

A multiple case study examining the adaptive processes of beyond budgeting

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Abstract

The objective of this study is to examine what moving beyond budgeting means, and to estimate the feasibility and radicalism of its ideas. More specifically, this study aims to derive a framework illustrating the ideal features of the entirety of management control systems in the setting of beyond budgeting, and then use it to compare the proposals to the arrangements independently made by the case organizations outside the orbit of beyond budgeting advocates. The objective is thus to understand how organizations use other management control systems to complement budgeting, and simultaneously to discuss the idealizations of beyond budgeting.

The framework used in this study is built on the basis of Malmi and Brown's (2008) conceptual typology of management control systems working as a package. The reviewed literature combines different streams of literature outside and within the field of management accounting, and examines the case descriptions related to the practices of a recent explicit beyond budgeting adopter. The empirical part is qualitative multiple case study in nature, where the practices of two Finnish publicly listed case companies are being examined. The used data was collected through semi-structured interviews during the fall 2013.

The developed framework contains the normative prescriptions of the beyond budgeting literature for the control package design, arranged around three sets of control. When it is being used to analyze the practices of the reviewed organizations, the results are twofold: Firstly, the case companies are observed to have arranged their control systems to mitigate the budget-related problems largely in a similar way as suggested in the beyond budgeting literature. Secondly, it is found that not even the practices of the explicit beyond budgeting adopter meet all the proposed ideal features of beyond budgeting.

The findings of this study suggest that despite the principles are already being largely in use in each of the reviewed organizations, beyond budgeting is unable to answer to the organizations' call of adaptive cybernetics. It is also concluded that the question should be more about moving beyond the problems of budgeting, instead of moving beyond the budgets altogether.

Keywords beyond budgeting, management control systems

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Tiivistelmä

Tämän tutkielman tavoitteena on tarkastella, mitä yrityksen siirtyminen beyond budgeting -ajatteluun käytännössä tarkoittaa sekä arvioida sen periaatteiden käyttökelpoisuutta talouden suunnittelussa. Tätä varten tutkimuksessa pyritään rakentamaan teoreettinen viitekehys kuvaamaan johdon ohjausjärjestelmien kokonaisuuden ideaalia beyond budgetingin suositusten valossa. Lisäksi tutkielmassa vertaillaan kahden beyond budgetingista ulkopuolisen case -yrityksen budjetointikäytäntöjä ja tarkastellaan niistä tehtyjen havaintojen avulla kriittisesti beyond budgetingin periaatteita. Tutkimuksen tavoitteena on siis ymmärtää, kuinka yritykset käyttävät ohjausjärjestelmään budjetointiprosessiensa tukemisessa.

Tutkielmassa käytetty viitekehys rakennetaan käyttäen Malmin ja Brownin (2008) laatimaa ohjausjärjestelmien kokonaisuuden käsitteistöä. Kirjallisuuskatsaus yhdistelee tutkimuksia niin johdon laskentatoimen kentältä kuin sen ulkopuoleltakin, sekä läpikäy olemassa olevat case -kuvaukset erään viimeaikaisen beyond budgeting -ajatteluun siirtyneen yrityksen käytännöistä. Empiirinen osio on luonteeltaan kvalitatiivinen kenttätutkimus kahden suomalaisen pörssinoteeratun yrityksen käytännöistä. Aineisto kerättiin teemahaastattelujen avulla syksyn 2013 aikana.

Rakennetussa viitekehyksessä jaotellaan beyond budgeting -periaatteet kolmeen eri kontrollijärjestelmään. Tarkasteltaessa yritysten budjetointikäytäntöjä laadittua viitekehystä avuksi käyttäen, havaittiin yhteneväisyyttä budjetoinnin ongelmien ratkaisemisessa niin case-yritysten kuin kirjallisuuskatsauksessa esitetyn yrityksenkin välillä. Toisaalta, yksikään tarkasteltu ohjausjärjestelmien kokonaisuus ei täysin vastannut beyond budgeting -ajattelun ideaalista mallia.

Tutkimuksessa tehdyt havainnot viitannevat siihen, etteivät beyond budgetingin periaatteet pysty vastaamaan case -organisaatioiden tarpeeseen mukautuvasta kyberneettisestä kontrollijärjestelmästä. Lisäksi tutkielmassa esitetään beyond budgeting -ajattelun olevan ennemminkin budjetin ongelmista luopumista kuin budjeteista luopumista sellaisenaan.

