

**BEYOND THE ALLURE OF BUDGETING: ASSESSING THE
SUITABILITY OF BUDGET FOR ORGANISATIONAL
PERFORMANCE IN THE 21ST CENTURY****Uzoечи Nwagbara***

Abstract: Budgets are important instruments for organisational management, control and planning. Following the urgency of contemporary business challenges and radical shift in business structure owing to global financial volatility, there is a growing need to rethink budgeting. Also, factors such as increasing shareholders' expectations, impact of new technology, knowledge economy, innovation and other organisational integers have impacted on how managers think of firms in relation to budgeting. Given the limitations posed by traditional budgeting system as well as the urgency of recent global financial meltdown, there is pressure on managers and leaders to devise other ways to effectively manage organisations for productivity and competitiveness. In this paper, the Balanced Scorecard model will be used as an alternative method to traditional budgeting system. Consequently, the major concern of this paper is to articulate the limitations of (traditional) budgeting in relation to the Balanced Scorecard (BSC) method as well as in the context of what Hope and Fraser (2003) called "Beyond Budgeting" schema for more effective ways of managing organisations in the 21st century. The dilemma of "annual performance trap" is also implicated in this light. As budget restricts innovative, fluid and value-generating ways of managing organisations through its instrumentality of control and mechanistic co-ordination, troubled or distressed organisations are struggling to leverage on their opportunities. This adversely affects productivity levels.

Keywords: Balanced Scorecard; Budgeting; Global Financial Crisis; Organisational Performance.

JEL Codes: M40, C65, F30

Introduction

Budgeting highlights a comprehensive plan of projected financial inflows and outflows over a future period of time. It is a system that facilitates the process of managers concentrating on exploiting as well as appropriating opportunities instead of trading on financial and organisational minefields. Stressing the significance of budgeting, Umapathy in his book, *Current Budgeting Practices in US Industry: The State of the Art* (1987), declared that "there is no other managerial process that translates qualitative mission statements and corporate strategies into action plans, links the short-term with the long-term, brings together managers from different hierarchical levels and from different functional areas, and

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at the same time provides continuity by the sheer regularity of the process” (p. xxii) than budgeting. In the same vein, budgeting is about a process of profit planning and control as well as a method of making sure organisations minimise losses. Thus, budgeting entails establishing entrepreneurial objectives, developing blueprints about the financial environment in which they are to be achieved, choosing a course of action regarding accomplishing set objectives, commencing activities essential to bringing organisational plans into fruition and current plan to avoid or correct deficiencies (Welsch et al, 1988). It is to this end that D. C. Danuletiu (2010) in his piece, “Fiscal Decentralisation and issues of Municipal Bonds: The Case of Romania” indicated that “budget should be the centrepiece of a thoughtful, on-going decision-making process for allocating resources and setting priorities and direction” (p. 70).

Further to this, according to Horngren et al (2000), “few businesses plan to fail, but many that collapse failed to plan”. This shows that budgeting is vital to success of businesses. Thus, a business organisation that fails to engage in budgeting would be at risk, hence, such business would not have the foresight to spot potential business problems. Also, in specifying the significance of budgeting in terms of organisational performance and financial management, Barsky & Bremser (1999) argue that

“traditionally, financial budgets have served as the primary internal metric of performance... Budgeting has traditionally served as high profile process in organisations. Resource allocation decision, performance target setting and spending limitations have been the primary focus of corporate budgeting process” (p. 3).

In corroborating the above, Pineno (2009) contends that “basically, budget can be used as a benchmark that allows managers to compare actual performance with expected or desired performance” (p. 120). Having established the implications as well as imports of budgeting, we shall at this juncture look at the relevance of budgeting in the context of the recent global economic recession by assessing its suitability and relevance in 21st century financial (accounting) system for organisational growth and productivity.

