as if they were completely new decisions. In other words, budgeting decisions are made as if the organisation was starting each year with a clean slate and a new amount of money (Shah, 2007:123). Shah (2007:123) states that zero-based budgeting, however, remains popular as the ideal budgeting techniques for public institutions, particularly, to those external stakeholders who are concerned with the efficacy of public budgeting methods. Zero-based budgeting is used budgeting for the new programmes or projects. This budget method is normally used in public sector environment. This includes public hospital, national and provincial government departments, and municipalities. However, zero-based budgeting not effectively applied in public sector. Due to this being a time-consuming process and method, managers end up with incorrect budget for new projects.

3.4. Incremental budgeting

Thompson, Crampton, and Wood (2008:142) maintain that incremental budgeting has been the most common way to build budgets. Thompson et al. (2008:142) further maintain that incremental budgeting is a simplistic model that assumes that the previous year's expenditures are an adequate base for creating next year's budget. This method takes its name from assumptions that each budget line should receive the same increment, usually as a percentage increase or decrease during the next year's budget cycle. Gruen and Howarth (2005:94-95) point out the following advantages of incremental budgeting:

- Simple to understand.
- Simple to calculate. and
- Does not take a lot of time.

Incremental budgeting is a popular method in public sector including public hospital, as it is easy to apply and simple.

Depending on the output to be achieved, the application of all these budget methods/types is important to achieve effective budget planning in public hospital. Zero-based budgeting, for instance, is for new programmes and policy shifts. Incremental budgeting is applied for fixed costs such as personnel costs and other contractual obligation, and performance budgeting achieves outcomes such as improvement in quality of care and reducing waiting time. Lastly, activity-based budgeting is for costing activities in hospitals and cost drivers. Managers are expected to know all these budget methods to improve budget planning in public hospital.

4. RESEARCH METHODOLOGY

The research approach for this study is quantitative research design. Quantitative research is based on measuring variables for individual participants to obtain scores, usually numerical values, which are submitted to a statistical analysis for summary and interpretation (Gravetter & Forzano, 2009:147). A sample is defined as the segment of the population that is selected for investigation (Bryman & Bell, 2007:182). The sample size of 20 Public Hospitals was drawn from population of 40 Public Hospitals which represent 50% using random sampling. The team of executive management of the public hospital comprises six managers: the chief executive officer, the clinical manager, the nursing manager, the allied health manager, the finance manager, and the corporate services manager. Therefore, the sample size is 120 participants (20 Public Hospitals X 6 managers per Public Hospital). The researcher used random sampling so that each hospital had an equal chance of being selected. The researcher collected 85 questionnaires from participants (managers) out of 120 questionnaires distributed. In this research, a questionnaire was used as the primary data-gathering instrument. Bradley (2007:202), a questionnaire can be defined as two or more questions containing carefully chosen vocabulary. Its purpose is to assist in the investigation of a specific subject. It is a formalised set of questions for obtaining information from a respondent. Data was quantitatively analysed using descriptive statistics. Descriptive statistics are group statistical methods used to summarize, describe, or display quantitative data (Collis and Hussey, 2009:221). Frequencies were used to organise and analyse the data and they helped the researcher to interpret numbers. Statistical data analysis was performed using STATA V13 statistical software. The validity of a measurement is the extent to which the instrument measures what it is supposed to measure (Leedy & Ormrod, 2005:28). Face validity was used by conducting a pilot study to check the effectiveness of the questionnaires in relation to the objective of this study. Reliability is the consistency with which a measuring instrument yields a certain result when the entity being measured has not changed (Leedy & Ormrod, 2005:29). Cronbach alpha is a commonly used test of internal reliability (Bryman & Bell, 2007:164). The researcher used the Cronbach alpha test to confirm reliability of the data. The alpha coefficient was .937. The result suggests high internal consistency. These results suggested that respondents answered honestly and consistently.

5. PRESENTATION AND ANALYSIS OF THE FINDINGS

The aim of the study was to analyse budget planning in public hospitals in the Limpopo province. A budget is a plan which seen as a crucial input in the delivery of health services by public hospitals. A budget is a business plan expressed in terms of monetary value. Budget planning is part of budget management. Therefore, managers are expected to have

knowledge and understanding of budget planning. The researcher collected 85 questionnaires from participants (managers) out of 120 distributed. The respondents were asked questions to analyse budget planning in public hospitals.

5.1. Budget and strategic plan are integrated.

The planning and budgeting processes should be combined for the budget to be effective. The budget process should be linked with strategic planning process. Respondents were asked on whether budget and strategic plan are integrated. The results show that that 37% of the respondents strongly agree that the budget and strategic plan are integrated. While 29% of respondent's agree, only 21% disagree, 9% unsure, and 2% strongly disagree. The aggregate total of 67% respondents agrees with the statement. However, 32% aggregate total of unsure and disagree is significant. The results show that there is challenge for the integration of budget and strategic plan in public hospitals. For the budget to be effective there is a need for the integration of budget and strategic plan.

