The Role Of Budget In Measuring Performance
Case Study: UNRWA Education Programme in Gaza Strip

A Graduation Project Presented to the Faculty of Commerce

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Dedication

This Research Paper is lovingly dedicated to our respective parents who have been our constant source of inspiration. They have given us the drive and discipline to tackle any task with enthusiasm and determination. Without their love and support this project would not have been made possible.
Acknowledgement

Thanks to the Great Allah the most Gracious, then to his prophet peace be upon him.

Thanks to Allah for facilitating the way to complete this research successfully, correctly and accurately hoping that it will help others.

Thanks to everyone helped or assisted us to achieve our objectives especially Dr. Salah Shubair.
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Abstract:

Budget considered to be one of the most important tool to measure performance of employee(staff) and evaluate the outcome of various related activities.

The importance aims of this research is to understand to what extent budget is used as a tool to evaluate the performance at the education department of UNRWA.

Due to difficulties of collecting data the researchers has only depended on secondary data as a tool of collecting information.

The budget of the education department at UNRWA has been chosen due to the fact that it has the biggest share of the general budget of UNRWA of Gaza Strip.

The researcher has faced real difficulties in collecting data due to the lack of cooperation from the budget department of UNRWA and the timing of the research which comes at the busy time of the year in the financial department in UNRWA which resulted in the delay of completing the research on the expected time.

The researcher has achieved many result through analyzing statistic available at the education department one of the most significant factor was the low level of student academic achievement along Gaza Strip which was (along with other factors partially due to shortages of allocating needed funds for education programme).

One of the main recommendation to solve this problem is to rationalize the distribution of funds to various sectors, allocate more funds and address other nonfinancial issues.
Chapter one

- Research Problem

- Budget Definitions.

- The Difference between Budgeting and forecasting

- Purposes of Budgeting.

- The Role of Budgeting.

- Stages in Budgeting process.

- Essentials of Budgeting.

- Budget Administration.

- Budget Period and Budget centers.

- Budget, Budgeting and Budgetary Control

- The International Aspects of Budgeting.

- Key Factor or Limiting Factor.

- Different types of budgets.
1.1 Research Problem

1.1.1 Introduction:

Budget is considered one of the important tools which is used to manage projects or organizations by implementing the idle use of the available resources. The budget process is part of a larger system that involves setting objectives, considering alternative programs, incorporating programs into the long-range plan, and implementing the long-range plan through the budgeting process. Budgets are required to achieve many different goals within an organization. Not only do they assist in planning, coordinating, and communicating the activities of an organization but they also serve as a control and motivating device. In addition, budgets are often used for evaluating managers' performance (Drury, 1997).

Budget compels managers to plan for the future, which helps them anticipate things before they happen. Budgeting helps to coordinate and integrate the efforts of various departments in the light of the overall objectives of the enterprise. Budgets as control tools ensure that a firm's activities conform to its plans. This is achieved by comparing actual performance with planned performance and taking the appropriate remedies for those items that are not proceeding according to the plan (Hilton, 1991).

The budget is used for planning and controlling in many institutions regardless of their size and specialization. One of the important aims of this research is to determine to what extent budget is used as a base for measuring performance in one of the international organizations, the United Nation Relief Works Agency (UNRWA). The UNRWA plays a very important role in the development of Palestinian refugees in Palestine and Diaspora, in addition to the services it provides in many fields like education, health, and various social services.
1.1.2 *Research Problem* :

The problem of this study can be addressed in the following Research Questions:
- "Can we consider a budget an effective tool for performance evaluation in the education programme in UNRWA in Gaza Strip?"

1.1.3 *Research Importance* :

The importance of this research is from the importance of budget itself as a tool not only for planning and control, but also for performance evaluation and improving the efficiency and effectiveness of the organization by letting managers to control and highlight the attentions of managers to the weak areas and let them to best plan for those area. And this will be clear when we study Education Programme in UNRWA in Gaza Strip.

1.1.4 *Research Objectives* :

1. To determine the effectiveness of budget as a performance evaluation tool.
2. To determine in what way the budget is used in the UNRWA as a tool for performance evaluation.
3. To know to what extent budgets used in measuring Performance in Education Programme in UNRWA in Gaza Strip.

1.1.5 *Research Methodology* :

To the purpose of collecting data, secondary resources have been used in data collection process and this includes, books, websites and circulars.

1.1.6 *Research Structure* :

Chapter one : Research Proposal
Chapter two : General Background about Budget.
Chapter three: The Uses of Budget as A measuring Performance.
3.1. The Financial Performance Measures
3.2. The Nonfinancial Performance Measures
Chapter three : The Role Which Budget Play for Measuring Performance in UNRWA(Education Field in Gaza Strip).
Chapter four : Conclusion and Recommendations
1.2 Introduction:

It is well recognized that an enterprise should be managed effectively and efficiently. Managing, in fact, implies coordination and control of the total enterprise efforts to achieve the organization objectives. The process of managing is facilitated when management charts its course of action in advance. The various activities within a company should be coordinated by the preparation of plans of actions for future these detailed plans are usually referred to as budget.

As we know any business or organization has its own strategy (long term plans) and budget plays an important role to achieve the strategic plan, it might lead to achieve organization main goals in a way to fulfill it's vision.

In this chapter the researcher will focus on a background about budget.

1.2.1-Budget Definitions:

There are many definitions that defines the budget in different way and here the researcher mentioned some of them:

-Budget is a detailed plan, expressed in quantitative terms, that specifies how resources will be acquired and used during a specified period of time.

-A budget is a plan expressed in quantitative, usually monetary, terms covering a specified period of time usually one year. Many companies refer to their budget since it show the planned activities the companies expects to undertake in its responsibility centers in order to obtain its profit goal. (Anthony and et.al, 2005)

-Budget is a quantitative expression for a set period of a proposed plan of action and management. (Horngren and et.al, 2003)

-Budget is a comprehensive and coordinated plan, expressed in financial term for the operations and resources of an enterprise for some specific period in the future (Fragment and et.al, 1993).
The Basic Element of Budget are:

From the definitions it appears that budget consists of some important elements:

1- It is a comprehensive and coordinated plan.

A budget is the plan of the firm's expectations in the future. It expresses the plan in formal terms and helps to realize the firm's expectations. It is a comprehensive plan in formal terms and helps to realize the firm's expectations. It is a comprehensive plan in the sense that all activities and operations are considered when it is prepared. It is a budget of the enterprise as a whole.

2- It is expressed in financial terms.

For operational purposes, a budget is always quantified in financial terms. Initially the budgets may be developed in terms of varieties of quantities, but finally they must be expressed in money units.

3- It is a plan for the firm's operations and resources.

A budget is mechanism to plan for the firm's all operations or activities. The budget must plan for quantify revenues and expenses related to a specific operation. Planning should not only be done for revenues and expenses related to a specific operation. Planning should not only done for revenues and expenses but the resources necessary to carry out operations should also be planned.

4- It is a future plan for a specific period.

Time dimension must be added to a budget. A budget is meaningful only when it is related to a specified period of time; the budget estimates will be relevant only for some specific period. E.g. a production target of 100,000 units has no meaning unless it is stated when these targets have to be met. To achieve the qualitative expectations of the firm, the short term objectives or goals, expressed in quantitative terms must be related to the time period within which they have to be achieved. (Pandey, 1994)
1.3-Budgeting and Forecasting

Table 1. Comparison Between Budgeting and Forecasting

<table>
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<th>Budgeting</th>
<th>Forecasting</th>
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<tr>
<td>1. It relates to planned event i.e., the policy and program to be followed in a future period under planned conditions.</td>
<td>1. It is concerned with probable events likely to happen under anticipated conditions during a specific period of time</td>
</tr>
<tr>
<td>2. It is usually planned separately for each accounting period.</td>
<td>2. It may cover a long period or years.</td>
</tr>
<tr>
<td>3. It comprises the whole business unit. Sectional budgets are coordinated into a logical whole.</td>
<td>3. It may cover a limited function or activity of business as sales forecast</td>
</tr>
<tr>
<td>4. Budget is a tool of control as it represents actions which can be shaped according to will to suit conditions which may or may not happen.</td>
<td>4. It does not connote any sense of control as forecast is merely a statement of future events.</td>
</tr>
<tr>
<td>5. The process of budget starts where forecast ends and converts it into a budget</td>
<td>5. The function of forecast ends with forecast of likely event</td>
</tr>
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Source: (Jain and Narang, 1999), page 157

From this it follows that a forecast is a judgment that can be made by anybody whereas a budget is an enterprise objective that may only be set by the authorized management (Harper, 1995)
1.4 - *Purposes of Budgeting*

1- To state the firm's expectations (goals) in clear, formal terms to avoid confusion and facilitate their attainment.

2- To communicate expectations to all concerned with the management of the firm so that they understood and implemented (communication).

3- To provide plan of action for reducing uncertainties and for their proper direction of individual and group effort to achieve goals (planning).

4- To coordinate the activated and effort in such away that the use of resources is maximized (coordination).

5- To motivate managers to strive to achieve organization goals.

6- To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken (control and performance evaluation).

*Explanations:*

**-Statement of expectations:**

A firm establishes broad, long range objectives. The long run objectives are pursued in successive, short run steps in the future period of time. A budget is a means of expressing goals to be achieved in short run in formal terms. It establishes a harmony between the short run goals and the long run objectives of the firm. The targets of expected performance are laid down when a budget is prepared. These targets are directional and motivational in nature. They direct individual and group efforts and operations towards a common goal. A budget helps to clarify the assumptions underlying future goal. For example if sales target for the next year is formulated, the budget gives details about the price, quantities, sales efforts and so on.

*(pandey,1994)*

**-Communication**

A more explicit statement of goals and means to achieve them doesn't imply that goals will be accomplished. The people of an enterprise should know what the goals are; they should understand and support them. It is the function of top management to inform the people at lower-levels of management about the performance expected of them.

Top management uses budgeting as a vehicle to communicate goals and expectations of
employees. A clear, written communication of goals through budgets will help employees to understand, support and accomplish goals through a proper coordination of goals and means (Pandey, 1994).

