For these reasons, the manager's hunger is *insatiable*; no amount of resources is too much. If the hunger is appeased this year by granting all the budget requests, the requests next year will be even larger.16

**The Commitment.** The end product of the negotiation process is an agreed-upon budget which represents a commitment by each party, the budgetee and the supervisor. By the act of agreeing to the budget estimates, the budgetee says, in effect: "I can and will operate my responsibility center in accordance with the plan described in this budget." By approving the budget estimates, the superior in effect says, "If you operate your responsibility center in accordance with this plan, you will be doing what we consider to be a good job." Both of these statements contain the implicit qualification, "subject to adjustment for unanticipated changes in circumstances."

**Example.** In the one and one-half months that elapsed following its submission on May 30, 1985, the 1987 budget (i.e., for the year ended June 30, 1987) for New York City became obsolete because of changes in circumstances. Among the changes were: (1) a tentative union agreement covering the city's uniformed employees, which necessitated wage increases of 6 percent, (2) receipt of notice from the State of New York that the city's estimates of state aid were unrealistic, (3) a refinancing of the city's general obligation bonds, (4) an agreement between the state and the city to jointly finance a housing program, (5) a budget resolution passed by the U.S. Congress, which, among other things, made it clear that the Federal General Revenue Sharing Program would likely be terminated, and (6) the city received two additional months of revenue collection information as well as indications of final real property assessments, that resulted in changes in its local revenue estimates for the budget year. As a result, the city submitted a revised financial plan on June 26, 1985.

Some organizations go so far as to state this commitment in the form of a formal contract, in which the budgetee agrees to deliver specified services for a specified sum of money, which is the amount in the approved budget.

**Budget Approval**

The final set of discussions is held between senior management and whatever body has ultimate authority for approving the organization's plans—the trustee or a similar group for private, nonprofit organizations, or the legislature for a public organization. (As noted above, this is the case with respect to the legislative budget, but the process of formulating the management budget takes place separately and subsequently.) After being approved, the budget is disseminated down through the organization and becomes the authorized plan to which the organization is expected to adhere unless compelling circumstances warrant a change.17

**THE CAPITAL BUDGET**

In addition to the operating budget, most nonprofit organizations prepare a capital budget. The capital budget contains a list of the capital projects that are proposed for financing during the coming year. If the operating budget is prepared on an expense basis, the capital budget will include all acquisitions of long-lived assets planned for the year.

If the operating budget is prepared on an expenditure basis, it may include a considerable amount for equipment and similar long-lived assets, and only buildings and major capital acquisitions will be included in the capital budget. It is important that a clear-cut distinction be made between the types of items included in these two budgets. Otherwise, there is a temptation to balance the operating budget by moving some items from it to the capital budget.

**Example.** Officials in New York City made many maneuvers in the early 1970s to hide the true operating deficit. One was to shift operating items to the capital budget where they presumably would be financed by bonds rather than by current revenues. An extreme example was vocational education expenses, which were shifted to the capital budget on the grounds that students would enjoy the benefits for many years to come and that vocational education was therefore a long-lived asset.

The items to be included in the capital budget emerge from decisions made during the programming process. In the budget review, there is the same scrutiny of the amounts as was described above for operating items. Moreover, it may turn out that the total of approved capital expenditures is larger than can be financed, and this requires cutting back the capital budget. Since these capital projects affect program execution for years to come, such cutbacks are made only after great soul searching.

**APPENDIX**

**Some Budget Ploys**

Internal ploys used in the budget game can be divided into roughly four categories:

1. Ploys for new programs.
2. Ploys for maintaining or increasing ongoing programs.

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16For a description of this analysis in Hungary, see Janos Kornai, *Economics of Shortage.* Amsterdam: North-Holland Publishing Co., 1980, especially pp. 52-64 and 191-95.

17Some people refer to actual operations as "executing the budget." This is an unfortunate term because it implies that the operating manager's job is to spend whatever the budget says can be spent. A better term is "executing the program." This implies that the primary job is to accomplish the program objectives; the budget shows the resources that are available for this purpose.
3. Ploys to resist cuts.
4. Ploys primarily for supervisors.