In his piece, “Budgeting Gamesmanship” published in *Academy of Management Executive*, Bart (1988) articulated part of the dilemma managers as well as leaders face as they are trapped in annual performance ritual that limits innovation, competitiveness, creativity and productivity. Bart’s (1988) suggestion goes a long way in situating the complexities of traditional budgeting in terms of business success. It is however a means by which companies get an idea of how well to run companies as well as how to measure companies’ performance. This process entails a measurement of how companies are meeting their income goals,

ensuring how organisations meet their expenses in accordance with predicted levels and how to control organisations financially. The practice of budgeting essentially involves an oscillation, which moves between estimates of workable performance and goals of desirable performance (Emmanuel et al, 1990; Man & Dima, 2010). Although when administered “in good time”, budgets facilitate resource allocation, financial control, coordination and planning.

Beyond this, budget has been criticised following the realities of global economic meltdown as well as vagaries that buffet organisations in recent time. Contemporarily, there is need to consider putting back confidence into investors, employees and customers in order to gear up for competition in the recent volatile financial and business environment. The global financial crisis, which the former US Federal Reserve Chairman, Alan Greenspan, once described as “once-in-a-century credit tsunami” has threatened the foundation of financial activities as well as organisational performance in the world over. Avgoules (2008) stresses the root cause of global economic paralysis, which resonates with budgetary impropriety as well as crash in housing market, unsecured loan approval, lack of corporate governance and diminished ethical leadership and corruption, among other variables.

The erstwhile Greek Prime Minister, George Papandreou’s statement corroborates this position: “corruption, cronyism, clientelistic (sic) politics, a lot of money was wasted basically through these types of practices” (Williams, 2010) as well as budgeting constraints. Since the global financial crisis affected virtually all business transactions around the globe especially the financial industry, the need to rethink budgeting is crucial. Accordingly,

“the global financial crisis led to the deterioration of government budgets and finances as nations utilised public expenditures to provide stability and stimulus ... Greece’s budget deficit reached 15%, Ireland’s was 14.3%, Spain’s was 11.2%, Portugal’s was 9.3% and Italy’s 5.3% of the GDP in 2009...” (Sandoval et al., 2011, p. 3-4).

The incidence as well as restrictive dynamics of budgeting in recent time made the US Commission co-chair, Erskine Bowles, to alert the world of this financial cancer “that will destroy our country [the world] from within” (My parenthesis; Balz, 2010) if not tackled. Thus, the realities of the present have necessitated a reconsideration of the suitability of budgeting in the 21st century.

Transcending the Allure of Budgeting: Managing in the Age of Turbulence

In harnessing organisations’ resources as well as managing organisations effectively in the period Greenspan (2007) tagged the “the age of turbulence”, the traditional idea of budgeting, which was formerly developed in the 1920s is under

serious pressure in the present era in the wake of recent practical financial situation. As a result, organisations and managers have started shifting attention from what Barsky & Bremser (1999, p.3) call “one-dimensional financial models” towards “integrated frameworks to measure performance”. This method inheres in the Balanced Scorecard (BSC) schema, which aggregates all possible approaches of measuring performance including achieving organisational transformation (Pienaar & Penzhorn, 2000). When considered from the prism of management philosophy, this approach is in parallel with what Margaret Wheatley described as the “new science” (1994), a moment that conflates creative energies as well as moderates chaos in the entrepreneurial world. Accordingly,

“... the Balanced Scorecard has its greatest impact when deployed to drive organisational change. In a rapidly changing environment, innovative firms are increasingly using the Balanced Scorecard to Identify and communicate key factors that drive future values” (Pienaar & Penzhorn, 2000, p. 203).

In tracing the genesis of this organisational innovation approach as well as in consonance with the new financial management trend, Argyris, was among the first theorists that considered the limitations of traditional budgeting in his book, *The Impact of Budget on People* (1952, p. 35).

In this book, Argyris articulated the dysfunctional effects of using budgets only to gauge performance as well as measure organisational growth. Following in the footsteps of Argyris were other management practitioners such as Hopwood (1972) and Otley (1978) among others, who considered the importance of other accounting and performance measures: Reliance on Accounting Performance Measures (RAPM), Activity-Based Costing Management (ABCM), Customer Value Analysis (CVA), Economic Value-Added (EVA), Performance Prism (PM), Quality Management (QM) and our focus in this paper, the Balanced Scorecard (BSC) approach among others. The BSC method brings to our attention contingency issues associated with budgeting and variance analysis, which are part of the bane of traditional budgeting system.

