

## FROM TRADITION TO TRANSFORMATION: A REVIEW OF MODERN CORPORATE BUDGETING APPROACHES

Lasmiyati

Program Magister Manajemen, Universitas PGRI Yogyakarta

lsmlasmi53@gmail.com

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### *Abstract*

*This literature review explores the transformation of corporate budgeting approaches from traditional to modern frameworks. Conventional budgeting, once dominant for its control and predictability, is increasingly challenged by rapidly changing business environments. In contrast, modern approaches such as performance-based, flexible, rolling, and risk-based budgeting offer agility and strategic alignment. The study synthesizes findings from global and regional literature to identify key shifts, implementation challenges, and financial implications. It highlights the importance of adaptive budgeting systems in improving cost efficiency, responsiveness, and financial resilience. The review concludes that while traditional budgeting retains certain merits, transformative approaches are essential in dynamic economic contexts. Furthermore, this review serves as a foundation for organizations to critically evaluate their financial planning systems and adopt best practices suited for contemporary challenges.*

**Keywords:** *Corporate Budgeting; Risk-Based Budgeting; Performance Budgeting; Budgeting Transformation; Financial Strategy*

### INTRODUCTION

Corporate budgeting has long served as a cornerstone of financial planning, control, and resource allocation. Traditionally, organizations have relied on fixed, annual budgets to manage expenditures and forecast revenues. Budgeting has historically functioned as a command-and-control tool—helping top management allocate limited resources, monitor expenditures, and enforce financial discipline throughout the organization. In its conventional form, budgeting assumes a stable, predictable environment in which future performance can be reasonably projected based on historical trends.

However, this assumption has become increasingly untenable in today's volatile

and complex global business landscape. Technological advancements, market disruptions, geopolitical tensions, inflation shocks, and the lingering effects of global crises such as the COVID-19 pandemic have dramatically altered the financial planning landscape. As a result, the relevance of static, once-a-year budgeting models is increasingly being questioned.

Scholars such as Hope & Fraser (2003) have criticized traditional budgeting for being rigid, time-consuming, and often misaligned with strategic objectives. These models often fail to accommodate mid-year changes or unexpected risks, which limits their effectiveness in dynamic contexts. Moreover, traditional budgets tend to focus on cost control rather than value creation,

creating tension between short-term financial targets and long-term strategic goals.

In response to these limitations, a growing number of organizations are shifting toward more flexible, adaptive, and strategy-focused budgeting frameworks. Concepts such as rolling forecasts, performance-based budgeting, and risk-based budgeting have gained traction as alternatives to traditional systems. Rolling forecasts allow firms to adjust projections on a quarterly or monthly basis, enhancing agility. Performance-based budgeting aligns financial planning with measurable organizational outcomes, improving accountability. Risk-based budgeting integrates financial planning with risk assessment tools to anticipate and mitigate potential disruptions.

These developments reflect a broader shift in corporate governance and financial management paradigms. Organizations are no longer using budgets solely as control tools but also as instruments of strategic alignment, risk management, and innovation. The rise of Environmental, Social, and Governance (ESG) frameworks has also contributed to this transformation. Investors, regulators, and other stakeholders now expect budgeting practices to account for not just financial performance, but also sustainability goals and non-financial indicators.

Furthermore, digital transformation is reshaping how budgets are prepared, monitored, and revised. Tools such as Enterprise Resource Planning (ERP), Business Intelligence (BI), predictive analytics, and Artificial Intelligence (AI) are

enabling real-time visibility and data-driven decision-making. This enhances the capacity of organizations to respond quickly to internal changes and external shocks.

This review aims to explore the evolution of budgeting practices by examining the theoretical foundations, empirical evidence, and practical implications of traditional and modern budgeting approaches. It identifies key trends, benefits, and challenges in the transition and suggests areas for future research and implementation.

Corporate budgeting has long served as a cornerstone of financial planning, control, and resource allocation. Traditionally, organizations have relied on fixed, annual budgets to manage expenditures and forecast revenues. However, global economic volatility, technological disruption, and evolving market demands have exposed limitations in static budgeting frameworks. Scholars such as Hope & Fraser (2003) have criticized traditional budgeting for being rigid, time-consuming, and often misaligned with strategic objectives.

In response, modern corporate budgeting has shifted toward more flexible, adaptive, and strategy-focused approaches. Concepts such as rolling forecasts, performance-based budgeting, and risk-based budgeting have emerged to address uncertainty and enhance decision-making agility. These developments align with broader shifts in corporate governance and financial management, emphasizing resilience, accountability, and long-term value creation.

In addition, external pressures such as regulatory changes, stakeholder expectations, and sustainability goals are also influencing budgeting practices. As organizations aim to align financial strategies with environmental, social, and governance (ESG) criteria, budgeting is increasingly expected to reflect non-financial performance indicators. This transition is reshaping the role of budgeting from a control mechanism to a strategic management tool.