There is some overlap among the categories. Some ploys relate to programming as well as to budgeting. Each ploy is described briefly, and an appropriate response is given.

**PLOYS FOR NEW PROGRAMS**

1. **Foot in the Door**

*Description.* Sell a modest program initially; conceal its real magnitude until after it has gotten under way and has built a constituency.

*Illustration.* In a certain state, the legislature was sold on a program to educate handicapped children in regular schools rather than in special schools then used. The costs were said to be transportation costs and a few additional teachers. Within five years, the definition of handicapped had been greatly broadened, and the resources devoted to the program were four times the amount originally estimated.

*Response.* This ploy can elicit either of two responses: (a) detect the ploy when it is proposed, consider that it is merely a foot in the door and that actual eventual costs will exceed estimates by a wide margin, and therefore disapprove the project (but this is difficult to do); or (b) hold to the original decision, limiting spending to the original cost estimate, despite pleas for enlarging it. (The latter is effective only if the ploy is detected in time.)

*Variations.* One variation on this ploy is *buying in*, that is underestimating the real cost of a program. An example is the B-1 bomber program. In the early 1980s, this program was estimated to cost $11.9 billion. The Air Force submission for the B-1 bomber for FY 1983 "certified" that the cost of the program was $20.5 billion. However, two independent audit groups within the Pentagon estimated its cost as $23.6 billion and $26.7 billion, respectively. The Congressional Budget Office estimated the cost at $40 billion.

Another variation is *bait and switch*; that is, initially requesting an inexpensive program but increasing its scope (and cost) after initial approval has been obtained.

2. **Hidden Ball**

*Description.* Conceal the nature of a politically unattractive program by hiding it within an attractive program.

*Illustration.* Some years ago the Air Force had difficulty in obtaining funds for general-purpose buildings but found it easy to get funds for intercontinental missiles, so there was included in the budget for the missile program an amount to provide for construction of a new office building. Initially this building was used by a contractor in the missile program, but eventually it became a general purpose Air Force office building.

*Response.* Break down programs so that such items become visible. Discourage recurrence by special punishment.

3. **Divide and Conquer**

*Description.* Seek approval of a budget request from more than one supervisor.

*Illustration.* The City Planning Commission in New York City was so organized that each member was supposed to be responsible for certain specified areas. The distinctions were not clear, however, so budgeters would deal with more than one supervisor, hoping that one of them would react favorably.

*Response.* Responsibilities should be clearly defined, but this is easier said than done.

*Caution.* In some situations, especially in research, it is dangerous to have a single decision point. It is often desirable to have two places in which a person with a new idea for research may obtain a hearing. New ideas are extremely difficult to evaluate, and a divided authority, even though superficially inefficient, lessens the chance that a good idea will be rejected.

4. **Distraction**

*Description.* Base a specific request on the premise that an overall program has been approved when this is not in fact the case. (Difficult, but not impossible, to use successfully.)

*Illustration.* At a legislative committee, a university presented arguments as to why some buildings should be replaced with a new set of buildings in order to implement an approved plan for doubling the capacity of a certain professional school. The argument was that newer buildings would be more useful and efficient than the existing buildings. The merits were discussed in terms of the return on investment arising from the greater efficiency of the new buildings. This discussion went on for some time until a committee member asked who had approved the plan for expansion of the school in the first place. It turned out that the expansion had never been approved; approval of the new buildings would have de facto approved the expansion.

*Response.* Expose the hidden aims, but this is very difficult.

