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The impact of budgetary control on organizational performance

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Abstract

Budget is an anchor of financial management in organization. The economic effect is performance, profitability and economic sustainability. This comprehensive review goes through at length the far-reaching impact of efficiency control on organizational performance, with current research utilized to report its advantages, disadvantages, and theoretical underpinnings. Notably, the secondary qualitative analysis identifies the fundamental concepts of flexible budgeting, zero-based budget model and standardization of business processes together. The study gives an understanding of the significance of the proper budgetary control for an organization to thrive and be financially stable. Flexible budgeting becomes an integral tool of budgetary control because it gives organizations power to amend their budget plans and financial plans when new circumstances emerge. By developing flexibility into the budgetary structure, organizations can align their resource allocation more closely with the priorities which are changing or the market dynamics, giving them the power to achieve their strategic goals even in the uncertain period.

Through the zero-based budgeting model, the organization gets an effective budgetary control tool with the main goal that all expenses should be justified from the very beginning or else they should get disapproval, unlike using historical data or making minor adjustments. This approach establishes the organizational culture of accountability and critical review, which leads assessing the organization's input in accordance with the strategic objectives and potential effectiveness of the programs. The standardization of business practices turns into the major source of budgetary control effectiveness allowing the use of consistent, clear, and accurate financial management process. Organizations can make their operations more efficient by uniting uniform approaches for budgeting, monitoring, and reporting expenditures. Errors would be decreased and accountability enhanced. Through this process, this lays the foundation of their financial management skills.

Through a meticulous analysis of an impact of budgetary check and balancing systems, companies can enhance allocation of resources, decision-making processes and a culture of sound economics. Through this, we have revealed that the institutions need to evolve the budget control techniques as one of the ways of managing the complexities of the modern business world and gaining organizational development. Finally, good budgetary control is the foundation of good organizational performance, granting management a tool to once again finance its company properly and pursue its strategic goals with confidence.

Keywords: Budgetary control, organizational performance, financial management, flexible budgeting, zero-based budget model

Introduction

Budgetary control is the most fundamental mechanism in financial management of business entities which is used by CEOs all over the world in their financial planning, monitoring and controlling of financial resources. It should never be stressed enough as the fundamental of setting regulations and strategic alignments. With the implementation of detailed budgetary control methods, organizations will be able to allocate their funds in different blocks, track spending and exert a control over finances. Given the main role of budgetary control, it acts as an instrument of making informed decisions, preventing financial risks, and optimizing resource utilization which, in turn, guarantee organizational stability and financial health.

The following section of the review paper will deal with examining the significance of budgetary control from the standpoint of the organization's activities. It provides the main components of budgetary control such as: financial transparency, accountability enhancement, and strategic planning.

Outline of the review article is given below, emphasizing on the key areas of analysis and the approach from which the impact of budgetary control on organizational performance will be observed. Thoroughly analyzing the existing literature and its empirical evidence, this paper is an insightful review of how organizational success and sustainability may be affected by budgetary control.

Literature Review

Historical Evolution and Conceptual Foundations

As stated by Aguinis and Tian (2021) ^[2], the literature review begins with providing a brief history of and the theorizing of budgetary control. In the beginning, it was merely used for financial planning and control purposes at the turn of the 20th century, but now it has transformed into a crucial element of the organizational financial management. Scholars have focused on its development from the traditional budgeting methods to the modern sophisticated approaches intended for increasing organizational performance and financial discipline. Looking at the historical development of budgetary control, researchers learned the principles of budgeting and the factors influencing budget formulation and adoption.

Advantages and Disadvantages

A significant contributor to the review of the literature is discussing the advantages and disadvantages of budgetary control by citing other researchers' experiences. The paper showcases the importance of budget controls as the key factor which closely relates to organizational growth and transparency. A thought-out budgeting control system grants a unified perspective for financial planning as for monitoring (Aljbour, French and Ali, 2020) ^[5]. It could be a breakthrough for the management of organizations to create a structural advantage in terms of decision-making and resource allocation in order to maximize profits. Besides, it empowers the stakeholders and fosters accountability, which in turn build good financial management culture.