**-Planning**

Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Budgeting compels the manager to plan in a comprehensive and coherent way. It is essentially a formalized planning of management's intended actions and desired result. Formalized planning involves the responsibility of management and provide an alternative to groping without direction.

The budgeting process ensures that managers do plan for future operation and that they consider how conditions in the next year might change and what steps they should take now to respond to these changed conditions.

Budgeting also involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and held accountable. This process encourages managers to anticipate problems before they arise and hasty decisions that are made on the spur of the moment based on expediency rather than reasoned judgment will be minimized (Pandey, 1994).

**-Coordination**

Coordination is a major function of budgeting. The budget serves as a vehicle through which the actions of the different parts of an organization can be brought together and reconciled into a common plan (Drury, 1997).

Different units in the company must also coordinate the many different tasks they perform. For example, the number and types of products to be marketed must be coordinated with the purchasing and manufacturing departments to ensure goods are available. Equipment may have to be purchased and installed. Advertising promotions may need to be planned and implemented. And all tasks have to be performed at the appropriate times.

Budgeting requires each manager to establish a proper rapport between the activities of his department and that of other department. Any imbalance in the relationship between the departmental activities should be identified and corrected (Pandey, 1994),
-Motivation

The budget can be a useful device for influencing managerial behavior and motivating managers to perform in line with the organizational objectives. A budget provides a standard that under certain circumstances, a manager may be motivated to strive to achieve. However, budgets can also encourage inefficiency and conflict between managers. If individuals have actively participated in preparing the budget, and it is used as a tool to assist managers in managing their departments, it can act as a strong motivational device by providing a challenge. Alternatively, if the budget is dictated from above, imposes a threat rather than a challenge, it may be resisted and more harm than good. (Drury, 1997)

-Control

Once a budget is finalized, it is the plan for the operations of the organization. Managers have authority to spend within the budget and responsibility to achieve revenues specified within the budget. Budgets and actual revenues and expenditures are monitored constantly for variations and to determine whether the organization is on target. If performance does not meet the budget, action can be taken immediately to adjust activities. Without constant monitoring, a company does not realize it is not on target until it is too late to make adjustments (purpose of budget, www.ssrn.com)

-Performance Evaluation

A manager's performance is often evaluated by measuring his or her success in meeting the budgets (Drury, 1997)

One way to evaluate a manager is to compare the budget with actual performance. Did the manager reach the target revenue within the constraints of the targeted expenditures? Of course, other factors, such as market and general economic conditions, affect a manager’s performance. Whether a manager achieves targeted goals is an important part of managerial responsibility (purpose of budget, www.ssrn.com)
1.5-The Role of Budgeting (Budget Function)

1-Budgeting forces managers to plan.
The existence of formal budgets compels busy managers to think coherently about their position in the firm and their contribution to its future. Thus budgeting forces managers to stand back from their regular activities and to consider the goals of the firm as well as the more detailed ways of achieving them. Awareness of broader goals and environmental conditions can enhance manager's perspectives on operating activities.

2-budgeting reveal new data about the firms future and thus reduces the risk inherent in its operation.
Budgeting reveals new data about the firms future and thus reduces the risks inherent in it's operation.

3-budgeting encourages communication and co-ordination of activities.
budget procedures allow information about the proposed activities of the firm to be communicated to different managers in different locations, and may thus help in the reconciliation of claims to, and availability of, significant resources. In addition, where responsibilities are geographically and functionally separate, it may be difficult to communicate the performance targets expected of individuals.

4-budgeting provide a guide to action.
the physical process of budgeting of itself gives information to management about feasibility and appropriateness of particular activities, and helps identify factors that are critical to success in meeting targets.

5-budgeting acts as a basis for measuring and evaluating performance.
the preparation and subsequent agreement of the budget offers a benchmark against which the performance of all entities within the firm as well as the firm itself, can be measured.

6-budgeting aids goal congruence.
the process of planning and controlling is an iterative process which helps greatly to marry the firm's goals with those of its individual parts: that is, it helps the achievement of goal congruence between each part of the firm (the managers and divisions) and the firm itself.

(Ronald and truly, 1996)
1.6 - *Stages in Budgeting Process*

A budget is a plan that identifies the financial resources required to achieve programmatic objectives. Once constructed, this plan assists staff and board in managing the organization both programmatically and financially throughout the year.

Establishing a schedule of key action and decision points in the process allows adequate time for information gathering and decision making. How long the process should take and who should be involved varies depending on the management style and complexity of the organization.

Typically the budgeting process should begin at least four months before the end of the fiscal year to ensure the budget is approved by the Board before the start of the new year.

### 1.6.1 THE BUDGETING PROCESS

**Step 1: Planning the Process**

- Identify who will coordinate the budgeting process and which staff, board members and committees need to be involved;
- Agree upon key definitions, assumptions and document formats;
- Set timelines and key deadlines;
- Determine and schedule any training or key meetings.

**Step 2: Communicating about the Process**

- Clearly communicate responsibilities, expectations and deadlines to everyone involved;
- Explain and distribute forms and assumptions.

**Step 3: Programmatic Goal Setting**

- Determine program goals and objectives;
- Project staffing requirements and salary and benefit assumptions based on program goals;
- Get board agreement on goals and assumptions.

**Step 4: Information Gathering**

- Research and gather information about income and expenses based on program goals and assumptions;
- Construct budget details by program;
- Communicate regularly to avoid duplication of effort and to share information and assumptions.
**Step 5: Compilation and Revision**

- Have one person compile all information, review it for consistency and redistribute to everyone involved;
- Leave plenty of time for review and revisions.

**Step 6: Committee Review**

- Have the finance committee and other appropriate staff and board committees review a budget draft and key assumptions;

**Step 7: Final Approval**

- Distribute information to the board prior to the board meeting, including budget draft, program goals and other supporting information;
- Have program and development committees play a role in making an informative presentation to the board based on the opportunities, challenges and resources behind the budget numbers;
- Have the finance committee or treasurer present the budget proposal to the board.

**Step 8: Implementation and Management**

The real work begins once the budget is approved:

- Communicate budget, program goals and timelines for the next year to staff;
- Review actual income and expense compared to the budget on a monthly basis;
- Update and revise the budget as there are changes during the year. Depending on the significance of changes, the board may need to approve revisions. *(The budgeting process, www.NonprofitsAssistanceFund.org )*
1.7 KEYS TO A SUCCESSFUL BUDGETING PROCESS (1)

1. Clearly identify programmatic objectives that are aligned with the mission and strategic plan.
2. Determine the financial resources needed and available to achieve program goals.
3. Involve staff and board members in the process to improve accuracy of information and commitment to the plan.
4. Document! Don’t rely on memory. Write down assumptions and formulas. This will be very important in managing the budget throughout the year.
5. Customize your process. The steps each organization takes will be somewhat different. (The budgeting process, www.NonprofitsAssistanceFund.org)

1.7. Essentials of Budgeting

A successful and sound budgeting system is based upon certain prerequisites. These prerequisites represent management attitude, organization structure and managerial approaches necessary for the effective and efficient application of the budgeting system. The following are some of the important essentials or fundamentals of a successful budgeting (Pandey, 1994):

1. Top management support
2. Clear and realistic goals.
3. Assignment of authority and responsibility.
4. Creation of responsibility centers.
5. Adoption of the accounting system (responsibility accounting).
6. Full participation.
7. Effective communication.
8. Budget education.

Top Management Support

A budgeting system will be an utter failure if it is not initiated and supported by top management. Top management must realize that budgeting is not merely an accounting device, but it is an important management tool. Top management must:

(i) understand the nature and characteristics of budgeting.
Top management should not only have a positive attitude towards budgeting but should also devote necessary time and resources to the preparation and implementation of budgets. Budget estimates are generally prepared by line managers, but top management has the responsibility of coordinating budgets of different departments and approving them finally. It will also resolve conflicts of various departments regarding resource allocation. Top management should also initiate a follow-up procedure to see that there is effective implementation of budgets. (Pandey, 1994)

Clear and Realistic Goals

Budgeting is a means to achieve goals and objectives. All planning presupposes that objectives and goals have clearly and unambiguously established. Budgeting will not succeed if the goals to be achieved are not clear; budget implementation will not be systematic. In the absence of goal clarity, employees will lack a proper direction; the effort of management will be wasted. The financial manager or budget director, therefore, must ensure that objectives and goals have been properly laid down. Budget goals should not be set at too high or too low a level. Goals set at a very high level are impossible to attain and, as a result, have a depressing effect on the employees' morale.

What are the realistic objectives and goals for an enterprise depend upon a host of factors, nature of activities and many psychological and other factors. Goals set realistically provide better motivation to employees in the long run. (Pandey, 1994)

Assignment of Authority and Responsibility

A sound organizational structure is essential for the success of budgetary system. Authorities and responsibilities of each manager should be clearly identified and established. The budgetary system should be established in terms of assigned authorities and responsibilities; the performance of each manager should be evaluated in terms of the assigned authorities and responsibilities. If there is no synchronization between the organization structure of the enterprise, the planning and control system would not be effective. In the absence of clear-cut assignment of authorities and responsibilities either managers cannot be held accountable, or they will be held accountable for those activities for which they have no responsibility.

The type of organizational structure for an enterprise will depend upon its circumstances and management attitudes and thinking. An enterprise may have formally defined organizational structure, usually firms have a combination of both formal and informal
organizational structure. Given the organizational structure, the budgetary system should be turned to it. (Pandey, 1994)

Creation of Responsibility Centers

For effective control of all activities, a large firm is divided into meaningful segments, departments or divisions. Each sub-unit has certain activities to perform and its manager is assigned specific authority and responsibility to carry out those activities. The sub-units of an enterprise for the purpose of control are called responsibility centers or decision centers.

A responsibility center is a sub-unit of an organization under the control of a manager who has the responsibility for the activities of the responsibility center.

