



Research Paper

## Sustainable Financial Transformation: A Comparison of Beyond Budgeting and Traditional Budgeting Approaches in the Context of Management Accounting

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**ABSTRACT:** Sustainable financial transformation is becoming an important topic in the context of management accounting. Beyond Budgeting is an idea that companies need to move beyond budgeting due to the inherent weaknesses in traditional budgeting especially when used to manage contracts. Therefore, the purpose of this study is to review two budgeting approaches, namely beyond budgeting and traditional budgeting, which are the focus of attention of modern companies today and compare which budget is the most efficient if used. This research was conducted by combining the comparative method, qualitative approach, and theoretical analysis. The results show that Beyond Budgeting Principles (BBP) offers a more holistic, adaptive, and human values-focused management approach as well as radical changes in organizational structure and corporate culture. BBP emphasizes organizational decentralization by removing the concept of budgeting and giving full opportunity to all employees to feel part of the decision-making process, whereas traditional budgeting models tend to be hierarchical and centralized, where low-level managers have little authority in making strategic decisions.

**KEYWORDS:** Beyond Budgeting, traditional budgeting.

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### I. INTRODUCTION

In many modern organizations, budgeting is considered a crucial tool for implementing corporate strategy and fulfilling various further responsibilities (Nguyen et al., 2018). Since the 1920s, budgets have been recognized as an instrument for managing costs and cash flows. In the 1960s, the budget evolved into a fixed performance contract between superiors and subordinates in the company (Panteleeva, 2016). Its function involves short-term planning and control within the organization, with the goal of profit effectiveness expressed in monetary units. Management commitment to costs covering a one-year period is the main characteristic of budget use (Ilmiyono et al., 2022). Budgeting is considered a key instrument in many contemporary organizations, making a vital contribution to the implementation of corporate strategy and the fulfillment of a variety of additional tasks (Hansen, 2011).

History shows that budgets have a central role in management control. However, some argue that the problem with budgeting lies in the way it is used (Libby & Lindsay, 2010). The use of budgets is also considered to limit responsiveness and be a barrier to change as it is unable to provide an indication of changes in a competitive environment. This results in inadequate variance reporting, which in turn makes "how" and "why" questions difficult to answer. Furthermore, budgets are perceived to be more centered on short-term financial figures and cost reduction efforts than on value creation (Panteleeva, 2016).

In recent years, a number of companies have implemented more frequent and efficient planning and budgeting processes. Various approaches have been tested by companies to improve budget effectiveness, including the use of budgets with a six-month or quarterly frequency, rather than the traditional annual cycle. Some companies have also adopted the concept of "rolling budgets" that have a typical duration of 12 months and are updated quarterly. While these approaches provide managers with greater currency and relevance, they are also faced with an increased workload, even if the number of audited items is smaller. As budget objectives

vary, proposals to modify or provide alternatives to the budgeting process impact different functions in different ways (Hansen, 2011).

Practitioners have recently coined a different approach to address the weaknesses in traditional budgeting practices, known as Beyond Budgeting or alternative budgeting (Østergren & Stensaker, 2011). This approach not only originates from traditional budgeting practices, but also opposes the solutions associated with improvements in traditional budgeting. Proponents of Beyond Budgeting argue that traditional budgeting should be abolished due to fundamental flaws in the budgeting process. Although studies on Beyond Budgeting have increased, the majority are isolated and do not form a comprehensive overall picture. Studies on why organizations adopt the Beyond Budgeting concept and the practical challenges faced when changing management accounting systems based on the concept have also been conducted. The results of the study show that organizations that switched to a management accounting system based on Beyond Budgeting were able to keep their budget targets as intended.

Although alternative budgeting has attracted the attention of academics and is considered one of the most advanced management accounting tools, it has not been widely adopted in business practice. Traditional budgeting still plays a key role in many companies, and most organizations prefer to improve their existing budgeting processes rather than fully switching to alternative models. This is because traditional budgeting still plays a key role in many companies and most companies prefer to improve their budgeting processes rather than abandon them completely (Østergren & Stensaker, 2011). Another reason why beyond budgeting has not become common in business organizations is due to the limited number of academic studies and the lack of empirical evidence regarding the application of the concept in practice. Thus, current research does not yet provide sufficient information on strategies for implementing beyond budgeting and managing companies without relying on traditional budgets further (Nguyen et al., 2018).