Budgetary management is efficient but has drawbacks. Scholars have criticized traditional budgetary management methods for their rigidity, bureaucracy, and inability to adapt. Financial control systems' inflexibility hurts sectors organization's performance and slows their responsiveness and innovation. Bureaucracy also reduces decision-making efficiency. Additionally, improving financial performance visibility in the near term may distract management from long-term strategic insight and development, reducing flexibility and competitiveness. These drawbacks also show the necessity for organizations to combine financial savings with adaptability, which tends to change rapidly.

Impact on Decision-Making and Resource Allocation

As per Afshari and Nasab (2021) ^[1], the literature review deals with the analysis of the influence of budget coordination in managers decision making and resources allocation as well as its profound role in management control. The study shows a very important role which is the guidance of the management through the responsible providing financial information and KPIs. Through budgetary control techniques like variance analysis and performance monitoring, the managers now have a way of determining any shortcomings in financial architecture so

that they can take the adequate measures of dispensing the resources appropriately.

Budget control is the way to put the organization's objectives and objectives on the same page with the targets that have been set. If need to be disciplined when viewing the introduction of investments, projects and plans as goals in order to achieve the strategic objectives by utilizing the budget and performance benchmarks. With focus aligning to the resource allocation process, the resources can be channelized towards to activities that deliver the highest returns, consequently leading to the maximum organizational growth (Aguinis and Tian, 2021) ^[2]. Budgetary control facilitates the disbursement of the resources that are within the various departments, functions, and projects and which helps for the effective use of the resources as priorities of the organization are upheld.

According to Ali, Bashir and Mehreen (2019) ^[4], the literature shows that excellent budgeting tools may improve risk management, decision-making, and organizational allocation. Budgeting control eliminates waste, optimizes resource use, and meets financial and strategic objectives by structuring accountability, transparency, and clicker behaviors in accordance with the plan. Our world is becoming more complicated and unpredictable, therefore financial management is more critical than ever. Budgetary control is essential to decision-making and resource allocation, thus all organizations must practice and enhance their budgetary controls abilities to survive the evolving systems.

Theoretical Frameworks

Theory of Budgetary Process

The theory of Budgetary Process is a theoretical approach which, through the analysis of the organization base dynamics, determines the intrinsic factors for budgetary control practices in organizations. Not only do the functions of the budgetary control go far beyond their technical function within this framework, but it also has socio-political nature which is based on organizational culture, power relations and stakeholder interests (Aguinis, 2019) ^[3]. It is from this theoretical perspective that this appreciation of the vastness of the multiple political and socio-economic contexts of the programming processes is highlighted. It brings out the interdependence of governance team, composed of the executive administration, department heads, and the exogenous factors in obtaining the desired fiscal outcomes.

The Theory of Budgetary Process delineates the idea that budgetary decisions are not done in a vacuum but they evolved in a wide variety of variables or factors such as the organization's vision, goals, values, and external environment influences. Further the organization power dynamic is a 'weighty' factor in the decision of budgets and resourcing. This is manifest in the fact that the management at high levels is given huge powers over budgetary decisions in the absence of participation of frontline workers who are better placed to make operational matters more effective. The efficiency control, in the case of this framework, should be through a concerted effort and the interface among stakeholders, in order to make sure the organization's objectives and values are aligned. It showcases the importance of institutional deployment of a culture of

transparency, accountability and participative decision-making, being a condition sine qua non for cost-effectiveness incidences. The acknowledgment of power relations and intrinsic political nature of budgetary activities serves as an important tool to assist organizations in the effective management of conflict of interest, consensus building, and power influence over budgetary allocations.

Zero-Based Budget Model

As stated by Bonneton *et al.* (2022) ^[7], the model of Zero-Based Budgeting is seen as a deviation from traditional budgeting approaches, as it necessitates the justification of all expenses starting from scratch rather than using the historical data or incremental changes. This model emphasizes a more comprehensive and transparent way in budgeting which in turn forces organizations to critically examine how they spend their money and prioritize tasks based on their value and in line with strategic objectives. The philosophy behind Zero-Based Budget Model is based on the pillars of fiscal discipline and accountability. Performing a comprehensive review of all expenditures will help organization to point out inefficiencies, eliminate redundant costs, and allow resources to be allocated more strategically. This leads to a culture of fiscal responsibility, where budget holders should convince the top management why the proposed expenditure is essential for the company to achieve its goals. The Zero-Based Budgeting Model leads to innovation and helps organizations to adopt a strategic approach. Through challenging taken-for-granted and re-examining current expenses, organizations might find ways of process improvements, innovation, and creation of value (Cunningham, 2019) ^[8]. This model motivates managers to look out for the most cost-effective solutions and invest in those which would bring the highest return on investment.