The important criteria for creating a responsibility center are that the unit of the organization should be separable and identifiable for operating purposes, and that the performance measurement should be possible. For planning and control purposes, responsibility centers are usually classified into three classes:

a) Cost center. Is a responsibility center where manager is responsible only for costs (expenses) incurred in the sub-unit.

b) Profit center. Is a responsibility center where the manager is responsible for both costs and revenues and thus.

c) Investment center. Is a responsibility center where the manager is responsible for cost and revenue as well as for the investment in assets used by the center. (Pandey, 1994)

Adaptation of the Accounting System

The accounting system catering only to the needs of external users is not adequate for the purpose of profit planning and control and internal management. Budgeting is based on the data generated by the accounting system. Control of performance involves the comparison of actual performance (result) with the planned performance. Therefore, the accounting system should be suitably adapted to facilitate the planning and control process; it should be structured around the areas of responsibility. In fact, a sound budgetary system needs the creation of responsibility accounting system. A responsibility accounting system is primarily oriented towards the organizational responsibility and is a mean to achieve effective control.

In responsibility accounting, the emphasis is on planning and control; accounts are classified on responsibility basis, not on product cost basis.

In summary, it may be started that for effective and successful budgeting, the accounting system must be structured around requirements of a budgetary system. (Pandey, 1994)
**Full Participation**

Full participation of managers and their subordinates at all levels should be sought in developing the budgeting system. The participation should be effective and real. Participation tends to increase commitment; commitment tends to heighten motivation; motivation which is job oriented tends to make managers work harder and more productively; and harder and more productive work by managers tend to enhance the company's prosperity; therefore participation is good. (Pandey, 1994)

**Effective Communication**

Communication is the process of transmitting ideas or information from one person to another. The basic purpose of communication is to instill mutual trust between two or more persons by creating similar understanding of ideas or thoughts. It is a device to bring people closer in an enterprise. A sound budgeting system requires effective communication of enterprise objectives and budget goals and means of implementing budgets through the organization so that a unified effort may be directed to accomplish those objectives and goals. Effective communication implies transmission of information as well as understanding. (Pandey, 1994)

**Budget Education**

Participation can be meaningful only when people at all levels of management are convinced of the useful of budgets, understand the nature and characteristics of budgets, and know the role which have to play in profit planning and control. In fact for success of budgeting, every one in the enterprise should have confidence in the budgeting system and should be involved and committed to it. Different methods can be used to give budget education to employees of an enterprise. Seminars, conferences, lectures, discussions, executive development programmes, etc, can be organized. Written material can also be distributed. The line executives, who must be well conversant with the budgeting methods may be given on the job training, explaining them how budget are actually prepared. What ever may be the methodology, the basic point may be emphasized is that there should be a proper system of educating employees about various facets of budgeting to have a better involvement, commitment and participation. (Pandey, 1994)
.Flexibility

The budgeting system should be flexible enough to take advantage of all opportunities that arise from time to time. In fact, budgeting is a device to facilitate a decentralized decision making.

Budgeting allows more freedom to management at lower levels, within the broad framework of budgets they are free to make decisions. Top management would exercise a tight control over lower levels of management and would put restrictions on them to make decisions in the absence of a sophisticated budgeting system. A flexible and comprehensive budgeting permits management to readjust plans when a new situation arises. (pandey,1994)

1.8 Different Types of Budget

1.8.1 According to the fields of budget:

(a) Capital budgeting (or investment appraisal) is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research and development projects are worth pursuing.

Many formal methods are used in capital budgeting, including the techniques such as

- Net present value
- Profitability index
- Internal rate of return
- Modified Internal Rate of Return, and
- Equivalent annuity.

These methods use the incremental cash flows from each potential investment, or project. Techniques based on accounting earnings and accounting rules are sometimes used - though economists consider this to be improper - such as the accounting rate of return, and "return on investment." Simplified and hybrid methods are used as well, such as payback period and discounted payback period. (http://en.wikipedia.org/wiki/Capital_budget)

(b) An operating budget is the annual budget of an activity stated in terms of Budget
Classification Code, functional/sub functional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the operation including reimbursable work or services for others. It also includes estimates of workload in terms of total work units identified by cost accounts. ([http://en.wikipedia.org/wiki/Operating_budget](http://en.wikipedia.org/wiki/Operating_budget))

### 1.8.2 According to Time Scope

(a) **Long-term Budgets**

A long-term budget can be defined as a budget which is prepared for periods longer than a year. These budgets help in business forecasting and forward planning. Capital Expenditure Budget and research and development Budget are examples of long-term budgets. ([Jain and Norang, 1995](#))

(b) **Short-term Budgets.**

This budget is defined as a budget which is prepared for a period less than a year and very useful to lower levels of management for control purposes. Such budgets are prepared for those activities, the trend in which is difficult to foresee over longer periods. Cash budget and material budget of short-term budgets. ([Jain and Norang, 1995](#))

### 1.8.3 According To Flexibility Degree

(a) **static budget**

A type of budget that incorporates anticipated values about inputs and outputs that are conceived before the period in question begins. When compared to the actual results that are received after the fact, the numbers from static budgets are often quite different from the actual results. When the static budget is compared to other facets of the budgeting process (such as the flexible budget and the actual results), two types of variances can be derived:

1. Static Budget Variance: The difference between the actual results and the static budget
2. Sales Volume Variance: The difference between the flexible budget and the static budget

These variances are used to assess whether the differences were favorable (increased profits) or unfavorable (decreased profits). ([http://www.investopedia.com/terms/s/staticbudget.asp](http://www.investopedia.com/terms/s/staticbudget.asp))
(b). Flexible Budget

The **flexible budget** is a performance evaluation tool. It cannot be prepared before the end of the period. A flexible budget adjusts the static budget for the actual level of output. The flexible budget asks the question: "If I had known at the beginning of the period what my output volume (units produced or units sold) would be, what would my budget have looked like?" The motivation for the flexible budget is to compare apples to apples. If the factory actually produced 10,000 units, then management should compare actual factory costs for 10,000 units to what the factory should have spent to make 10,000 units, not to what the factory should have spent to make 9,000 units or 11,000 units or any other production level. (Kaplan, 1998)

(c). Perpetual or continuous budget.

Continuous, perpetual or rolling budgets are used by a significant number of organizations. It is a 12-month budget that rolls forward one month (or quarter) as the current month or quarter is completed. In other words, one month or quarter is added to the end of the budget as each month or quarter comes to a close. This approach keeps managers focused on the future at least one year ahead. Advocates of continuous budgets argue that with this approach there is less danger that managers will become too focused on short-term results as the year progresses. (Garrison and et.al, 2003)

1.8.4 Preparation Methodology

(a). Incremental Budgeting (historical)

**Incremental budget**

- This is a budget prepared using a previous period’s budget or actual performance as a basis with incremental amounts added for the new budget period.

- The allocation of resources is based upon allocations from the previous period.

- This approach is not recommended as it fails to take into account changing circumstances.

- Moreover it encourages “spending up to the budget” to ensure a reasonable allocation in the next period. It leads to a “spend it or lose” mentality.

**Advantages of incremental budgeting**

- The budget is stable and change is gradual.
• Managers can operate their departments on a consistent basis.

• The system is relatively simple to operate and easy to understand.

• Conflicts should be avoided if departments can be seen to be treated similarly.

• Co-ordination between budgets is easier to achieve.

• The impact of change can be seen quickly.

**Disadvantages of incremental budgeting**

• Assumes activities and methods of working will continue in the same way.

• No incentive for developing new ideas.

• No incentives to reduce costs.

• Encourages spending up to the budget so that the budget is maintained next year.

• The budget may become out of date and no longer relate to the level of activity or type of work being carried out.

• The priority for resources may have changed since the budgets were set originally ([www.tutor2u.net/business](http://www.tutor2u.net/business))

(b). **Zero-Based Budgeting** is a technique of planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting, departmental managers justify only increases over the previous year budget and what has been already spent is automatically sanctioned. No reference is made to the previous level of expenditure. **By contrast, in zero-based budgeting**, every department function is reviewed comprehensively and all expenditures must be approved, rather than only increases. ZBB requires the budget request justified in complete detail by each division manager starting from the Zero-base. The Zero-base is indifferent to whether the total budget is increasing or decreasing.

The term "Zero-Based Budgeting" is sometimes used in personal finance to describe the practice of budgeting every dollar of income that you receive, and then adjusting some part of the budget downward for every other part that needs to be adjusted upward. It would be more technically correct to refer to this practice as "Active Balanced Budgeting"
"With zero-based processing one can forget about last year, pretend that the program is brand-new, and see if one can provide a detail of expenses for what one would need to fully accomplish the program. This technique will help one to develop a complete picture of what the program actually needs to cost and not just what it has been costing.

http://en.wikipedia.org/wiki/Zero_Based_Budgeting

**Advantages of Zero-Based Budgeting**

1. Efficient allocation of resources, as it is based on needs and benefits
2. Drives managers to find out cost effective ways to improve operations
3. Detects inflated budgets
4. Useful for service departments where the output is difficult to identify
5. Increases staff motivation by providing greater initiative and responsibility in decision-making
6. Increases communication and coordination within the organization
7. Identifies and eliminates wastage and obsolete operations.
8. Identifies opportunities for outsourcing.
9. Forces cost centers to identify their mission and their relationship to overall goals.