Based on this, this research will review the two budgeting approaches, beyond budgeting and traditional budgeting, that are the focus of attention of modern companies today and compare which budget is the most efficient to use. By comparing Beyond Budgeting, which emphasizes flexibility, responsiveness, and forward-looking orientation, with the traditional budgeting approach that may still dominate many organizations, we can get an idea of how financial transformation can create sustainability in the long run. By considering the advantages and disadvantages of each, we can detail the challenges faced by organizations in adopting these approaches and how they can shape the future of sustainable and effective management accounting.

## **II. LITERATURE REVIEW**

Budgeting is a financial planning and control that is carried out systematically and formally to achieve goals and is carried out through coordination and control of management responsibilities (Ilmiyono et al., 2022). Budgeting is traditionally a general accounting tool that organizations use to implement strategy. Budgets are described as an integral part of the management control system that aims at coordination and communication between sub-units within the company, providing a framework for assessing performance and ultimately motivating managers and other employees (Østergren & Stensaker 2011).

Traditionally, budgeting is considered one of the most important management tools to direct an organization, evaluate its performance and motivate its people. However, criticism of the budgeting process has increased considerably in the last decade (Hansen, 2011). This is because traditional annual budgets are considered incapable of functioning properly in situations characterized by high uncertainty due to technological change, global market fluctuations, government regulations, competition, and the emergence of new knowledge. Some critics argue that traditional annual budgets should be replaced with more flexible and efficient annual budgets (Alsharari, 2019).

The concept of Beyond Budgeting is one of the prominent management innovations today (Alsharari, 2019). Beyond budgeting according to the official terminology of The Chartered Institute of Management Accountants (CIMA) is an idea that companies need to move beyond the budget because of the inherent weaknesses in traditional budgeting, especially when used to manage contracts. It is said that various techniques, such as forecasting and market related targets, can take the place of traditional budgeting. Beyond budgeting are principles that if followed, will allow organizations to manage performance and decentralize the decision-making process without the need for a traditional budget (Ilmiyono et al., 2022).

Beyond Budgeting as an integrated management model whose goal is to abandon the budget-constrained style of management control without ending financial planning (Kaarbøe et al., n.d.). Beyond Budgeting focuses on relative improvement rather than fixed performance contracts and moves from top-down control to bottom-up empowerment. Rather than applying rigid measures and incentives, beyond budgeting focuses on energizing frontline teams. As such, the concept is thought to enable the company to adapt its strategy quickly to changing market needs. By empowering lower-level managers, the beyond budgeting concept aims to enable companies to maintain close relationships with customers (Alsharari, 2020).

Along with these developments, there has been a debate around the effectiveness of traditional approaches to budgeting and the need to find alternatives that better suit the changing dynamics of business. Therefore, this research examines the comparison between two main approaches, namely the Beyond Budgeting approach and the Traditional Budgeting approach, to explore their advantages, disadvantages and relevance in achieving sustainable financial goals. Some of the central questions that arise are to what extent the Beyond Budgeting approach can overcome the weaknesses of traditional budgeting practices in creating a financial system that is adaptive and responsive to changes in the business environment. In addition, how the implementation of these two approaches can affect management accounting practices and whether one approach is more effective than the other in supporting sustainable financial transformation in organizations. This provides a foundation for further research to explore a deeper understanding of how companies can manage their finances more efficiently and sustainably in the face of evolving business challenges.

### III. RESEARCH METHOD

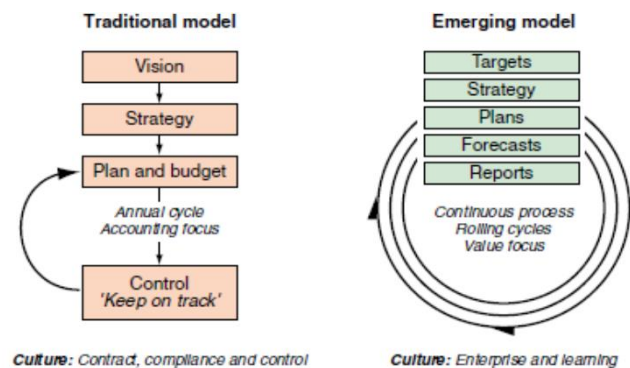
The research method implemented in this study takes a comparative approach to explore the comparison between Beyond Budgeting and Traditional Budgeting approaches. The main focus of this research is to understand whether the Beyond Budgeting approach is able to provide advantages over the Traditional Budgeting approach and how the implementation of these two approaches affects the financial performance and overall strategy of the organization.