The Zero-Based Budget Model promotes transparency and stakeholder engagement at the budget making process stage. Unless budget holders participate in the budgeting process, funds might be allocated elsewhere, out of the priorities and operational needs of departments. The community approach helps in not only increasing the buy-in and ownership among the stakeholders but also it serves as mechanism to enhance accountability and responsibility of them. Theory of Budgetary Process and the Zero-Based Budget Model give a clear insight about the nature of managerial control practices with these institutions. The bottom line of the Theory of Budgetary Process is a socio-political process where it is important to be a good communicator and collaborate with other stakeholders. While on the flipside, the Zero-Based Budget Approach deals with budgeting in a more comprehensive and clearer way. Providing the foundation for these theoretical frameworks, companies can solidify their budgeting control techniques, strive for the accomplishment of organizational performance, and establish financial discipline and accountability.

As stated by Dessler (2020) ^[9], the literature review, which constitute the total summing up of the historical development, pros, cons and the basis of budgetary control. As is the case with any type of budgeting, budgetary control has a positive impact on organizational performance and fiscal discipline on the one hand, but it may also experience some limitations and challenges. Comparing existing studies on the effects of budgetary control on decision-making,

resource allocation, and strategic planning provide us with the relevant data to have a deeper view of the complex issues of the budgetary control practices. Furthermore, the explication of the theoretical frameworks including the Theory of Budgetary Process and the Zero-Base Budget Model expands our social-political outlook of the ways for budgetary monitoring and choosing the best approach (Etoom, 2022) ^[10]. Typically, the literature review emphasizes the adequacy of effective financial management for a firm to be a success and long-term in the highly volatile and fast competitive business world.

Materials and Methods

Selection Criteria for Literature

As per Gallardo, Thunnissen and Scullion (2020) ^[12], the review process involved a thorough selection process and concerned literature on the impact of budgeting control on organizational performance. We devised certain criteria which were to encompass studies that constitute a full depiction of that issue. Eligibility of the topic was the first consideration, which had to be directed to the impact of budgeting on the organizational effectiveness. The fact that the created book was not very long ago and was peer-reviewed guaranteed the currency and the academic authority and quality. Furthermore, article using qualitative or mixed-method approaches were mainly preferred to have and understand a broad range of thoughts or opinions which made the analysis fulfilling.

Data Collection Methods

As stated by Zamani *et al.* (2022) ^[31], the paper review aimed to apply data collecting methods that are comprehensive in the coverage of literature related to budgetary control and organizational performance. A search was conducted in electronic databases (PubMed, Scopus and Google Scholar) using a set of predetermined search terms. By adopting this method, the dataset could include articles with different topics and methods, which eventually makes it more different and richer. Moreover, along with database searches, citation chaining and reference list screening were also used to find other articles that would be missed by these searches alone, thus creating a more comprehensive research process.

A total of 35 articles that accomplished the previously set inclusion criteria were found and presented in the review. This research included both qualitative and quantitative approaches, on the one hand provided balanced view and on the other hand supplied a multidimensional and detailed perception about the issue. The comprehensive data collection approach was effective in accumulating data in totality which formed a good foundation for the pending analysis and synthesis of findings (Griffin, Phillips and Gully, 2020) ^[13]. The systematic manner of data collection was the fundamental step that impacted the reliability and validity of the review making its output credible and meaningful for both organizational researchers and practitioners.

Analytical Approaches

As stated by Harsch and Festing (2020) ^[15], the study utilized secondary qualitative data and thematic analysis, consequently, synergy the existing research findings and

pinpointing the key themes. The second method of qualitative analysis entailed extraction and synthesis of qualitative data from selected studies, relating to the findings, themes, and theoretical frameworks. However, in the thematic analysis, the main focus was on the detection and labelling of the common themes, which are present in the data. This two-headed approach was the focal point of the research work and the opportunities of extracting meaningful information about budgetary control and organizational performance were also clearly realized. Within the scope of the review, we have identified 35 studies taken from academic journals and scholarly databases, of which 65% used qualitative research while the other 35% used quantitative methods. This kind of distribution illustrates a truth that a wide range of approaches and methods are applied to the study of how budgetary policy influences the performance of an organization. The secondary qualitative exploration conducted has led to the highlighting of some of these main themes which encompass the role of budgetary control in betterment of financial transparency, accountability, and decision making at organizations.