The radicalisation of traditional budgeting paradigm also saw the development of “Beyond Budgeting”, a concept that pays attention to how organisations are best apprehended by looking at the entire value delivery system rather than its separate units (Hope and Fraser, 2003). It is within the confines of this new way of assessing organisational performance and value creation that Beyond Budgeting Round Table (BBRT) was established among other platforms aimed at transcending limitations of traditional budgeting. In congruence with this, in an interview, Jeremy Hope, one of the architects of traditional budgeting criticism, averred that the “... traditional accounting was no longer able to provide managers with relevant information for decision-making in today’s information

and knowledge economy... we need a new approach to management” (2003, p. 1) for organisational transformation particularly on the heels of the global financial malaise.

In financial management study and in other areas of management, it has long been established that budgeting is a veritable instrument for management control. While this approach is commendable, however, a number of problems beset this system of financial control and management. These challenges are encountered when organisations exclusively depend on budgeting management control. In the 21st century, it has been strongly argued that budgeting is time-consuming, that means that organisations spend much time preparing budgets, which limit businesses from performing. As noted by Jack Welch, former CEO of General Electric,

“budget is the bane... It should have never existed... Making a budget is an exercise in minimalisation. You’re always trying to get the lowest out of people, because everyone is negotiating to get a lower number” (Loeb, 1995, p. 145).

It has also been argued that in the 21st century, budgeting limits organisational change and transformational leadership; this makes organisations or businesses to focus on cost reduction instead of value creation, a gateway to organisational growth and competitive edge.

Besides, budgets in this era have been considered to be merely fixed performance contract; they equally do not impact on strategic implementations of organisations’ programmes that support business expansion, creativity and innovation. It is to this end that Hope and Fraser (1997, 2003) have indicated that organisations should go “beyond budgeting” in order to stay afloat in their management control for business growth. In the thinking of Hope and Fraser (2003), the traditional budgeting system is out of sync with the 21st century, and should not be the best approach to sustain change, value creation, competitiveness and corporate growth. In this regard, recent models of financial management have arisen which consider alternative approaches for controlling organisations financially than the traditional budgeting system that is limiting, organic and non-developmental (Hansen et al, 2003; Lukka, 1988).

Within the same frame, budgeting has been considered as a sheer relic in the 21st century. In his article in *Harvard Business Review*, Jensen (2001) contends that traditional budgeting is utterly “broken”; Wallander (1999) sees it as “unnecessary evil”; while Gurton (1999) in his piece, “Bye-bye Budget” sees budget as “a thing in the past”. In the modern business environment, which is very competitive, innovative, and based on knowledge economy, budgeting is no more relevant as businesses could thrive as well as make sound financial management

decisions without recourse to traditional budgeting system. A critical survey of financial management practice in recent time suggests an increasing discontent with traditional budgeting within establishment regarding their budgeting system (Hope and Fraser 2003). In this direction, according to Horngren (2004, p. 210) it has been noted that “numerous managers are extremely unhappy about budgeting”.

Furthermore, against the backdrop of traditional budgeting not guaranteeing successful, competitive enterprise management, the Beyond Budgeting Round Table (BBRT) was set up in the 1990’s following “Beyond Budgeting” conferences held to ascertain why traditional budgeting is no longer applicable. This approach was a response to growing dissatisfaction with the old and the tried method of financial management which paid undiluted attention to traditional budgeting, a barrier to change management as well as strategic performance. Thus, traditional budgeting resonates with “managing by the numbers”, which limits organisational innovation and value creation. The notion of “fixed performance contract” that potentially leads organisations into performance trap (Player, 2004), an unchanging method of driving energy and growth, is equally underwritten by traditional budgeting method.