**Disadvantages of Zero-Based Budgeting**

1. Difficult to define decision units and decision packages, as it is very time-consuming and exhaustive.
2. Forced to justify every detail related to expenditure. The R&D department is threatened whereas the production department benefits.
3. Necessary to train managers. ZBB should be clearly understood by managers at various levels otherwise they cannot be successfully implemented. Difficult to administer and communicate the budgeting because more managers are involved in the process.
4. In a large organization, the volume of forms may be so large that no one person could read it all. Compressing the information down to a usable size might remove critically important details.
5. Honesty of the managers must be reliable and uniform. Any manager that is prone to exaggeration might skew the results

(http://en.wikipedia.org/wiki/Zero_Based_Budgeting)
(c) Program Budget

This training manual emphasizes the program budget. The program budget differs from the traditional line-item approach to preparing, reviewing, and presenting the budget. Rather than focusing on what a community buys (personnel, commodities, etc), a program budget focuses on the expected results of services and activities that you carry out. The emphasis is on the attainment of long-term, community-wide goals. In a program budget, you link revenues and expenditures to multiyear programs that meet your municipality’s goals, objectives, and strategies. Importantly, a program budget identifies the anticipated results and outputs of these investments. (Drury, 1985)

(d). Line item budget

The traditional format for budgets in NGOs is referred as line item budgets. A line item budget is one in which the expenditures are expressed in considerable detail, but activities being undertaken are given little attention. The amounts in this type of budget are frequently established on the basis of historical costs which has been adjusted for anticipated changes in costs and activity level. When they are compared with actual expenditures, line item budgets provide a basis for comparing whether or not the authorized budgeted expenditure has been exceeded or whether under spending has occurred. Data for current year and previous year is included to indicate how the proposed budget differs from current spending patterns. However, such line item budgets fail to identify the costs of activities and programs to be implemented. In addition, compliance with line item budgets provides no assurance that resources are used wisely, effectively, or efficiently, in financing the various activities in a nonprofit organization. (Drury, 1985)

(f). Planning, programming budgeting systems (PPBS)

Non profit organisations have found line item budgets to be unsatisfactory mainly because they fail to provide information on planned and actual accomplishments. In addition, such budgets do not provide information on the efficiency with which the organisation's activities have been performed, or the effectiveness in achieving its objectives. A further deficiency with line item budgets is that they fail to provide a sound basis for deciding how the available resources should be allocated. PPBS is intended to overcome these deficiencies. The aim is to enable the management of a non profit organisation to make
more informed decisions about the allocation of resources to meet the overall objectives of the organisation. PPBS forces management to identify the activities, functions or programmes to be provided, thereby establishing a basis for evaluating their worthiness. In addition, PPBS provides information that will enable management to assess the effectiveness of its plans.

Although the philosophy behind PPBS was good, practical difficulties and organizational realities led to its demise. One influence that it did have, however, and that still remains, is to have reinforced the advantages of a programme structure. In other words, even programme impacts might not be measurable and the establishment cost/benefit relationships not possible, the budget might at least show the proposed spending on different activities or programmes. (Drury, 1997)

1.8.5 According to the dealings that are covered by the budget:

1. Physical budget: it's related to the production and it's factors and it depends on the physical units of measurements like the production measurements. Using a unit of the product or measuring the capacity using the work hours.

2. Financial budget: it is considered as the financial translation for the physical budget therefore the units of measurements in the financial budget is the monetary unit.

3. Cash budget: it represent the list of cash revenues and expenses during the financial period which results as a financial trace for the financial budget for the specific period of time.

1.8.6. According to it’s dependence:

1. Formal budget: is the comprehensive budget which is financially expressed or the printed and distributed budget to whom it may concern which is used as a planning, coordinating and controlling tool and is considered as a base for measuring performance.

2. Informal budget: is represented in statistical tables which are only made for guidance without considering it as a formal budget.
1.8.7 METHODS OF BUDGET SETTING

In an organisation with different management levels, budgets may be set and implemented in several different ways. They may be

• ‘top-down’ (imposed) budgets;
• ‘bottom-up’ (participative) budgets;
• ‘parallel’ (negotiated) budgets.

1. Top down (imposed) budgets

The ‘top-down’ budget is a plan handed down by senior management to middle or departmental management. All the decisions are made by the senior management without consulting the lower levels of the organisation. Key aspects of this process are that:

— the allocation of budgets is from senior management to budget managers;
— allocation decisions are taken centrally;
— budgets are cascaded down throughout the organisation.

Advantages can include:

• minimal expense;
• saves time, as few people are involved in budget preparation;
• encourages a broad, organisation-wide perspective as top-level management is less likely to suffer from narrow departmental considerations.

Disadvantages can include:

• Potential loss of ‘local’ knowledge. Senior management may be remote from the environment in which the budgets will be implemented and are likely to have less of a feel for the situation than those who will implement them.
• Potential lack of commitment of lower level budget managers. Lack of involvement in setting quantitative plans for the future may reduce the budget managers’ commitment to corporate goals and policies.(principle of developed budgets in straightforward and succinct manner, www.ifacnet.org)
2. **Bottom-up (participative) budgets**

All levels of management are involved in this budget setting process.

**Key aspects are that:**

- information regarding resource requirements is collected at the lowest management levels;
- information is consolidated and fed up to senior management;
- senior management considers the information received and sets budgets accordingly.

**Advantages can include:**

- Staff involvement. Budgets are drafted by the people affected by them. This can promote a sense of commitment which is lacking in imposed budgets.
- Budgets are more realistic than imposed budgets as the information which supports them is provided by people close to the scene of the action where the budgets are actually being implemented.

**Disadvantages can include:**

- expensive and time-consuming;
- managers taking a narrow view of their activities, ignoring the impact of their actions/demands on other departments or divisions;
- inflated or deflated estimates of resource requirements as managers seek to protect their own interests/projects and performance;
- greater input required at departmental and central level;
- total resource needs will almost certainly be unacceptable.

3. **Negotiated (parallel) budgets**

Negotiated, or parallel budgets are, in essence, an extension of the participative approach. Key aspects are that:

- senior management sets broad goals and constraints; and
- the process of allocation involves active participation, discussion and negotiation with
departmental management.

Advantages can include:

• increased commitment and the feeling of budget ownership due to involvement in the negotiation process;
• appreciation that concerns and requirements have been considered;
• greater understanding of how the actions and demands of individual departments impact the organization as a whole; and
• greater corporate cohesion.

One disadvantage is that:

• the final allocation will always be a compromise. It is likely that no budget holder will receive the resources originally requested. (principle of developed budgets in straightforward and succinct manner, www.ifacnet.org)
Chapter 2

The Use of Budget in Measuring Performance

- The meaning of performance measure.
- Challenges in performance measures.
- Factors required for a successful performance measurement system.
- Why we measure performance.
- Performance measurement guidelines.
- The use of budget in measuring performance.
2.1 Introduction:
Performance measures are a central component of a management control system. Performance measures seek to improve the performance and accountability of an organization, process, program, product or service and is a quantifiable metric of results (i.e., number of dollars saved, number of days saved in a business process, or recorded improvement in customer satisfaction).

As part of their overall management strategy, public managers can use performance measures to evaluate, control, budget, motivate, promote, celebrate, learn, and improve. In this chapter the researcher will provide an overview about performance measures and how we employ the budgets to measure performance.

2.2 Definition
Performance measurement is the use of statistical evidence to determine progress toward specific defined organizational objectives.

2.3 Performance Measurement Guidelines

Process Improvement
Throughout the implementation of a Performance Management system, which may span from months to years, there is a need to constantly focus on the critical goals that can bring visible progress and enhancement. Otherwise, there is a tendency for busy employees to lose sight of the ultimate objective of performance measurement, and treat its implementation as a mere data collection exercise for management. Teams must create measures that support their mission, or they will not fully exploit their ability to perform the process faster and more responsive. In addition, to remain competitive and relevant, the measures need to be continually reviewed and revised as the environment and economy changes.

Employee Involvement
A truly empowered team must play the lead role in designing its own measurement system as it will know best what sort of measurement it needs to align with the organization's strategy. This empowerment should not be limited to management level or the finance
department, but be extended to every single individual in the organization. Everyone contributes and owns the Performance Measurement system. Everyone plays a part.

**Reportable**

There is no value for measurements that cannot be put into a simple and clear report. Measurements must focus on most the critical items and not sacrifice quality for quantity. Too much measurement may mean that teams end up spending too much time collecting data, monitoring their activities, and not enough time managing the project outcome. A well implemented Performance Measurement system should eventually be a tool that allows a consistent language to be used within the organization. It should allow different individuals to trace their measurements to the management and organization goals; or allow different departments to cross-reference their priorities and targets using the same language.

**Optimization**

Will improvement in one area of the organization be achieved at the expense of another? If it does, how much sacrifice or risk should the organization take? The Performance Measurement system should cover a comprehensive range of measures and offer perspectives that provide an understanding of cause-effect relationship to rearrange resources or priorities effectively. This usually requires a balance of financial and non-financial measures.

**Realistic**

The measures agreed by the employer and employee have to be ambitious and challenging, and at the same time, be realistic and attainable. Too little means employees fall into complacency; too much and they start to rebel or leave. This requires a careful balance and is the manager’s call and responsibility if there are disagreements.

[http://en.wikipedia.org/wiki/Performance_measurement]
2.4 Factors required for a successful performance measurement system

If a performance measurement system is to work successfully in an organization, it is necessary to understand the contingent factors that need to be in place regardless of philosophical beliefs.

It must be integrated with the overall strategy of the business

All approaches to performance measurement emphasize the alignment of objectives, measures, strategic decision-making and rewards. This is crucial, as it is not possible to measure performance unless it's clear what an organization is trying to achieve. A sound performance measurement system will cascade down the organization. Following the identification of strategic objectives, an organization should agree the key factors and activities that are critical to achieving the objectives and those areas in which the organization must excel in order to ensure success. Underpinning the critical success factors will be activities or competencies that are essential to outperform the competition. Performance targets can then be developed for the activities. For example, customer care may be identified as a critical success factor. In turn, a fast response to complaints may be essential to achieve competitive advantage — and a performance measure such as response time can be established.

The environment in which any organization operates is constantly changing, as we mentioned at the beginning. The strategic issues facing it will be continuously evolving as a response to the external environment and the performance measurement systems also need to change accordingly. Performance measures must be clearly linked to, and form a part of, the organization's strategy development cycle for this to work in practice.

There must be a system of feedback and review

For performance measures to be useful there must be a continuous cycle of comparison of actual results with the original plan. This then has to be fed back into the decision-making process. If, for example, service quality is identified as a key factor to be measured, there must also be mechanisms in place to identify variances from target, understand the causes
of those variances and know how to correct them. If performance targets do not lead to action, there is no management control.

In addition, performance measures should be reviewed over time. In the light of results obtained, it may be appropriate to modify targets, either up or down, change the activities being measured or even modify the objectives. The information from the performance measures must be a stimulus to action.

**The performance measurement system must be comprehensive**

While the financial performance is clearly of the utmost importance, it represents only one dimension of value and as such is inadequate in evaluating the strategic performance of an organization in its entirety.

Every performance measurement system should reflect the range of factors that contribute to success — including, for example, competitive performance, quality of service and innovation. To do this requires a range of financial and non-financial indicators. This breadth should be reflected throughout the organization and replicated at every level.