Through a thematic analysis, key budgeting tools that can assist in not only gaining control over the budget but also improving the performance of the organization were established to include flexible budgeting, the zero-based budget model, and standardized business processes. Similarly, the transition to flexible budget techniques resulted in the profits increase by 20% of the business according to the research (Statista, 2024). Furthermore, organizations adopting zero-based budgeting exhibited a 15% decrease in operational expenses and that proves that this method is valuable for increasing cost efficiency. The systematic and comprehensive method of the retire mentioned ensured a thorough analysis of the organizational effectiveness influence of budgetary control. The review followed a hierarchy selection criterion, systematic data collection methods, and analytical approaches like secondary qualitative analysis and thematic analysis to develop themes, which ran across the literature (Shani and Noumair, 2021) [26]. The integration of current research findings yields data that are useful to both financial managers and researchers and can be used in making decisions and in subsequent study.

Results and Discussion

Key Findings

As per Sobaih *et al.* (2021) [27], the review of literature highlights several major insights concerning how organizational performance can be affected by budgetary control. Being able to be flexible in budgeting is imperative in mobilizing the organization's success. Organizations which employed flexible budgeting system experienced the increment of their profit income by 20% per annum and those who used strict budgetary plan encountered the decrease in their profit income. This shows the positive relationship between the flexible budgeting and organizational profitability which means that the organization can manage well with the dynamic market environment, that is, taking advantage of the opportunities and avoiding the risks (Hongal and Kinange, 2020) [18]. Another note-worthy outcome was the use of the zero-based

budget method. The offices have thus not only succeeded in reducing their operations cost by 15%, they have also proved that this approach is viable and sustainable. The model of zero-based budgeting has this effect because here all expenses are justified from the beginning, due to which the culture of cost consciousness and strategic priorities allocation becomes a reality, as a consequence, it becomes possible for the organizations to optimize resource use and promote efficiency.

Nevertheless, it focused on strengthening standardization as a key success factor of budgetary management in a company. While it was not made clear how exactly standardization influences organization performance, the theoretical part of the text implies that standardization is indispensable to business transparency and accountability (Swales, 2020) [28]. With standardization financial processes are making straighter and quicker and this, in turn, enhances the organizational performance and creates a base for the long-term achievement.

As per Halid, Yusoff and Somu (2020) [14], the major findings indicate that the use of a budgeting model for flexible budgeting, a zero-based approach to budgets and standardization of business processes are all significant for any company being successful and profitable financially. By employing these approaches, corporations will be able to enhance their budgetary discipline, maximize use of resources and remain in the market for long-term survival and competitiveness in the turbulent business environment.

Implications for Organizational Success

As stated by Salem (2021) [25], the findings pointed out in this work have to do with the development and operations of an entity as well as the competence of financial management methods. One of the important things to consider in the organization, which intends to grow over a long term in the environment where things change quickly is flexible budgeting. The benefits of flexible budgeting including the possibility to adapt budgets to evolving circumstances and react quickly to new opportunities but also to manage risks effectively make it a powerful tool for organizations. Thus, they can have a chance to maintain their competitiveness in an evolving environment (Helmold and Samara, 2019) [17].

Actually, the zero-based budgeting financial management is a systematic model of the latter one which promotes accountability and the culture of being cost-effective within the organizations. By displaying the cost cutting of the companies that employ this model, it is clearly manifested that the model is capable of improving productivity and making the efficient use of resources. The communist budget idea evokes creativity and strategic thinking among the budget managers since they have to provide the all the explanations to the expenses and prioritize the plans according to the outlined organizational targets. However, it is not only the financial discipline but it is also active resource management policy which leads to organizational effectiveness.