5.2. Managers have knowledge and understanding of costing in terms of budget management.

Costing is very important element in budget management to determine how much it will needed to deliver health services in the public hospitals. The managers are expected to have understood of costing principles to prepare the budget which is credible. Respondents were asked on whether managers have knowledge and understanding of costing in terms of budget management. The results show that 44% of the respondents agree that the managers have knowledge and understanding of costing in terms of budget management. While 22% of respondent's strongly agree, only 17% disagree, and 12% unsure. The aggregate total of 67% respondents agrees with the statement. However, 34% aggregate total of unsure and disagree is significant. From the above responses it shows that costing is still a challenge with some managers in public hospitals. The result of this is ineffective budget planning.

5.3. Zero-based budgeting is used for new programmes and projects.

Zero-based budgeting is used for budgeting new programmes or projects. This budget method is normally used in public sector environment, this includes Public hospitals, national and provincial government departments, and municipalities. Respondents were asked on whether Zero-based budgeting is used for new programmes and projects. The results show that 31% of the respondents unsure that zero-based budgeting is used for new programmes and projects. While 30% of respondent's agree, 20% strongly agree, 15% disagree, and 2% strongly disagrees. The aggregate total of 51% respondents agrees with the statement. However, the 49% aggregate total of unsure and disagree is high. This shows that some of the managers are not familiar with zero-based budgeting. From the above responses, it shows that knowledge and understanding of zero-based budgeting in terms of budget management is still a challenge in public hospitals and is likely to result in ineffective budget planning.

5.4. Incremental budgeting applies a certain percentage in a budget baseline.

Incremental budgeting is a popular method in public sector including public hospitals, as it is easy to apply and simple. Respondents were asked on whether Incremental budgeting applies a certain percentage in a budget baseline. The results show that respondents agree that incremental budgeting applies a certain percentage in a budget baseline. 29% of respondents unsure with the statement, 11% strongly agree, 11% disagree and, 2% strongly disagree. The aggregate total of 56% respondents agrees with the statement. However, the 44% aggregate total of unsure and disagree is high. From the above responses, it shows that the knowledge and understanding of incremental budgeting is still a challenge in public hospitals. This may result in effective budget planning. Therefore, there is need to capacitate managers on incremental budget.

5.5. Performance budgeting is based on organisation objectives, activities, outputs, and outcomes.

Performance budgeting is based on organisation objectives, activities, outputs, and outcomes. Respondents were asked on whether performance budgeting is based on organisation objectives, activities, outputs, and outcomes. The results show that 49% of respondents agree that Performance budgeting is based on organisation objectives, activities, outputs, and outcomes. While 16% of respondents unsure about the statement, 16% disagree 15% strongly agree and, 2% strongly disagree. The aggregate total of 64% respondents agrees with the statement. However, the 36% aggregate total of unsure and disagree is high. This percentage reveals different picture. From the above results it shows that performance budgeting still a challenge in public hospitals, which likely to result in ineffective budget management.

5.6. Activity-based budgeting focuses on the budgeted costs of the activities necessary for health service delivery.

Activity-based budgeting focuses on the budgeted costs of the activities necessary for health service delivery. Respondents were asked whether activity-based budgeting focuses on the budgeted costs of the activities necessary for health service delivery. The results show that 48% of respondents agree that activity-based budgeting focuses on the budgeted costs of the activities necessary for health service delivery. While 20% of respondents strongly agree with the statement, 16% are unsure, 14% disagree and, 1% strongly disagree. The aggregate total of 68% respondents agrees with the statement. However, the 32% aggregate total of unsure and disagree is high, revealing a different picture. From the above responses it shows that knowledge and understanding of activity-based budgeting is challenge in public hospitals. This may result ineffective budget planning.

5.7. Budget manuals and guidelines available for budget management

The respondents asked on whether budget manuals and guidelines available for budget management. The results show that 32% of respondents agree that budget manuals and guidelines available for budget management budget. While the 30% of respondents unsure with the statement, 20% strongly agree, and 16% disagree. The aggregate total of 53% respondents agrees with the statement. However, the 47% aggregate total of unsure and disagree is high. This percentage brings the different picture. Budget planning is a challenge in public hospitals. Budget manual/guideline is important for effective budget planning in public hospitals.

6. SUMMARY OF RESULTS: ANALYSIS OF BUDGET PLANNING IN PUBLIC HOSPITALS

The results above show that 60% participants (mostly finance managers) agree with the statement that budget planning is effective in public hospitals. However, the 40% (mostly non-finance managers) aggregate total of unsure and disagree high, this reveals a different picture. The non-finance managers are expected to be responsible and accountable for their budgets within their own sections. The results revealed that budget planning is a management challenge for non-finance managers in public hospitals.

7. CONCLUSION AND RECOMMENDATION

This article undertook to analyse budget planning in public hospitals in the Limpopo province of South Africa. From the presentation and analysis of findings above, it can be concluded that budget planning a management challenge for non-finance managers in public hospitals. This may result in ineffective budget management and service delivery It is therefore recommended that all non-finance managers namely chief executive officers, the clinical managers, the nursing managers, the allied health managers, and the corporate services managers in public hospitals be capacitated on the alignment of budget with a strategy to improve budget management and service delivery.

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