Furthermore, the comparison method will guide the data analysis to identify significant differences between the two approaches. Qualitative data obtained from the study of existing literature related to Beyond Budgeting will form the basis for summarizing the advantages, disadvantages, and impacts of each budget approach. By combining the comparative method, qualitative approach, and theoretical analysis, this research is expected to provide in-depth insights into sustainable financial transformation in the context of management accounting, providing valuable contributions to the development of business practices and literature.

### IV. RESULT AND DISCUSSION

In a comparative study of various management principles, several sources have outlined the fundamental differences between Beyond Budgeting Principles (BBP) and traditional budgeting approaches. It is important to note that BBP does not focus only on the elimination of budgets, but also emphasizes on crucial aspects such as organizational flexibility, human values, and a marked change in the traditional management paradigm. In this analysis, we will explore the significant differences between these principles and how they affect the governance and management of an organization (Alsharari, 2020).

Beyond Budgeting Principles revolutionized the management paradigm by introducing innovative concepts. One of these was relative performance evaluation, which changed the way organizations assessed achievement and progress. Not only that, a more flexible approach to budget planning also became a cornerstone, allowing for more responsive adaptation to changes in the market and business environment (Alsharari, 2020). Furthermore, Beyond Budgeting Principles emphasizes the need for changes in reward and resource systems to create a more dynamic and inclusive work environment. The holistic approach not only focuses on performance measurement and cost allocation, but also encourages changes in organizational culture and promotes management values that are more oriented towards human diversity and sustainability (Keßels, 2022).



**Figure 1:** Budgeting Mechanism

The approach introduced by Beyond Budgeting Principles (BBP) is much more revolutionary in the context of management (Alsharari, 2020). Based on Figure 1, it can be seen that BBP offers a striking approach by dynamically separating target setting, forecasting, and resource allocation. This not only changes the way organizations plan and allocate resources, but also supports more strategic and realistic decision-making. As

such, BBP inspires expectations that are more in line with real conditions, providing greater room for adaptation to the rapidly changing and unpredictable business environment (Berland et al., 2018).

One other notable difference lies in the organizational structure adopted by Beyond Budgeting Principles (BBP). BBP emphasizes organizational decentralization by removing the concept of budgeting and giving full opportunity to all employees to feel part of the decision-making process (Bukovinsky, 2019). This approach differs significantly from traditional budgeting models that tend to be hierarchical and centralized, where low-level managers have little authority in making strategic decisions. By encouraging decentralization, BBP creates an environment where every member of the organization feels directly responsible and involved in the overall success of the company (Olaf et al., 2019).

Beyond Budgeting Principles (BBP) emphasizes aspects that differ from traditional management approaches. BBP focuses on achieving bold and meaningful goals, shared values embraced by the entire organization, transparency in the decision-making process, building a strong organization with attention to individual autonomy, and linking work to customer needs. In contrast, traditional approaches emphasize static financial targets, performance evaluation based on comparisons against these targets, and control through strict orders, compliance, and control (Keßels, 2022).

With BBP, organizational goals are seen as a source of inspiration that motivates employees to achieve ambitious yet meaningful milestones, while keeping customer needs in mind. In addition, shared values and transparency in decision-making form the foundation of a stronger and more inclusive organizational culture, allowing individuals to play a more autonomous role in achieving common goals. In contrast, traditional approaches tend to emphasize rule-based control and performance evaluation focused on pre-set financial targets (Bukovinsky, 2019).

While Beyond Budgeting Principles (BBP) offers more adaptive flexibility in managing organizations, there are a number of challenges in its implementation. One of these is the lack of equitable application across different types of organizations (Samudrage & Beddage, 2018). While its principles promise significant change, not all organizations are fully prepared or aware of the benefits that can be gained from applying this concept. Another challenge is the lack of a clear evaluation framework to measure the success of BBP implementation. Well-defined evaluation criteria are important in assessing the effectiveness and progress of implementing this new management concept (Olaf et al., 2019).

In addition, building trust and reinforcing responsibility within the organization are other barriers (Olaf et al., 2019). Cultural transformation and changing the way an organization operates requires considerable time and effort. Ensuring that every member of the organization feels equal responsibility and trusts each other is a challenging step in the overall implementation of BBP. While BBP offers many benefits, overcoming these barriers requires strong commitment, patience, and ongoing support from all levels within the organization to ensure a successful transition to a more adaptive and responsive management model.

## V. CONCLUSION

Beyond Budgeting Principles (BBP) offers a more holistic, adaptive and human values-focused management approach as well as radical changes in organizational structure and corporate culture. While it has the potential to bring about significant change, its implementation is still faced with a number of challenges that need to be overcome to be widely applied across organizations.

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