Avainsanat beyond budgeting, johdon ohjausjärjestelmät

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1. INTRODUCTION

Budgets play a central role in the management control processes of most contemporary organizations (Østergren, Stensaker, 2011). Indeed, even though originally being developed to be used only as a tool for controlling costs (Hope and Fraser, 2003), the budgetary framework is nowadays considered to be more strategically focused and it is used to accommodate a wide range of other tasks too (Hansen et al., 2003). Therefore it is not surprising to find, that organizations are annually spending huge amounts of resources to produce them (e.g. Åkerberg, 2006).

However, budgets have been commonly criticized for not being able to meet the requirements set by the volatile operating environment of today (e.g. Hope et al., 2011; Libby and Lindsay, 2010; Østergren and Stensaker, 2011). Budgets are for example accused of being exposed to dysfunctional game-playing, data manipulation, and strategic short-termism. They are also seen to restrict organization's knowledge sharing through the reinforcement of departmental barriers, and to prevent other more sophisticated strategy tools from reaching their full power. For example, Hope and Fraser (2003) argue that the commonly implemented balanced scorecards are in reality often constrained by the budgets that are actually running the business. In general, budgets are seen to add only little value, given the time that is required to prepare them (Neely et al., 2003).

To solve the budget-related problems, different kind of alternatives for process improvements have been proposed; activity based-, rolling-, and zero-based budgets all have received a great deal of attention in the academia (e.g. Hansen et al., 2003). Yet, while these methods all have their commonly acknowledged strengths, there are authors arguing that they do not provide unquestionable answers to the problems (Neely et al., 2003). On the other hand, some authors (e.g. Vazonienė and Stončiuvienė, 2012) have tried to combine the best parts of these different alternatives and proposed a budgeting model that comprises all the mentioned methods with different time perspectives to be updated regularly during the year, but at the same time ignore the huge workload that the operation of such model would cause in practice.

The most radical suggestion to overcome the budget-related problems is regarded to be the beyond budgeting movement, where instead of only altering, companies are encouraged to move 'beyond' the budgets. According to its advocates, the main idea is to use the twelve proposed key principles to replace the budgetary control with organizational responsiveness, and thereby adjust the organization's management processes and organizational structures to respond to the needs set by the environment of today (Hope and Fraser, 2003). After few years of hiatus, this movement has recently received an increasing amount of attention as some large companies have started to move beyond the budgets and report positive outcomes. Perhaps the most commonly referred recent adopter is Statoil, which is one of the world's biggest oil and gas producers (Banham, 2012). Other well-known associates include companies such as Ahlsell, Google, Handelsbanken, and Toyota (BBRT.org).

However, despite the increased attention, the beyond budgeting movement has received only a limited amount of independent academic studies compared to other management accounting innovations, and therefore many of the related issues remain unclear (Becker et al., 2010). First of all, most of the studies supporting the concept are done by management consultants and tend to overoptimistically promise numerous enduring improvements all around the organization (e.g. Hope and Fraser, 2003; Hope and Fraser, 2003b; Player, 2003; Hansen, 2011). These promises include for example higher profits, huge cost savings, better motivated and innovative employees, more ethical reporting, and more loyal customers. Another problem is the fact that the literature promoting the concept focuses on analyzing the practices of explicit adopters, and thereby aims to illustrate the feasibility of the ideas with the help of exemplar companies (e.g. Bourmistrov and Kaarbøe, 2013; Østergren and Stensaker 2011; Bogsnes, 2009). Indeed, it can be argued that as the principles of beyond budgeting have originally been derived from the best practices of real-world organizations operating without budgets, studying the practices of those same companies may result in making paradoxical conclusions. Moreover, the literature (e.g. Hope and Fraser, 2003) tends to make comparisons to such organizations that strictly follow the practices of traditional annual budgets, implying an assumption that companies are unable to independently develop their processes. However, in reality the situation is not that straightforward as for example Libby and Lindsay (2010) found that 94% of the mid- to large-sized North-American companies using budgets for control were planning to find ways for process improvements.

On the other hand, also the criticism related to the beyond budgeting often lack detailed analysis of the real implications, and the concept is often rejected based on only slight arguments (e.g. Becker et al, 2010; Vazonienė and Stončiuvienė, 2012; Shaw, 2007). More precisely, the opponents of beyond budgeting argue that the problems of budgeting in general are exaggerated and that companies are using budgets for other reasons than what the advocates propose (e.g. Sivabalan et al., 2009). It is also argued that beyond budgeting would be suitable only for companies with unlimited resources (Vazonienė and Stončiuvienė, 2012) that are operating in stable industries (Libby and Lindsay, 2010). Moreover, Rickards (2006) considers beyond budgeting to support total management action freedom and hence concludes that no company can operate without control. Finally, the fact that only a small minority of organizations is reported be planning to follow the example of the few beyond budgeting adopters is often considered to demonstrate the unfeasibility of the ideas in practice (e.g. Libby and Lindsay, 2010).