5. **Shell Game**

*Description.* Use statistics to mislead supervisors as to the true state of affairs.
Illustration. The budgetee was head of the Model Cities program for a certain city. He wanted available funds to be used primarily for health and education programs but knew that his superiors were more interested in "economic" programs (new businesses and housing). He drew up the following chart:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Source</th>
<th>Federal</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and education</td>
<td></td>
<td>$2,000,000</td>
<td>$15,000</td>
<td>$2,015,000</td>
</tr>
<tr>
<td>Economic</td>
<td></td>
<td>50,000</td>
<td>2,300,000</td>
<td>2,350,000</td>
</tr>
</tbody>
</table>

The budgetee emphasized to the mayor and interested groups that over half the funds were intended for economic purposes. The catch was that the source of "other" funds was not known, and there were no firm plans for obtaining such funds. This was not discovered by the supervisor until just prior to the deadline for submitting the request for federal Model Cities funding, at which time the budgetee successfully used the delayed buck ploy (No. 17).

Response. Careful analysis.

6. It's Free

Description. Argue that someone else will pay for the project so the organization might as well approve it.

Illustration. A state decided to build a highway, reckoning the cost as low since the federal government would reimburse it for 95 percent of the cost. The state overlooked the fact that maintenance of the highway would be 100 percent a state cost.

Response. Require an analysis of the long-run costs, not merely the costs for next year.

7. Implied Top-Level Support

Description. The budgetee says that although the request is not something that he personally is enthusiastic about, it is for a program that someone higher up in the organization asked to be included in the budget. Preferably this person is not well known to, and is more prestigious than, the budgetee's superior. The budgetee hopes that the supervisor will not take the time to bring this third party into the discussion.

Response. Examine the documentation. If it is vague, not well justified, or nonexistent, check with the alleged sponsor.

Note. In a related ploy, the end run, the budgetee actually goes to the supervisor's boss without discussing the matter with the supervisor first. This tactic should not be tolerated.

8. You're to Blame

Description. Imply that the supervisor is at fault and that defects in the budget submission therefore should be overlooked.

Illustration. It is alleged that the supervisor was late in transmitting budget instructions, or that the instructions were not clear, and that this accounts for inadequacies in the justifications furnished.

Response. If the assertion is valid, this is a difficult ploy to counter. It may be necessary to be contrite, but arbitrary, in order to hold the budget within the guidelines.

9. Nothing Too Good for Our People

Description. Used, whether warranted or not, to justify items for the personal comfort and safety of military personnel, for new cemeteries, for new hospital equipment, for research laboratory equipment (especially computers), and for various facilities in public schools and colleges.

Response. Attempt to shift the discussion from emotional grounds to logical grounds by analyzing the request to see if the benefits are even remotely related to the cost. Emphasize that in a world of scarce resources, not everyone can get all that is deserved.

10. Keeping Up with the Joneses

Illustration. Minneapolis must have new street lights because St. Paul has them.

Response. Analyze the proposal on its own merits.

11. We Must Be Up to Date

Description. This differs from Play No. 10 in that it does not require that a "Jones" be found and cited. The argument is that the organization must be a leader and must therefore adopt the newest technology. Currently, this is a fashionable ploy for computers and related equipment, for hospital equipment, and for laboratory equipment.

Response. Require that a benefit be shown that exceeds the cost of adopting the new technology.

Caution. Sometimes the state of the art is such that benefits cannot be conclusively demonstrated. If this leads to a deferral of proposals year after year, opportunities may be missed.
12. If We Don’t, Someone Else Will

**Description.** Appeal to people’s innate desire to be at least as good as the competition.

**Illustration.** A university budgetee argued that a proposed new program was breaking new ground, was important to the national interest, and that if her university didn’t initiate it, some other university would start it, obtain funds from the appropriate government agency, and thus make it more difficult for her university to start the program later on.

**Response.** Point out that a long list of possible programs have this characteristic, and the university must select those few which are within its capabilities.

13. Call It a Rose

**Description.** Use misleading, but appealing, labels.

**Illustration.** The National Institutes of Health were unable to obtain approval for the construction of new buildings but were able to build annexes. It is said that Building 12A (the annex) is at least double the size of Building 12.

**Response.** Look behind the euphemism to the real function. If the disguise is intentional, deny the request, and if feasible, discourage recurrence by special punishment.

14. Outside Experts

**Description.** The agency hires outside experts to support its request, either formally in hearings, or informally in the press.

**Response.** Show that these experts are biased, either because of a present connection with the agency or because they are likely to benefit if the request is approved.