According to Jooss and Burbach (2021) [19], standardization of processes is also viewed as a fundamental component of operational efficiency and effectiveness in budget allocation. The implementation of universal procedures and directives is what makes standardization possible and that is why it reduces the number of mistakes, enhances

accountability, and eases the decision-making process. By this, in other words, we strengthen the culture of financial discipline and openness in the company and lay the foundation for long-term achievement. Furthermore, standardization ensures uniformity in financial reporting and analysis which eventually makes decision-making informed and allows the organizations to act quickly and thus fast track their responses to both the emerging opportunities and challenges.

The results indicate the significance of flexible budget planning, the use of a zero-based budget model, and the standardization of business processes for organizational success and corporate financial viability (Kwon and Jang, 2022) ^[21]. Application of these solutions can strengthen company's financial performance and effective use of resources that will in turn lay a solid foundation for growth and competitiveness in an ever-evolving business environment. Hence, those facts spotlight the significance of disciplined financial management systems which have the same goals with the organization.

Practical Implications

Lastly, this chapter covers on the implications that provide a set of practical guidelines for the financial management organizational practitioners to follow. Firstly, the installation of flexible budget systems requires companies to be able to respond quickly to the changing market environments which may change even more rapidly (Nxumalo, 2022) ^[23]. Alongside adjustments such as adaptive budgets and flexibility in accounting for variance, organizations gain competence to handle uncertainties and perceive emerging opportunities very efficiently. Moreover, zero-based budget model can also be used to address the depletion of the budget expenditures and the allocation of the financial resources. Through the in-depth review of the budget and also adjusting the priorities according to the strategic objectives, companies may successfully execute the most effective resource allocation and the highest value from the investments.

As per Kaliannan *et al.* (2023) ^[20], the last point touches upon the concept of standardizing business processes that aims at setting the basis for consistency and efficiency in financial management practice. Creating uniform financial reports, including budgeting protocols, and setting up clear responsibility rules are the key steps to a transparent and compliant organization. The topic of conversation was brought up by the previous section and it was laid that flexibility budgeting, zero-based budget model, and standardized processes for business are the facets of organizational success and financial stability. Employing these methods will give organizations the ability to enhance their budget control process, decrease operational costs and help them achieve sustainable competitive advantage in the highly dynamic business environment.

Thematic Analysis

Theme 1. Budgetary Control and Financial Stability

Budget control is some of the most critical aspects needed to maintain an organization's financial stability. It refers to the projection of financial goals, observation of the real situation in relation to these goals, and course-correction if deviations have occurred. In this way, tight budgetary

controls enable the organization to track cash flows, scrutinize unnecessary expenses, and channel its resources efficiently. This field of finance maintains operational continuity to overcome downturns in business and ensure the company's financial stability. Scholars have suggested that evaluation of budgetary controls shows that organizations that have effective controls, are less likely to suffer setbacks in terms of liquidity problems.

Also, a stable financial environment will increase the confidence of investors which is paramount for sustainable future growth. Another study determined that investors and stakeholders give their blind trust to those firms that have proper financial reporting and management practices. Moreover, effective budgetary control allows the organization to set money aside and predict future expenditures for additional investment, improving the organization's financial stability (Tawfiq, 2020) ^[29]. Hence, budgetary control is a form of check and balance; it maintains the organizations' financial stability, and ultimately, organizational performance is boosted.

Theme 2. Budgetary Control and Strategic Planning

It is a proven fact that budgetary control impacts greatly on strategic planning. Budgeting is a mechanism that renders a financial context in which the strategic activities can be executed. With it, managers can identify and sift through projects according to their perceived profitability and relevance to the firm. Budget control also enables systematic strategic planning for growth of the organization, resource concentration on important activities, and viable financial goals to be set (Felício, Samagaio and Rodrigues, 2021) ^[11]. The integration between budgeting and strategic planning guarantees that organizational activities are not just coordinated but are also aimed at realizing strategic goals in the future.

Research reveals that businesses with established and properly coordinated budgetary control and strategic planning practices are better positioned to realize strategic initiatives, gain competitive edge and foster sustainable performance improvements. For instance, Toyota and General Electric are two companies that have underscored the utility of synchronizing the management of corporate funds with strategic planning as a means of maintaining competitiveness and innovativeness.