Measuring Organisational Performance through Balanced Scorecard Approach: Farewell to Budgeting?

Although traditional budgeting is underscored by how organisations measure performance as well as underpinned by methods of following through on targets. However, in recent time, firms have moved from unilateral financial models to integrated paradigm to evaluate performance, which is the mainstay of beyond budgeting approach that finds resonance in balanced scorecard model, as well as balanced scorecard model. This is the focus of balanced scorecard model. This is akin to strategic alliance method that is innovative, integrative. This new approach places premium on process re-engineering, activity accounting and co-operation amongst diverse organisational units. This technically brings down the barriers of control, command and hierarchy that kill innovation and value creation. In this light therefore, given the volatility observable in the global markets due largely in part by social, financial and political tempest globally, the need to rethink the significance of traditional budgeting is crucial. This is so because right investment decisions, appropriate value creation and relevant financial decisions are largely tied to the nature of budgeting practice as well as organisational model in a given organisation (Barsky & Bremser, 1999). Therefore, there is a need to transcend the contradictions stemming from traditional budgeting model in order for organisations to stay afloat in the current global financial and business meltdown. This will also impact on performance management.

Performance management is a vital aspect of managing organisations as well as budgetary tool (Weiss & Hartle, 1997). It provides organisations with the basis or yardstick for improving, developing and nurturing performance for general performance and growth of organisations. Measuring organisational performance is a critical factor in ascertaining how organisations are faring in relation to profitability, decision-making, productivity, operation, efficiency, service provision and value creation. For organisations to function strategically, leaders and managers are constantly in need of information regarding organisational health so as to evaluate appropriately as well as strategically how to make progress (Doganis, 1992). Organisational performance suggests aspects of organisation that is in trouble or making progress for overall benefit and competitive edge of such organisation. Thus, addressing performance management is central for organisational growth; this is even redoubled in the wake of the global financial crisis. Armstrong (2009) takes this further,

“Performance management is a systemic process for improving organisational performance by developing the performance of individual and teams. It is a means of getting better results by understanding and managing performance within agreed framework of planned goals, standards and competency requirements” (p. 618).

Thus, in transcending the problems associated with budgeting, this paper shall be undertaking the Balanced Scorecard model as critical in reinventing organisational performance in the 21st century given the pressures of the global financial crises.

In this same vein,

“a good measurement system needs to be continually changed in order to remain effective. As one set of goals or objectives is satisfied, or as the set of measures becomes too gross to detect improvement, a new set need to be articulated, and the old set needs to be discarded or modified” (Dixon, Nanni & Vollmann, 1990, p. 4-5).

The Balanced Scorecard was developed by Robert Kaplan and David Norton of the Harvard Business School in 1993. Among other approaches to measuring organisational performance, the Balance Scorecard (BSC) is the most innovative and all-embracing method of ascertaining organisational health (Paranjepa, Rossiter and Pantano, 2006; Pienaar and Penzhorn, 2000). This method of gauging performance management is inextricably linked to value creation and the process of transcending inhibitions inherent in traditional budgeting as well as

appropriate in taking charge of market situation in volatile, changing business environment. Accordingly, in the opinion of Johnson (2007),

the Balanced Scorecard is the most widely applied performance management system today. The BSC was originally developed as a performance measurement system in 1992. Unlike earlier performance measurement systems, the BSC measures performance across a number of different perspectives – a financial perspective, a customer perspective, an internal business process perspective, and an innovation and learning perspective. Through the use of the various perspectives, the BSC captures both leading and lagging performance measures, thereby providing a more ‘balanced’ view of company performance” (p. 1).