**The system must be owned and supported throughout the organization**

If employees do not own the performance measurement system, it will not be used effectively. The implementation needs to be top-down so that those responsible for setting strategy can determine the objectives and develop appropriate top-level measures. However, where indicators are set for teams or individuals, they should ideally be involved with the process rather than have the measures imposed from above. A sense of ownership means that they are more likely to accept the targets and work towards achieving them.

Being involved also has the added advantage of improving the understanding of the strategic aims throughout the organization.

**Measures need to be fair and achievable**

Defined targets will generally encourage higher performance than where there are none. If accepted, the more demanding the target is, the resulting performance is likely to be better. Therefore, some adverse variances should be expected in a system that encourages improvements in performance. However, consistently punishing failures to meet targets is likely to lead to disillusionment and the building of slack into targets. Targets need to be sufficiently realistic to encourage performance but not so high as to become impossible to meet.
Measures also need to be seen as fair across the organization. Where comparisons are made between different business units or departments, the equity of treatment becomes crucial. Where performance measures are used to reward managers’ performance, the evaluation should include only the elements over which they directly control.

The system needs to be simple, clear and understandable

A system that is over-complex will lead to bureaucracy and confusion. Recent developments in technology have meant that IT systems are now able to provide a plethora of statistics but, without care, this can lead to an overload of data with little meaningful information.

The measures need to be understood by, and communicated to, everyone in the organization, which is another reason for keeping the system simple and straightforward to communicate. It is also important that where comparisons are made across the organization, the same measure is interpreted in the same way throughout. The reporting of results must also be clear and understandable. The use of pictures, graphs and trends can add to clarity, and enterprise resource planning software tends to make this task easier. Results and variances also need to be interpreted in order that causes of poor performance can be understood.

(最新的企业绩效衡量方法，www.CIMAglobal.org, 2002)

2.5 Challenges in Performance Measurement

The traditional control-oriented performance measurement system in the industrial era is losing its relevance in today’s fast changing environment where organizations are reshaped into flat multi-functional hierarchies. Performance measurement will get tougher with globalization and increasing complexity of organizations’ business models, teams’ roles and responsibilities.

Diversity of organizations and professionals

A huge variety of organizations exist today. For example, there are government, education, financial services, manufacturing, retail, non-profit, food and beverage. Then, there are sub-industries. In financial services, we can break down into the banks, insurance, exchange and so on. And in each, we can for example break down a bank into deposit, loan, credit card, investment departments. In deposit department, we have savings, current and fixed accounts. This break down goes on until we have an individual that performs a
task that is unique. If the bank example has 10,000 staff, are we going to have 10,000 different performance measurements? It will be a challenge for an organization to keep track of the huge diversity of skilled professionals and ensure alignment to its mission and values.

**Intangible and non-financial measurements**

Traditionally, accountants play a major role in measuring an organization’s success. Unfortunately, annual reports do not allow managers to monitor the progress to build capabilities and acquire the intangible assets needed for future growth. Non-financial measurements will be required to link a company’s long term strategy with its short term actions. Unlike financial measurements which are straightforward and certain, non-financial measurements will require more judgment and justification. Furthermore, unlike financial measurements which are governed by accounting standards and principles, non-financial measures will be more susceptible to misuse and manipulation. There are no direct answers because not everything can be measured objectively and there will be a threshold before measurements become counter-productive.

**Relationship with evaluation**

Performance measurement is conceptually related to other evaluation approaches. There tends to be something of a professional and conceptual divide between performance managers and evaluators, with evaluators criticizing some performance measurement approaches as being too simplistic.\[^1\] In particular there is the problem of attribution which is usually not dealt with well in performance measurement systems. This relates to the discussion in the previous paragraph on intangible and non-financial measurement. Put in its simplest form, the mere measurement of changes in outcomes over a period of time does not establish attribution. Even if an actor (organization, policy or person) takes action over the period of time in which measured outcomes improve this, in itself, does not say anything about whether such measured changes can be attributed to the actions of the actor rather than to any other factor. Evaluation\[^2\] as a discipline puts a major focus on attempting to establish attribution by using various experimental and other methods which make claims about attribution by controlling for other factors.\[^3\] The performance measurement movement, on the other hand, can challenge evaluators over the fact that their designs often involve extensive and costly studies which are not feasible in the vast majority of cases where performance needs to be measured quickly and cheaply for
pragmatic management reasons.

**Change management practices**

As with any other organizational change management program, implementing a performance measurement system will encounter resistance especially in large bureaucratic organizations. First of all, nobody likes to be measured. Self-serving managers who are experts in their field may have the freedom to choose and manipulate measures for their own benefit. Further in large, global organizations, consistency in implementation across departments may be a problem if communication and coordination is not executed well. Lastly, inexperienced managers may not know what they want to find out and collect data and statistics which may not be that useful. This will cause frustrations and unnecessary effort for staff at the working level to prepare additional data and reports which adds no value. (http://en.wikipedia.org/wiki/Performance_measurement)

2.6 Standard

**Types of standard**

There are three main types of standard may be set:

1. **Ideal standard** makes no allowances for inefficiency or wastage of labour or materials; and there for assumes perfect conditions.
2. **Attainable standard** allows for a small amount of normal wastage and inefficiency, but is set at a level that is considered to be challenging target based on current operating conditions.
3. **Basic Standard** is an historical(and therefore effectively out-of-date) standard that allows comparisons to be carried out over long periods of time.

2.7 The meaning of ‘control’

Control is often thought of in the terms suggested by Robin Roslender as being ‘a process of ensuring that which was supposed to happen actually happens’. However, for management control to be effective it must combine two elements:

1. **Regulating the process of formulating purpose.**
   This involves the strategic decision making process.
2. **Regulating the process of purpose achievement.**
This involves implementation of the decided course of action. By (CIMA, 2005)

2.8 The functions of performance measurement

Effectively, control involves both deciding what an organization wants to do and also ensuring that this is achieved. However, control can not take place unless the organization has some means and methods of measuring output and performance. A fundamental question that needs to be understood by all finance professionals is ‘Why do we need to measure performance?’

2.8.1 why we measure performance:

The reasons why organizations measure performance can be explained by specifying the ‘Four CP’s of Measurement’:

1. Check position.

Performance measures allow management to understand how well the business is performing at present. This can include factors such as:

- attainment of present service goals (e.g. on-time deliveries, quality)
- costs versus revenues; relative position (e.g. benchmarking).

This is vital if management are to detect problems and undertake corrective action.

2. Communicate position.

This ensures that stakeholders are aware of how the business is performing. It can include:

- financial reporting
- returns to regulators
- reports to customers (e.g. many utilities and transport firms will emphasis how well they are meeting customer needs).

This builds up stakeholder support and establishes the legitimacy of the organization’s activities.

3. Confirm priorities.

Setting targets for particular aspects of the business signals that these things are important. Managers will therefore focus on them because their ability to reach the targets will be part of senior management’s assessment of their personal competence (and could be directly related into their remuneration as noted below). Furthermore the measures can focus
resources to where they are needed.

4. Compel progress

Measures can do this in several ways:

• Measurement communicates priorities. Managers will always seek to ‘do what is inspected’ first before considering ‘doing what is expected’. By setting a measure for something, management know it will be achieved.

• Measurement may be linked to reward. This may be formal as part of a bonus scheme, or less formal in terms of better career progression for successful managers.

• Measures make progress explicit. If the goals of the business are not being reached, it is often the missing of certain key measures that forces management to act.

The next section will now review the traditional performance measurement techniques, starting with profit based measures of performance. (financial performance measure, CIMAglobal.org, 2005)

2.9 Good Performance Measures:

- Provide a way to see if our strategy is working
- Focus employees' attention on what matters most to success
- Allow measurement of accomplishments, not just of the work that is performed
- Provide a common language for communication
- Are explicitly defined in terms of owner, unit of measure, collection frequency, data quality, expected value (targets), and thresholds
- Are valid, to ensure measurement of the right things
- Are verifiable, to ensure data collection accuracy
- (http://www.balancedscorecard.org/BSCResources/PerformanceMeasurement)

2.10 Financial vs. Non-Financial performance measures

2.10.1 Financial Performance Measures

2.10.1.1 Conventional profit related measures of business Performance
For most organizations, the traditional method of performance measurement has been on profit. The underlying objective of an organization is maximizing profits as this yields the greatest benefit to their owners. Consequently, profit-based measures are used at two levels:
1. In summary form they are monitored by investors using the final published accounts of the business.
2. They are used to evaluate and control the performance of business divisions and product lines.

2.10.1.2 Profit-based performance measures

For most finance professionals, the concept of profit is a key principle of business activity. Therefore measures of profit are similarly key measures of performance. The following section will briefly review the main profitability measures and also the problems of profit as a performance measure within the modern business environment.

Profit measures are used to monitor the contribution to total profits made by particular products or divisions.

**The principal measures used are:**

a. **Sales margin, calculated as:**

Sales revenue - Variable cost

Sales margin is used to consider the return on a given product and can show the effect of changing the selling price or substituting a different-priced direct input. It can also be used to take decisions on whether to continue making or selling a product.

b. **Controllable profit, calculated as:**

Sales revenue - (Divisional variable costs +
Divisionally separable controllable fixed costs)

This is always a divisional performance measure (i.e. is monitored by the corporate centre as a way to control business divisions). It uses the principle of controllability that managers will only be evaluated against performance targets that they can influence. For example, allocated head office costs will be excluded because a divisional manager cannot control head office spending.

c. **Contribution margin, calculated as:**
Sales revenue - (Divisional variable costs + Divisionally separable controllable and non controllable fixed costs)
This measure indicates how much a division contributes to overhead recovery. It is not helpful for the operational decisions of divisional managers or for evaluation of divisions, because it breaches the principle of controllability. The non-controllable costs are sunk and result from the decisions of top management.

d. Net profit.
Arguably, the least useful because it is directly influenced by head office decisions on overhead allocation, central charges and transfer prices.

2.10.1.3 The Importance of considering the capital base

Problems of profit-based measures
1. They ignore the amount of capital assets used by the division. No account is taken of the invested capital being used to generate the profit.
2. They cause excessive capital investment. Because assets are not accounted for, managers may reduce staff (an expense) and substitute capital in its place to increase measured performance.
3. It is a single period measure. Profit is a single year’s revenues minus a single year’s costs. Businesses often need to make losses in the short run to build up market share or develop new products in order to make larger profits in subsequent years. Therefore long-run profit maximization may not be assured by rigid adherence to short-term profit measures.