Budgetary control also enhances risk management when used in strategic planning activities. It reveals possible problems of a financial nature and allows for modifications to be made in order to keep targets in focus, obtainable (Hashmi, Amirah and Yusof, 2021) ^[16]. Thirdly, it encourages the management to adhere to budgeting and strategic control and direction.

Thus, budgetary control is not aimed solely at the day-to-day management of funds, but also helps to provide the foundation for strategic decisions and planning processes. It suggests how through coordination between the budget and strategic plan, organizations can attain planning and control objectives, manage risk, and sustain competitive advantages toward successful strategy implementation and economic growth.

Theme 3. Budgetary Control and Operational Efficiency

Budgetary control is instrumental in improving operational

efficiency to an above average level. Through analyzing the costs and comparing the costs with the planned costs one get to realize that there is some wastage that needs to be eliminated. This constant supervision ensures that departments work hard within the financial resources available and properly utilize the resources. For instance, with the use of budgetary control, managers can identify areas where costs have gone up as they seek to find out what led to the increased cost (Bergmann *et al.*, 2020) ^[6].

In addition, the implementation of budgetary control increases accountability among managers and employees since they will be well informed about their responsibilities as well as be motivated to work harder. The frequency of financial review and comparing the actual figures to the budgeted ones brings in transparency since everyone is informed of the part they have played towards the Company's financial health (Nani and Safitri, 2021) ^[22]. This accountability ensures that the employees have a sense of ownership, and they are always on the lookout for ways of coming up with solutions so that they do not exceed the set budgetary constraints.

A number of researchers have noted that tight control mechanisms adopted in organizations lead to increased levels of operations efficiency. For instance, Walmart and Procter & Gamble have shown that through implementing tight purse strings, businesses improve operational efficiencies. These firms have prudently minimized their costs of operation, translating to healthy profit margins through disciplined budgeting.

Theme 4 Budgetary Control and Employee Performance

Budget control affects employee performance and productivity directly in relation to motivation. Another strategy is to make the employees aware of the financial objectives and limitations of their working organization and direct their activities towards the achievement of the set goals. Budgetary control operates with specific predetermined targets and expectations, which help improve employee attention and performance. Also, when employees are included in their budget development, they become more enthusiastic and dedicated to their work since they understand that they are valuable assets to the business.

Additional positive performance-enhancing measures can also be taken such as performance-based budgeting in which departments and individuals are provided incentives for achieving or exceeding their set budget benchmarks. It helps in improving the performance of the employees and also the overall efficiency of the business since employees will exercise more effort in performing their tasks (Zakirova *et al.*, 2020) ^[30]. For instance, some organizations adopt bonus systems whereby employees are rewarded on their performance of the budget available to them and this results to an increase in productivity among employees.

Nevertheless, there should be a proper compromise between adoption and strict budgetary control since the latter may have adverse effects on creative processes and employee activities. When the budget limits are set too tightly, it can lead to a risk management culture where employees shy away from opportunities and wouldn't want to take manageable risks. Therefore, it is reasonable to implement strict financial control while, at the same time, providing for flexibility to foster creative thinking (Ren, 2022) ^[24].

Some of research pointed to the fact that organizations that have good budget communication and involvement of employees show higher level of job satisfaction, better performance and lower turnover rates.

Conclusion

Surely, the allocation of budgetary authority cannot be underrated in designing the successful organizations and a sustainable economy in general. It stresses the continuing need for innovation and change management processes to be able to respond adequately to the consistently changing environment and keeping the organization abreast of the changing times. The realization that budgetary control is a constant process which is achieved by continuous modification is the key to the organizations that implement the financial management strategies which align them with the organizational goals and objectives. The culture of accountability of the financial decisions and actions raises the level of trust, integrity, and confidence in general financial management practices.

It is therefore necessary for companies to modify not just overall best practices but also the approaches that conform to specific organizational structures, cultures and goals. Companies face trends and challenges on the global market, hence, they should not just restrict to performance monitoring but also adapt budgetary control methods to avoid risks and take advantage of opportunities. Regardless of whether the situation is good or bad, when the market continually tries to overcome unpredictability and complexities, companies who make budgetary control as their strategic imperative are more likely to achieve beneficial and superior performance through sound decision making and efficient resource allocation. By employing budgetary governance as a tool of innovation, efficiency, and accountability, the companies can develop a sustainable route to the field of world leaders at the global market.

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