This review aims to explore the evolution of budgeting practices by examining the theoretical foundations, empirical evidence, and practical implications of traditional and modern budgeting approaches. It identifies key trends, benefits, and challenges in the transition and suggests areas for future research and implementation.

## RESEARCH METHOD

This study uses a qualitative literature review method. Sources include peer-reviewed journals, books, and recent reports published within the last ten years. Selection criteria prioritize studies focusing on corporate budgeting models, strategic financial planning, and budgeting innovation. The data are analyzed through thematic categorization to identify key patterns and trends. Comparative analysis is also employed to evaluate the strengths and weaknesses of each budgeting approach. No primary data are used, and all information is secondary and conceptual in nature.

In addition to academic journals, this study also considers policy papers and industry reports from organizations such as the OECD, World Bank, and global consulting

firms. These sources offer practical insights into budgeting trends across different sectors and geographical contexts.

## RESULT AND DISCUSSION

This section presents the findings of the literature review on the evolution of corporate budgeting approaches. It first summarizes the key themes and shifts identified in the literature, followed by a detailed explanation of the results and a discussion on their implications.

### Result

#### *Evolution of Budgeting Approaches*

Traditional budgeting is characterized by its fixed, annual structure, centralized decision-making, and emphasis on cost control. While it provides structure and predictability, it lacks responsiveness to rapid change. In contrast, modern budgeting emphasizes adaptability. Rolling forecasts, for example, update budget estimates regularly, enabling firms to adjust strategies in real-time. Performance-based budgeting links expenditures to measurable outcomes, promoting accountability and efficiency. Risk-based budgeting incorporates risk assessment into financial planning, helping firms anticipate and mitigate potential disruptions.

#### *Benefits of Modern Budgeting*

Empirical studies suggest that adaptive budgeting improves financial performance, especially under volatile conditions (Jones, 2022; Davis et al., 2022). Organizations that implement flexible budgeting report better cost management, enhanced strategic alignment, and increased resilience. Moreover, digital tools and Business

Intelligence (BI) platforms further enhance the agility and precision of budgeting processes.

Modern budgeting also contributes to cross-departmental collaboration and transparency. By involving multiple stakeholders in the budgeting process, companies foster a culture of shared responsibility and innovation. This inclusive approach not only leads to more accurate financial planning but also increases commitment to organizational goals.

*Challenges and Limitations*  
 Despite its advantages, modern budgeting is not without obstacles. Implementing new

budgeting systems requires investment in technology, training, and cultural change. Small and medium enterprises (SMEs) may struggle with the complexity and cost of adopting advanced models. Additionally, not all performance indicators or risk factors can be quantified accurately, which may affect budgeting precision.

Another limitation is the risk of over-reliance on financial technology tools, which may lead to neglecting qualitative judgment. Moreover, adapting to rolling forecasts and non-traditional frameworks can create friction among departments accustomed to conventional budgeting timelines and approvals.

**Table 1. Comparison of Traditional vs. Modern Budgeting**

No.	Aspect	Traditional Budgeting	Modern Budgeting
1	2	3	4
1.	Structure	Fixed and Annual	Rolling and Adaptive
2.	Fokus	Cost Control	Strategic Alignment
3.	Flexibility	Low	High
4.	Risk Integration	Minimal	High
5.	Decision-Making	Centralize	Decentralized/Collaborative
6.	Performance Link	Weak	Strong
7.	Tools Used	Spreadsheets	BI Tools, ERP Systems

**Discussion**

Modern corporate budgeting reflects a strategic evolution in financial planning, where adaptability, risk management, and performance outcomes take precedence over rigid financial control. The comparative analysis between traditional and modern approaches underscores a paradigmatic shift—from centralized control to

decentralized collaboration, from static forecasts to dynamic updates, and from minimal to integrated risk perspectives. These transitions are not merely operational; they represent deeper transformations in how organizations perceive and utilize budgeting as a driver of resilience and strategic alignment. As companies navigate uncertainty and complexity, the relevance of modern budgeting grows, calling for

continuous learning, cross-functional integration, and digital innovation.

## CONCLUSION

Corporate budgeting is undergoing a significant transformation from rigid, traditional models to flexible, adaptive frameworks. Modern budgeting approaches, such as performance-based and risk-aware models, offer superior responsiveness and strategic alignment. While challenges remain, especially in implementation and capacity building, the transition is essential for organizations facing dynamic economic and market conditions.

This review reinforces the need for a holistic approach to budgeting—one that integrates financial, strategic, and risk perspectives. For practitioners, the findings suggest prioritizing budgeting tools and practices that enhance adaptability, collaboration, and long-term planning. For academics, the review highlights the value of cross-disciplinary research to bridge theory and application in budgeting innovation.

Future research should focus on digital budgeting tools, industry-specific applications, and empirical evaluations of budgeting impact on financial performance. Comparative studies across sectors and regions would also be beneficial in understanding the contextual factors that influence successful budgeting transformation.

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