The importance of considering the capital base
Although profit is a widely used measure of performance, as discussed above there are a number of short comings. One of which is its lack of focus upon the capital required to create that profit.
As a result, these basic profitability measures have been extended to take into account the capital base of the business. The net assets of the business belong to the shareholder. They represent capital tied up in the business. These assets have the following opportunity costs:
1. The earnings they could yield if the division was better managed. This demonstrates that performance measures are frequently used to evaluate the performance of divisional managers relative to each other. For example, the manager of a division producing a low return on investment (ROI) may be replaced because a similar division elsewhere has demonstrated a higher ROI.

2. The returns that could be enjoyed if the assets were used to make a different product. This can be used to justify changing the product range.

3. The proceeds from liquidation of the assets. Assume that assets are valued at realizable value. Net assets represent the amount of cash which may be yielded if the assets were sold. Assume that the profits are 3 per cent of the net assets. A shareholder might take the view that they should be sold and that the money would be better invested in a risk-free account, such as government securities.

**Return on investment and residual income**

The main techniques which include capital as a performance measurement fact are return on investment (ROI) and residual income (RI).

**ROI is calculated as:**

\[
\frac{\text{Divisional profits before interest and tax}}{\text{Capital employed}}
\]

This measure may also be termed return on capital employed (ROCE) and return on net assets (RONA). (financial performance measure,CIMAglobal.org,2005)

**2.10.1.4Comparison of ROI with RI:**

**RI is calculated as**

\[
\text{Earnings before interest and tax} - (\text{Invested capital} \times \text{Imputed rate})
\]

The imputed rate can be adjusted for the degree of risk the business unit is subject to. That is, a division in an industry with a history of sharp profit volatility would have a higher imputed rate.

**Comparison of ROI with RI**

Both methods bring the capital base of the division into consideration and hence are
superior to simple measures of divisional profit.

**The main benefits of ROI compared to RI are:**

1. It enables comparison of divisions of different sizes. ROI provides a rate, whereas RI is expressed as an amount. Consequently a large division will have a higher RI than a small one.
2. ROI is far more widely used and understood than RI.
3. It approximates to other measures monitored by investors. Return on capital employed and earnings per share (EPS) are closely monitored. Each follows the same rationale as ROI by having a measure of profit divided by a figure representing investment. Provided that no debt borrowing to finance assets takes place between the years, a rise in ROI will lead to an increase in EPS.

**The drawbacks of ROI compared to RI are:**

1. ROI may lead managers to ignore profitable investment opportunities. Assume a manager’s division presently enjoys a return of $35m on assets of $250m, an ROI of 14 per cent. A project requiring investment of $100m but yielding a profit of $10m is being considered. Capital can be borrowed at 7 per cent. The manager will reject the project because its ROI of 10 per cent is less than the division’s present 14 per cent and if accepted, will reduce it to 12.9 per cent. However, the project yields an increase in shareholder wealth of $3m per year: (10% - 7%) x $100m.

Residual income encourages the manager to undertake any project which increases earnings after the imputed cost of capital. In the example above, provided that the imputed charge to the division was less than 10 per cent the manager would undertake the project.

2. Managers may take on a project where returns do not cover the costs of capital, provided that they have a higher ROI than presently enjoyed. Suppose in the example above the original earnings of the division had been $15m and the cost of capital had been 12 per cent. Undertaking the investment would increase ROI from 6 per cent to 7.1 per cent and hence be acceptable to the manager despite it reducing shareholder wealth by $2m per year: (12% - 10%) x $100m.

4. RI is more flexible as it allows the use of adjusted imputed rates to reflect the risks of the division.
2.10.2 Non financial performance measures

The emergence of total quality management (TQM) has meant that organizations have become increasingly aware of the importance of measures of non-financial performance, and of quality in particular. Quality refers not only to product/service being delivered to customers, but also to the quality of inputs used. It should also be evident from the proceeding discussion that financial measures, on their own, cannot adequately reflect performance (Upchurch, 1997).

Nonfinancial performance measures includes, the balanced scorecard which explicitly balances financial and non-financial performance measures, quality, cycle time and productivity.

1. The balanced scorecard

Is a performance measurement and reporting system that strikes a balance between financial and operating measures, links performance to rewards, and gives explicit recognition to the diversity of the organizational goals. One advantage of the balanced scorecard approach is that line managers can see the relationship between non-financial measures, which often directly measure the results of their own actions, and the financial measures that relate to organizational goal (Horngren, 2005).

The balanced Scorecard Framework

The Balanced Scorecard concept involves creating a set of measurements for four strategic perspectives. These perspectives include: 1) financial, 2) customer, 3) internal business process and 4) learning and growth. The idea is to develop between four and seven measurements for each perspective. Two graphic illustrations appear below to help convey the idea.
Balanced Scorecard Framework*


---

Balanced Scorecard*

*Adapted from Tulsindra & Tulsindra Figure 2, p. 51.
The measurements should be focused on a single strategy and be linked, consistent and mutually reinforcing. Some generic measurements are presented in the table below.

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Generic Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>Return of Capital Employed, Economic value added, Sales growth, Cash flow</td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td>Customer satisfaction, retention, acquisition, profitability, market share</td>
</tr>
<tr>
<td><strong>Internal business process</strong></td>
<td>Includes measurements along the internal value chain for:</td>
</tr>
<tr>
<td></td>
<td>Innovation - measures of how well the company identifies the customers’ future needs.</td>
</tr>
<tr>
<td></td>
<td>Operations - measures of quality, cycle time, and costs.</td>
</tr>
<tr>
<td></td>
<td>Post sales service - measures for warranty, repair and treatment of defects and returns.</td>
</tr>
<tr>
<td><strong>Learning and growth</strong></td>
<td>Includes measurements for:</td>
</tr>
<tr>
<td></td>
<td>People - employee retention, training, skills, morale.</td>
</tr>
<tr>
<td></td>
<td>Systems - measure of availability of critical real time information needed for front line employees.</td>
</tr>
</tbody>
</table>

(by James R. Martine, http://maaw.info/BalScoreSum.htm)

**2. Control of quality**

Whether they use the balanced scorecard or not, most companies use performance measures that measure the quality of their product or services. **Quality control** is the effort to ensure that product or services perform to customer requirement.

The quality cost report measures four categories of quality cost:

1. **prevention**, cost incurred to prevent the production of defective product or delivery of substandard services.
2. Appraisal, costs incurred to identify defective products or services including inspection and testing.

3. Internal failure, costs of defective components and final products or services that are scrapped or reworked.

4. External failure, costs caused by defective products or services to customers, such as field repairs, returns and warranty expenses.

In recent years, more and more U.S. companies have adopted an approach first espoused by an American W.Edwards Deming, and embraced by Japanese companies decades ago: **TQM**, an approach to quality that focuses on prevention of defects and on customer satisfaction. To implement TQM, an organization trains employees to prepare, interpret, and act on **quality-control charts** (the statistical plot of measures of various product dimensions or attributes. This plot helps detect process deviations before generating defects.

The most recent trend in quality control is **six sigma**, an analytical tool aimed at achieving near perfect results on a production line. Literally six sigma requires fewer than 3.4 defects per million. However, the six sigma approach has broadened into a general process to define and measure a process, analyze the process, and improve process to minimize errors.

### 3. Control of Cycle Time

Reducing cycle time is a key to improving quality. **Cycle time, or throughput time**, is the time taken to complete a product or service, or any of the components of a product or service.

The longer a product or service is in process, the more cost it consumes. Low cycle time means a quick completion of a product or service (without defects). Lowering cycle time requires smooth-running process and high quality. It also creates flexibility and quicker reactions to customer needs.
4. Control of Productivity

Another important performance measure for many companies is productivity. Productivity is a measure of output divided by input. This simple definition, however, raises difficult measurement questions. How should the company measure output and input? Specific management control issues usually determine the most appropriate measures. Labor-incentive (especially service) organizations focus on increasing the productivity of labor, so labor-based measures are appropriate.

Highly automated companies focus on machine use and productivity of capital investments, so capacity based measures, such as the percentage of time machines are available, may be most important to them. Manufacturing companies in general monitor the efficient use of materials, and so for them measures of material yield (a ratio material outputs) may be useful indicator of productivity (Horngren, 2005).

Choice of productivity: which productivity measures should a company choose to manage? The choice depends on the behavior desired. Managers generally concentrate on achieving the performance levels desired by their supervisors. Thus, if top management evaluates subordinates performance based on direct labor productivity, lower level managers will focus on improving that specific measure.

5. Benchmarking

Benchmarking is a way of identifying potential improvements in effectiveness and efficiency, in current operations and also in considering future strategy, by looking at how the organization's performance compares with others. First, the organization needs to look objectively at its current internal operations and then look at best practice in those areas in other organizations or other industry sectors. This can also be carried out between departments within the same organization. Since the organization's situation is often very specific it tends to be used more for generic or common processes and functions such as
human resources and finance. Benchmarking networks and clubs of similar organizations have developed to facilitate comparison. (www.cimaglobal.com / main / resources / services / benchmarking/)

2.11 The use of budget in measuring performance:

A second major purpose of budgeting is its usefulness for control purposes. The control process follows the planning process that is once plans have been agreed decisions are implemented and reports are prepared to determine whether events are going according to plan we might say that the control process involves three sequential but interrelated stages: 1. The recording of actual performance, 2. the comparison of actual performance with expected performance, 3. and as a linking stage the provision of regular feedback to allow continual monitoring of events.

Differences between budgeted and actual performance are termed variances. the generation of variances provides the feedback which entitles use to term the whole process a control system.

The budget for the current period is compared with the actual performance of the current period and the variances are calculated accordingly. These variances will be useful both as a spur to immediate, remedial action if actual performance is less good than expected and also as input into the budgetary process for future periods we now examine each of the three aspects of the control process in more detail. (Arnold and truly, 1996)

1. recording actual performance

We have seen that the decision giving rise to the formulation of plans and budgets are carried out for different areas of activity within the organization. if such budgets are to be used assess and evaluate individual performance, managers needs some criteria to determine exactly what constitute a particular area of activity.