### PLOYS FOR MAINTAINING OR INCREASING ONGOING PROGRAMS

15. Show of Strength

**Description.** Arrange demonstrations in support of the request; occasionally, threaten violence, work stoppages, or other unpleasant consequences if the request is not approved.

**Response.** Have fair criteria for selecting programs and have the conviction to stand by your decision.

16. Razzle-Dazzle

**Description.** Support the request with voluminous data, but arranged in such a way that their significance is not clear. The data need not be valid.

**Illustration.** A public works department submitted a 20-page list of repairs to municipal buildings that were said to be vital to the community, couched in highly technical language. This was actually a “wish list,” prepared without a detailed analysis.

**Response.** (a) Ask why the repair budget should be greater next year than in the current year. (b) Find a single soft spot in the original request and use it to discredit the whole analysis.

17. Delayed Buck

**Description.** Submit the data late, arguing that the budget guidelines required so much detailed calculation that the job could not be done on time.

**Illustration.** The budget guidelines requested a “complete justification” of requested additions to inventory. The motor vehicle repair shop of a state did not submit its budget on time. At the last minute, it submitted an itemized list of parts to be ordered, based on a newly installed system of calculating economic order quantities. It argued that its tardiness was a consequence of getting the bugs out of the new system (which was installed at the controller’s instigation), but that it was generally agreed that the economic order quantity formula was the best way of justifying the amount of parts to be purchased.

**Response.** This is a difficult ploy to counter. Complaining about the delay may make the supervisor feel better but will not produce the data. One possible response, designed to prevent recurrence, is to penalize the delay by making an entirely arbitrary cut in the amount requested, although this runs the risk that needed funds will be denied.

18. Reverence for the Past

**Description.** Whatever was spent last year must have been necessary in order to carry out last year’s program; therefore, the only matters to be negotiated are the proposed increments above this sacred base.

**Response.** As a practical matter, this attitude must be accepted for a great many programs because there is not time to challenge this statement. For selected programs, there can be a zero-base review (see Chapter 15).

19. Sprinkling

**Description.** “Watering” was a device used in the early 20th century to make assets and profits in prospectuses for new stock offerings look substantially higher than they really were. “Sprinkling” is a more subtle ploy, which increases budget estimates by only a few percent, either across-the-board or in hard-to-detect areas. Often it is done in anticipa-
tion that the supervisor will make arbitrary reductions, so that the final budget will be what it would have been if neither the sprinkling nor the arbitrary cuts had been made.

Response. Since this ploy, when done by an expert, is extremely difficult to detect, the best response is to remove the need for doing it; that is, create an atmosphere in which the budgetee trusts the supervisor not to make arbitrary cuts.

PLOYS TO RESIST CUTS

20. Make a Study

Description. The budget guidelines contain a statement that a certain program is to be curtailed or discontinued. The budgetee responds that the proposed action should not be taken until its consequences have been studied thoroughly.

Response. Make the study; be persistent; supplement with other ploys.

21. Gold Watch

Description. When asked in general terms to cut the budget, propose specific actions that do more harm than good.

Illustration. This well-known ploy derives its name from an incident in which Robert McNamara was involved when he was with the Ford Motor Company. In a period of stringency, all division heads were asked to make a special effort to cut costs. Most responded with genuine belt tightening; however, one division manager, with $100 million sales, reported that the only cost reduction opportunity he had found was to eliminate the gold watches that were customarily given to employees upon their retirement with 30 or more years of satisfactory service.

Response. Reject the proposal. (In the illustration, disciplinary action was also taken with respect to the division manager.)

22. Arouse Client Antagonism

Description. When a budget cut is ordered, cut a popular program, hoping to divert attention away from lower priority areas where cuts are indeed feasible. (This is a variation of the gold watch ploy.)

Illustration. When Mayor Abraham Beame was asked in 1975 by the federal government to reduce spending in New York City in order to avoid bankruptcy, he responded by dismissing 7,000 police officers and firefighters and closing 26 fire houses. Many people believe he did this to inflame public opinion against budget cuts. It did have this effect, and the order was reversed.