This is graphically represented in Fig. 1 below:

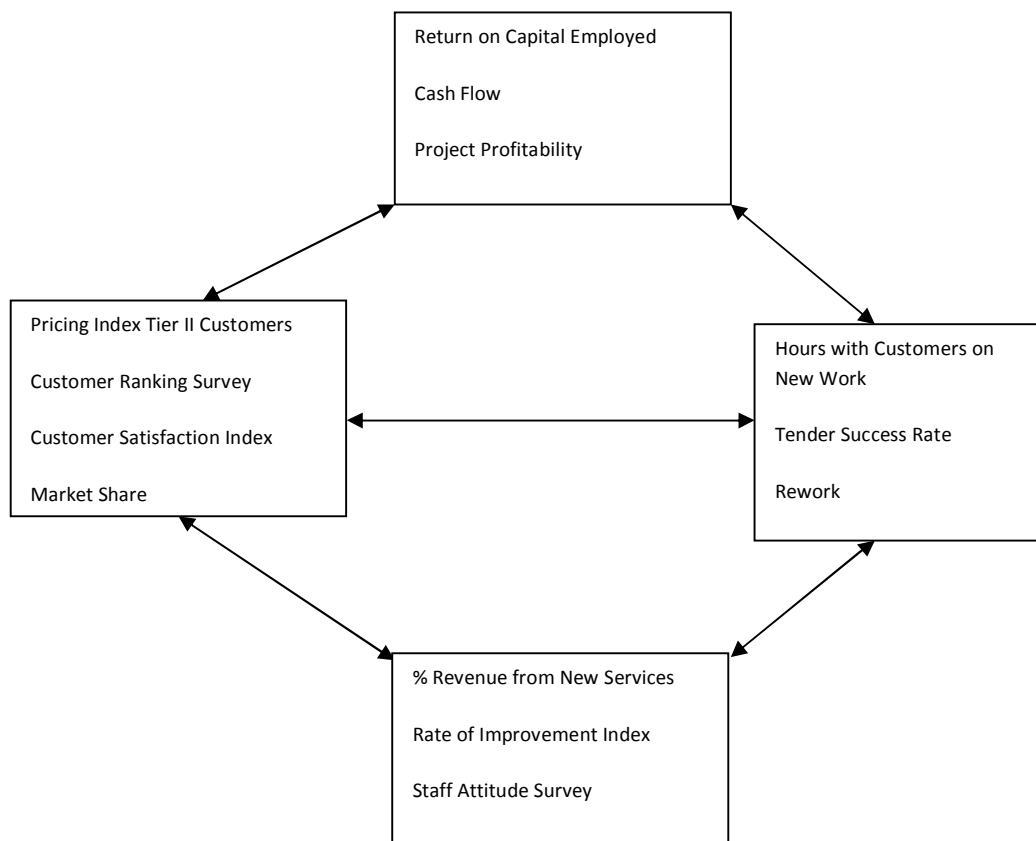


Figure 1

Source: Kaplan & Norton, 'Putting the Balanced Scorecard to Work', *Harvard Business Review*, September-October, 1993.

Thus, in relation to the present study, BSC is an effective barometer of gauging value, growth and competitiveness in organisation. This shall be highlighted below.

- BSC encourages change through transformational, shared leadership.
- It helps in harnessing all facets of business strategies for integrative, balanced approaches to organisational management.
- The BSC reflects organisation's strategic planning as well as leadership for value co-creation.
- It provides a framework for shaping individual commitment as well as goals for the overall benefit of organisation.
- It is a facilitator of innovation as well as organisational commitment.
- The BSC is a bridge between traditional budgeting and dynamic, innovative means to managing organisational crisis.
- It brings about stakeholder satisfaction and contribution factored in because everybody is given a chance to contribute to organisational goal.
- It encourages process development through engagement mechanisms that are geared towards organisational parts, not whole.
- It enhances of consensual change as well as management.
- BSC facilitates the reinforcement of strategic leadership and management.

In a recent editorial in *Harvard Business Review*, Adi Ignatius surmised the rationale of BSC approach: "the problem ... is that we simply don't measure the right things ... Accurate costing ... unlocks a whole cascade of opportunities ... that will accelerate the pace of innovation and value creation" (2011, p.12). This is the mainstay of Balanced Scorecard model.