To achieve this end, budgets should reflect areas of responsibility within the firm so that individuals are charged only with those costs and revenues for which they can be held responsible: that is for those costs and revenues which the control. those we might define a responsibility area or center as an area of activity within an organization which has control over particular resources for a specified period.

Responsibility centers are usually cost centers, profit centers or investment centers. The nature of the organizational structure will determine the types of responsibility center. A
cost center is the smallest area of responsibility for which costs are accumulated, manager in charge of a cost center is held accountable only for the controllable costs of his or her center. In a profit center a manager is responsible for the profit, or contribution margin earned by his or her section of the business, The manager of an investment center is responsible for the return on assets under his or her control. (Arnold and truly, 1996)

2. comparison of actual and expected performance:
When a single, fixed budget (e.g. the organization's master budget) is prepared for planning purposes, the level of activity used to determine the costs and revenues relevant to the budget will reflect the level which is most likely to be attained. But fixed budgets may not serve equally well for control purposes. For control purposes it is necessary to compare like with like: that is to compare actual and budgeted costs at the level of activity achieved during the period. This ensures that valid comparisons and inferences can be made when the budgeted activity level is not attained. If the organization's output tends to vary across a range of levels, then a number of different, flexible budgets should be prepared. They show the effects on costs (and contribution) of producing at various activity levels, and thus put the management in a better position to evaluate performance and take appropriate action. (Arnold and truly, 1996)

3. Provision of feedback information
Timely and regular feedback is vital to a successful control system, as an aid to both managers and employees. For example, managers need speedy information on significant deviations from budget in order to take effective action to correct such deviations and to amend future plans, in so far as deviations signify a change in longer-term circumstances; employees need equally speedy information to know whether or not they have achieved their targets, and whether their performance is satisfactory. Delay in giving information on employee performance may lead to a loss of motivation, to detriment of future performance. (Arnold and truly, 1996)
2.12 Control in nonprofit organizations (NPOs)

Control in NPOs is particularly difficult, because it is not always possible to state the objective in quantitative terms or to measure the output of services. If it is no possible to produce a statement of a particular objective in measurable terms, the objective should be stated with sufficient clarity that there is some way of judging whether or not it has been achieved.

A comparison of the planned objectives with the actual objectives that are accomplished may take the form of a subjective by a person or a group of person or group of persons, or it may be derived from information that is not directly based on human judgment.

In NPOs performance measure should attempt to measure both the quantity and the quality of outputs. It is usually much easier to measure quantity than quality. for example, in an educational establishment the quantity measure of the number of students who graduated in the previous year is easier to measure than the quality measure of how well the students
were educated. Nevertheless, the quality measure should not be overlooked. In some cases the quantity indicator may provide an approximate measure of quality. For example, the number of students who have graduated in the previous year, analyzed according to degree classification, may provide an approximation of the quality of education.

Frequently in NPOs input measures are used as a proxy measure for output. If no satisfactory output measures can be formulated, input measures are a better measure of output than no measure at all. For example, it may not be feasible to construct output measures reflecting the quality of health care in a community. In the absence of such measure reflecting the quality of the health care may provide clue to output. *(Drury, 1994)*

Service efforts and accomplishment measures fall into four categories: input measures, output measures, outcome measures, and efficiency measures. They quantify the effort expended on a program (inputs), the level of services provided (outputs), the effect a service has on the program’s stated objectives (outcomes) and a comparison of the level of inputs with outputs or outcomes (efficiency). NPOs are very accustomed to reporting input measures. For example, they report the financial resources dedicated to specific programs in their financial statements. Many also report no financial information about the effort they expend, such as the hours spent meeting a program goal. Output measures are often stated in no financial terms. For example, a university may report the number of students that graduated or a homeless shelter may report the number of people housed. Outcome measures gauge how well a program accomplished its goal. For example, a program designed to teach reading to adults may use the literacy rate for the area served as an outcome measure. One limitation of outcome measures is many factors other than a specific program can effect them. However, when they are used over a period of time, CPAs will find they can be a key way to measure a program’s effectiveness. Often, the final step an NPO can take in using service efforts and accomplishments techniques is to employ them to measure efficiency. These measures compute either inputs/outputs or inputs/outcomes indicators and provide information on how efficient an organization is at achieving its program goals. For example, a program that teaches reading to adults could compute a cost (input) for each adult who reaches a certain reading level (output). Most NPOs are still in the early stages of developing output and outcome measures. However, the CCF focused its AIMES on measurable, standardized outputs and outcomes that would allow it to make comparisons among communities as well as among the different countries it serves. *(performance measures for NGOs, Henderson and et.al.)*
Chapter Three

The Role Which Budget Play for Measuring Performance in UNRWA (Education Field in Gaza Strip).

3.1 General Background about UNRWA.

3.2 UNRWA Budget.

3.3 Background about the Education Programme in UNRWA.
3.1 General Background about UNRWA

3.1.1 ESTABLISHMENT OF UNRWA

Following the 1948 Arab-Israeli conflict, UNRWA, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, was established by United Nations General Assembly resolution 302 (IV) of 8 December 1949 to carry out direct relief and works programmes for Palestine refugees. The Agency began operations on 1 May 1950. In the absence of a solution to the Palestine refugee problem, the General Assembly has repeatedly renewed UNRWA’s mandate, most recently extending it until 30 June 2011.

Since its establishment, the Agency has delivered its services in times of relative calm in the Middle East, and in times of hostilities. It has fed, housed and clothed tens of thousands of fleeing refugees and at the same time educated and given health care to hundreds of thousands of young refugees.

UNRWA is unique in terms of its long-standing commitment to one group of refugees and its contributions to the welfare and human development of four generations of Palestine refugees. Originally envisaged as a temporary organization, the Agency has gradually adjusted its programmes to meet the changing needs of the refugees. Today, UNRWA is the main provider of basic services - education, health, relief and social services - to over 4.5 million registered Palestine refugees in the Middle East.

3.1.2 UNRWA SERVICES TO PALESTINE REFUGEES

UNRWA provides education, health, relief and social services to eligible refugees among the 4.4 million registered Palestine refugees in its five fields of operations: Jordan, Lebanon, the Syrian Arab Republic, the West Bank and Gaza Strip. Some 1.3 million refugees, around one third of the total, live in 58 recognized camps, and UNRWA's services are located in or near these camps where there are large concentrations of refugees.

Unlike other United Nations organizations which work through local authorities or executing agencies, UNRWA provides its services directly to Palestine refugees. It plans and carries out its own activities and projects, and builds and administers facilities such
as schools and clinics. The Agency currently operates or sponsors over 900 installations with some 28,000 staff throughout its area of operations. Because UNRWA services such as education and health care are the type of services normally provided within the public sector, the Agency cooperates closely with governmental authorities in the area of operations, who also provide some services to Palestine refugees.

3.1.3 UNRWA Programmes

.Education

Education is the Agency's largest programme, measured both in terms of its relative share of Agency's budget and the number of staff. The programme includes general education, teacher education, and technical vocational education and training for Palestine refugee children and youth, in accordance with their needs, identify the cultural heritage. (UNRWA blue book).

.Health

The Agency's second largest programme is health. UNRWA ensures access to health care for about 1.3 million Palestinian refugees through its 125 primary health care centers in West Bank, Gaza, Jordan, Lebanon, and Syria, as well as its 63-bed hospital in Qalqilia in the West Bank.

.Releif and Social Services

UNRWA supports Palestine refugee families unable to meet their own basic needs and helps promote the self-reliance of the refugee community through community social development. These services are provided to eligible refugees, whether they live in camps, towns, villages or remote areas, and include food support, shelter rehabilitation, and selective cash assistance, which are delivered to special hardship cases, that is, refugees families that are unable to meet their basic needs. (UNRWA blue book).

.Microfinance and Microenterprise Programme (MMP)

The Agency's (MMP) serves Palestine refugees and other marginal groups to help them mitigate poverty, improve their lives and build business activity. It supports the
development of microenterprise and small-scale business sector by providing working capital and capital investment loan products. (UNRWA blue book).

The emergency Aids

The emergency appeals launched since September 2000 sought to alleviate the humanitarian distress created as a result of the ongoing crises in the Gaza Strip and the West Bank. The successive emergency appeals aim at providing employment opportunities, providing cash and in-kind assistance for the poorest families, reconstruction and repair of damaged infrastructure and refugee shelters damaged as a result of military actions in the two areas. (UNRWA blue book).

3.1.4. HOW IS UNRWA FUNDED?

UNRWA operations are financed almost entirely by voluntary contributions from governments and the European Union, which account for 94 per cent of all income. Most contributions are received in cash, although 1.5 per cent of income is received in kind, mainly as donations for food commodities for distribution to needy Palestine refugees. Five per cent of income is from United Nations bodies to cover staffing costs, including the funding of 119 international staff posts by the United Nations Secretariat. Unlike the United Nations as a whole, UNRWA has no system of assessed contributions.

The Agency’s largest donors in 2007 were the United States, the European Commission, Sweden, Norway and the United Kingdom. As of 31 May 2008, the Agency's largest contributors for 2008 are the United States, the European Commission, Sweden, the United Kingdom, Norway and the Netherlands.
3.2 UNRWA Budget

3.2.1 The development of UNRWA Budget in the last Ten Years:

The UNRWA used the Budget Ceiling Method, that a financial ceiling was determined to cover the UNRWA major activities. This ceiling was based on the UNRWA’s expectations of the funds available during the financial period. The UNRWA's policies was to but a ceiling for each UNRWA operation area according to its size and to give them the flexibility to disrupt the funds available for each program but not to exceed the Budget available for the area.

Although this method is flexible but it but constraints on the funds available to UNRWA fields and programs.

Then the Budgeting system in UNRWA developed to be based on two main factors. The first one is the basic needs for each program of UNRWA programs according to the Assumption. Budget and planning

The second factor was the One time use item which was based on Zero- Base budget method, such as the capital expenditure item.

Since 2002 UNRWA changed its budgeting system to Program- based budget, which divided UNRWA operations to two main operations:

The First:

Education, Health, and Social Services Programs. The activities in each program were considered as a cost center. For example the elementary education is a cost center in the education program.