Response. Try to redirect client attention by publicizing areas where cuts are feasible.

23. Witches and Goblins

Description. The budgetee asserts that if the request is not approved, dire consequences will occur. It is used often by the House Armed Services Committee in its reports to Congress. For example, an antiballistic missile system was recommended as a counterdefense to the "Talinin System" that the Soviets were alleged to be building. In fact, the Soviets were not building such a system.

Response. Analysis based on evidence rather than on emotion.

24. We Are the Experts

Description. The budgetee asserts that the proposal must be accepted because he has expert knowledge which the supervisor cannot possibly match. This ploy is used by professionals of all types: military officers, scientists, professors, physicians, and clergy.

Response: If the basic premise is accepted, the budget process cannot proceed rationally, for the supervisor tends to be a generalist and the budgetee a specialist. The supervisor should insist that the expert express the basis for his judgment in terms that are comprehensible to the generalist.

25. End Run

Description. Go outside normal channels to obtain reversal of a decision.

Illustration. In Massachusetts in the early 1980s, many hospitals that had been denied a certificate of need (CON) to engage in capital building projects, asked their state legislature to introduce a bill overriding the decision by the public health council (an executive branch agency) and permitting the project to proceed. Other legislators, knowing that the next CON denial might be in their district, supported their colleague, and the entire CON process was weakened.

Response. If the end run is made to the legislature or an equivalent powerful body, the executive probably has no choice except to grin and bear it (pressures for a veto frequently are hard to muster). In other cases, anyone who attempts an end run should be reprimanded and the request denied because attempts to go outside of proper channels upset the authority of the whole budgetary process.
26. Keep Them Lean and Hungry

**Description.** The supervisor tells the budgetee that the latter's organization will work harder, and possibly more effectively, if it doesn't have to carry so much fat.

**Response.** Show that the analogy with human biology is false, or go along with the analogy, and show that the cuts represent muscle rather than fat.

27. Productivity Cuts

**Description.** It is assumed that many capital expenditures are made with the intention of cutting operating costs. Although few systems permit individual cost reductions to be identified, it is reasonable to assume that they, together with continuing management improvements, should lead to lower operating costs in the aggregate. Some organizations therefore reduce personnel-related costs by about 1.5 percent from the previous year's level. In the entire economy, productivity increases by about 3 percent annually; the lower percentage assumes that nonprofit organizations are only half as susceptible to productivity gains as the economy as a whole.

In some organizations the cost reductions can be specifically traced. When an organization makes a large capital expenditure to convert its recordkeeping to computers, this presumably results in lower operating costs, and the planned savings should be specifically identified. When a program in 1987 reflects a decision to convert to a computer operation by 1989, the programmed clerical costs for 1989 should reflect a cost reduction.

**Response.** Point out that dismissals are politically inexpedient, and retirements and resignations may not be rapid enough to permit costs to be reduced to the desired level.

28. Arbitrary Cuts

**Illustration.** The supervisor, who was director of research of a large company, followed the practice of reducing the budget for certain discretionary items (travel, publications, professional dues) in certain departments by approximately 10 percent. Although the supervisor did this on a purely random basis, he achieved a reputation for astute analysis.

**Response.** Challenge the reason for the cuts (but the items tend to be so unimportant and difficult to defend that such challenges may consume more time than they are worth).

29. I Only Work Here

**Description.** The supervisor says she cannot grant the budgetee's request because it is not within the scope of ground rules that her superiors have laid down.

**Response.** Carry the issue to higher authority (although never by an end run; see No. 25).

30. Closing Gambits

**Description.** The supervisor uses various tactics to bring the negotiation to a close. A simple one is simply to glance at his or her watch, indicating that time is valuable. Another is to "split the difference" between the amount requested and the amount the supervisor initially wanted to approve. Still another is the proposal to settle on a small amount now, with an indication that a larger amount will be considered later on.

**SUGGESTED ADDITIONAL READINGS**


Management Control in Nonprofit Organizations

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