Conclusion

Budgeting plays very crucial roles as a framework for organisational planning, control, coordination and management. It is in the main, a central aspect of financial management in organisations. Thus, the essential aim of budgeting is to co-ordinate, plan, control, and for the foremost part, manage organisations for business growth and competitive advantage. However, in the wake of the urgency of the 21st century management as well as recent global financial meltdown, the traditional budgeting system that sustains the advantages of budgeting is being reconsidered by financial management experts, leaders, managers and business

practitioners. This change in the way (traditional) budgeting was being considered has spawned a groundswell of ideas and approaches in accounting and financial management which now see budgeting as being a system that resides in the past; a method not fit for the 21st century. However, while budgeting practice has frequently been criticised in the accounting literature, there have been calls for a re-examination of the criticism levelled against this practice. Thus, even though this system has its disadvantages, it could be a meaningful method of managing organisations. Nevertheless, as this paper proposes, the attractions of budgeting need be transcended for better managed organisations in the contemporary period.

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**POZA BUDŻETOWANIEM: OCENA PRZYDATNOŚCI BUDŻETU NA
DZIAŁANIA ORGANIZACYJNE W 21 WIEKU**

Abstrakt: Budżety są ważnymi instrumentami zarządzania organizacyjnego, kontroli i planowania. Podążając za współczesnymi wyzwaniami gospodarczymi i radykalną zmianą struktury gospodarczej, spowodowanej zmiennością światowych rynków finansowych, występuje coraz większa potrzeba ponownego przemyślenia budżetu. Także, czynniki takie jak zwiększone oczekiwania akcjonariuszy, wpływ nowych technologii, gospodarka oparta na wiedzy, innowacje i inne czynniki organizacyjne, wpłynęły na to jak menadżerowie myślą o firmach w relacji do budżetowania. Ze względu na ograniczenia stawiane przez tradycyjny system budżetowania jak również ze względu na ostatnią, finansową zapaść globalną, występuje nacisk na menedżerów i liderów aby opracowali oni inne sposoby efektywnego zarządzania organizacjami w zakresie produktywności i konkurencyjności. W niniejszym artykule użyty został model Zrównoważonej Karty Wyników jako alternatywnej metody w stosunku do tradycyjnego systemu budżetowania. W związku z tym, głównym problemem tego artykułu jest wyrażenie ograniczeń (tradycyjnego) budżetowania w stosunku do Zrównoważonej Karty Wyników, jak również w kontekście tego co, jak Hope i Fraser (2003) nazwał schematem „Poza budżetowaniem” dla bardziej efektywnych sposobów zarządzania organizacjami w 21 wieku. Dylemat „pułapki rocznej wydajności” także został zamieszczony w niniejszym artykule. Jak budżet ogranicza innowacyjność, wpływa i generuje wartość sposobów zarządzania organizacjami poprzez instrumenty kontroli i mechanicznej koordynacji. To wszystko negatywnie wpływa na poziom produktywności.

超出预算的诱惑：在二十一世纪评估企业绩效的所需预算的适用性

摘要:预算是管理、控制以及规划企业的重要手段。面对当代商业挑战的紧迫性和由于全球金融

市场的波动性导致的业务结构的根本性的转变，有越来越多的需要用来重新考虑预算。此

外，一系列的因素影响管理者如何考虑与企业相关的预算，这些因素包括不断

提高的股东期望、新技术的影响、知识经济、创新以及其它企业。鉴于传统的预算系统以及最近的全

球金融危机的紧迫性所带来的局限性，管理者和领导者对制定其它方法来有效地管理组织

企业的生产力和竞争力感到压力。在本文中，平衡计分卡模型将被用来作为一种替代传统

的预算系统的方法。因此，本文主要关注的焦点是与平衡计分卡(BSC)方法相比，传统的预

算系统的限制。本文还阐明在被Hope and Fraser
(2003) (2003) 称为“超预算”的背景下，

在21

世纪更有效的管理组织方法。“年度业绩不振”的困境，也有所阐明。由于预算限制

创新、流动以及价值生产通过其机械控制般的协调方法来管理企业，导致困境中的企业只

能充分利用它们的机会。这对生产力产生了负面影响