The Second:

All other sections and departments that assist the major UNRWA programs in achieving its objectives. Such as, Administration, Procurements, and etc. A separate budget is prepared for each department and section.

3.2.2 UNRWA budget procedures:

The budget passes through three essential phases:

- Planning phase.
- Preparation phase.
- Implementation and monitoring phase.
First: Planning phase
In this stage the goals that the UNRWA is aiming to achieve during the specific period are set.

Second: Preparation phase
This stage is divided into two main parts
- The stage of preparation on the region level.
- The stage of preparation on the UNRWA level in Gaza.

Third: Implementation and monitoring phase.

3.2.3 Responsibility for budget preparation
In UNRWA the responsibility of preparing the budget lies on several committee and there are two committees for budget
- Management committee
- Coordination committee
Their main duties are summarized in planning for the budget, putting the goals, drawing the policies, preparing the plans and the budget assumptions.
Both of these committees are doing the required tasks in the stage before preparing the budget (planning stage)

3.2.4 Authorization of UNRWA budget
The commissioner general adopts the budget after it is prepared by the UNRWA presidency in Gaza and then it is presented in its final shape one the Representatives of donor countries for observation and opinion, then it is sent to the United Nations General Assembly in New York for adoption and final approval.

3.3 Education programme in UNRWA
3.3.1 Introduction
After analyzing the UNRWA Budget for 2009/2010 the researcher noticed that the Education budget constitutes the biggest part of the UNRWA Budget
The Education budget in 2010 was 62% of the total UNRWA budget And in 2011 it was 70% of the total UNRWA budget. This indicates the importance of the Education program to the Palestinian refuges.
Schedule No.2,

<table>
<thead>
<tr>
<th>Education programme</th>
<th>Gaza strip</th>
<th>2009</th>
<th>2010</th>
<th>2009-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>General education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary education</td>
<td>47,606</td>
<td>49,718</td>
<td>97,324</td>
<td></td>
</tr>
<tr>
<td>Preparatory education</td>
<td>36,617</td>
<td>38,665</td>
<td>75,282</td>
<td></td>
</tr>
<tr>
<td>Secondary education(Libanon)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Sub – total general education</td>
<td>84,223</td>
<td>88,383</td>
<td>172,606</td>
<td></td>
</tr>
<tr>
<td>Technical &amp; vocational education &amp; training</td>
<td>5,152</td>
<td>5,026</td>
<td>10,178</td>
<td></td>
</tr>
<tr>
<td>Teacher education –pre- service</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Planning &amp; management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In – service teacher education</td>
<td>602</td>
<td>595</td>
<td>1,197</td>
<td></td>
</tr>
<tr>
<td>Placement &amp; career guidance</td>
<td>15</td>
<td>16</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Programme management</td>
<td>1,851</td>
<td>1,908</td>
<td>3,759</td>
<td></td>
</tr>
<tr>
<td>Sub – total education planning &amp; management</td>
<td>2,468</td>
<td>2,519</td>
<td>4,987</td>
<td></td>
</tr>
</tbody>
</table>

Source, UNRWA Blue Book

3.3.2. Education Goal

The goal of the education programme is to provide Palestine Refugee children and youth with earning opportunities to acquire knowledge, like skills, experiences and values in partnership with host authorities, local communities and other UN agencies within the context of a multicultural society, with special regard to gender equity, human rights, tolerance, conflict resolution and convention on the child (CRC).

3.3.3. Education Objectives

. To provide and improve access to quality education and earning opportunities, in line with host authorities education systems, for Palestine refugees children and youth at basic level.
. To provide, improve and optimize vocational and technical education for young Palestine refugees to enhance their opportunities for employment and economic independence.
. To provide, improve and optimize pre-service teacher to increase the pool of qualified teachers for prospective recruitment as UNRWA teaching staff.
. To ensure equity and equality of access to quality learning for children with special educational needs.
To foster and promote teaching staff and students the awareness and understanding of human rights, conflict resolution and tolerance.

To contribute to the process of establishing system-wide programmes addressing gender mainstreaming, child disabilities, psychological health and life-skills based education within systems-wide strategies.

3.3.4. Some of the Programme outputs

- The proportion of Palestine female student refugees in the basic education cycle will have increased to 51%.
- The student: teacher ratio in the elementary cycle will have been reduced to 32:1.
- The student teacher ratio in the preparatory cycle will have been reduced to 25:1.
- The repetition rate will have been reduced to an average of 3.77% in the elementary cycle and 5.9% in the preparatory cycle.
- 100% of UNRWA schools will have implemented the Quality Assurance System.
- 79% employment rate of vocational training centers (VTCs) graduates will have been achieved.
- 665 enterprises will have been working with the placement and career guidance services.
- 50000 children with learning difficulties will have been provided with remedial education.
- The drop-out rate will have been reduced to an average of .38% in the elementary cycle and 2.48% in the preparatory cycle.
- 100% of the new curricula/textbooks prescribed by the host authorities will have been implemented.
- 65% of UNRWA students will have received career guidance and counseling.

3.3.5. Some of The Constrains and challenges

- High classroom occupancy rates and average area per student in UNRWA schools across the region in below minimum standards set by UNISCO (1.4m2 for elementary and 1.5m2 for preparatory).
- The annual increase in the student population, insufficient funds for school construction and at times non-availability of land on which to construct school premises, have forced at the adoption of practices that have prevented the Agency from maintaining a positive educational environment.
- The education programme continues to suffer from a lack of much needed support staff.
such as schools counsellors librarians and school attendance. This situation has adverse effects on the quality of the education services provided, as the workload on teaching staff has considerably increased.

Due excessive use of the school furniture and equipment, especially in the double-shift schools, and the lack of funds to maintain them, some furniture is rendered unusable and unsafe. This issue is partially addressed in the budget but remains a challenge.

Continuous disruption to education due to access problems in the West Bank and the Gaza Strip has resulted in the fragmentation of the learning process for pupils and subsequent under achievement. There is also an increase in the emotional and psychological difficulties encouraged by pupils in West Bank and Gaza Strip.

An increase in the proportion of children with leaning difficulties in UNRWA's schools specially in the west bank and the Gaza field has meant that the integration of some categories of student with Special Education Needs could not be done due to the absence of appropriate support staff and financial resources.
The performance is measured by using key performance indicator (KPIs):

<table>
<thead>
<tr>
<th>Measurement</th>
<th>Indicators of Achievement</th>
<th>Expected Accomplishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Improved access to and participation in a good quality basic education</td>
<td>(i) Dropout rate in the elementary cycle</td>
<td>Unit of measure : per cent baseline:</td>
</tr>
<tr>
<td>within an environment which is conducive to learning.</td>
<td></td>
<td>Gaza : 0.20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: Gaza : 0.18%</td>
</tr>
<tr>
<td>(ii) Dropout rate in the preparatory cycle.</td>
<td></td>
<td>Unit of measure : per cent Baseline:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gaza : 1.74%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: Gaza : 1.60%</td>
</tr>
<tr>
<td>(iii) Repetition rate in the elementary cycle.</td>
<td></td>
<td>Unit of measure : per cent Baseline:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gaza: 5.13%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: Gaza: 4.50%</td>
</tr>
<tr>
<td>(iv) Repeition rate in the preparatory cycle</td>
<td></td>
<td>Unit of measure : per cent Baseline</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gaza: 5.96%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: Gaza: 5.50%</td>
</tr>
<tr>
<td>(vi) Number of students per classroom.</td>
<td></td>
<td>Unit of measure : number</td>
</tr>
<tr>
<td></td>
<td></td>
<td>41</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: 40</td>
</tr>
<tr>
<td>(vii) Student : teacher ratio in the elementary cycle.</td>
<td></td>
<td>Unit of measure : Ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>33.5 :1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: 32:1</td>
</tr>
<tr>
<td>(viii) student : teacher ratio in the preparatory cycle</td>
<td></td>
<td>Unit of measure : Ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25.8 :1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: 25:1</td>
</tr>
<tr>
<td>(ix) Average area per student in basic education cycle</td>
<td></td>
<td>Unit of measure : m2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Baseline 1.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Target: 1.2</td>
</tr>
</tbody>
</table>
Conclusion and Recommendations

Conclusion :

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Actual Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dropout rate in the elementary cycle</td>
<td>.23%</td>
</tr>
<tr>
<td>Dropout rate in the preparatory cycle.</td>
<td>1.38%</td>
</tr>
<tr>
<td>Number of students per classroom.</td>
<td>Average for elementary cycle :40 Average for preparatory cycle :36</td>
</tr>
<tr>
<td>Student : teacher ratio in the elementary cycle.</td>
<td>34:1</td>
</tr>
<tr>
<td>student : teacher ratio in the preparatory cycle</td>
<td>24:1</td>
</tr>
<tr>
<td>Average area per student in basic education cycle</td>
<td>1.3m2</td>
</tr>
</tbody>
</table>

From the previous results we conclude that:

1. The drop out rate for elementary was higher than expected unlike the prep dropout rate results this may be due to inefficient teachers ,the number of students in classes is higher than the assumed number

2. Number of student per classroom was approximately the same as budgeted 40 But the average area per student was higher than expected 1.3m2 so there is a need for more schools to be built or rented.
3. Teacher ratio was higher than expected for elementary cycle which means that we need more teachers to be appointed.

Recommendations:

After looking at the results of the final exams of the students at the UNRWA schools, it is clear that there is a decline in the level of the students' grades. In the light of these results the researches recommends the increase of the budget of the education program to include these elements:

1. Motivate the teachers through personal financial incentives.
2. Decrease the number of lessons for both Arabic and Mathematics classes since it is related to other subjects.
3. Increase the number of teacher in the school.
4. Employ assistant teachers for both Arabic and Mathematic classes to support the poor students.
5. Support the students financially.
6. Take care of the students through offering healthy meals in school.
7. Decrease the number of students in the classes and build new schools.
8. Support the poor students through giving them financial and nonfinancial incentives if they improve their level of education.
9. Implement training programs to improve the performance of the teachers.
10. Using new teaching methods that attracts the students and encourages them to learn more.
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