As the discussion surrounding the concept lacks objectivity and is such diverse and conflicting, the means and real implications of moving beyond the budgets have remained unclear. Similarly it is unknown how radical the journey would be and whether the implementation would help to solve the proposed budget-related problems. This is despite the fact that academia acknowledges the importance of critically examining the implications of such latest consultancy views (e.g. Vaivio, 2008), and there is a general call for concrete and more comprehensive understanding of beyond budgeting and its relation to organizational practices (e.g. Østergren and Stensaker, 2011). The same demand regards also other strategic management accounting techniques presented in the literature, as many of these innovations are argued to be implemented in practice only infrequently (Langfield-Smith, 2008; Seal, 2010).

1.1. Research objectives

This study aims to objectively examine what moving beyond budgeting really means, and estimate the feasibility and radicalism of the proposed actions with the help of two Finnish publicly listed case companies. In other words, the aim is to first derive a lucid framework from the literature that illustrates the ideal features of beyond budgeting, and then compare the proposals to the arrangements independently made by the case organizations outside the orbit of beyond budgeting advocates. Thus, in contrast to the general

tradition of illustrative beyond budgeting research, the case companies of this study are not part of the beyond budgeting movement. The objective is to understand how the organizations use other management control systems to complement their budgeting processes and simultaneously to discuss the idealizations of beyond budgeting in relation to the organizational reality.

The discussion of the idealizations is further enriched by combining the existing case descriptions of the beyond budgeting practices used in Statoil to the analysis. The aim is to find out whether the explicit beyond budgeting adopter is really capable to meet the ideals suggested in the literature, and simultaneously to analyze the reasons behind the possible differences. Indeed, it is expected that the comparison of the organization-specific differences could provide some interesting insights to the discussion related to the issue of beyond budgeting not receiving further interest neither among the academia nor practice.

In order to gain a comprehensive understanding of the implications, the topic is connected to the diverse literature related to the management control systems (MCS). This is done as Hope and Fraser (2003) underline that beyond budgeting strives for coherence in the requirements of company's strategy, management processes, culture, and leadership style, which all can be considered to be essential parts of the entirety of management control systems (e.g. Ferreira and Otley, 2009). The chosen approach can also be justified as studying the control mechanisms in isolation from the other parts of the system are known to increase the risk of making incorrect conclusions as all the interlinks are not properly recognized (Chenhall, 2003). For example, following the notion of Malmi and Brown (2008), a study might conclude some specific management innovation to be effective even though in reality it might still be the traditional budget that is driving the performance. The holistic approach also provides an opportunity for this study to combine the budgeting research across three theoretical perspectives of social science in which the research has tended to be grown apart: economics, psychology, and sociology. While the economic perspective on budgeting focuses on the agency-theoretic alignment of the interests of owners and employees, examines the psychology-based budgeting research the effects of budgeting on individuals' mental states, behavior, and performance. Finally, the sociology perspective studies how organizational structure and processes serve to influence the employees. (Covaleski et al., 2003)

Hence, this study aims to address the following research questions:

- 1) What are the ideal features of an organization's entirety of management control systems in the existence of beyond budgeting?
- 2) What arrangements have the case companies independently made to their control systems in order to mitigate the budget-related problems?

Much attention is paid on the literature review in order to avoid the problem addressed by Vaivio (2008), where a framework fails to give focus and guidance for the qualitative fieldwork. Therefore the literature that will be examined covers extensively the published articles, books, and case descriptions related to beyond budgeting. On the other hand, as there are studies that have identified a gap between the different streams of control-related literature (e.g. Nixon and Burns, 2005), relevant information is also searched with a broader scope by examining publications not directly connected to beyond budgeting. Similarly, the empirical case analysis aims to offer rich understanding of the organizational practices in use, in order to accommodate proper basis for further discussion.

As the topic of this study is rather broad, it is important to outline the objectives with the following remarks. First of all, the aim of this study is not to give any opinions or managerial recommendations regarding the practices currently used in the case companies. Indeed, the interviews are only used for analyzing the applicability of the ideas of beyond budgeting. Secondly, the aim is not to give any specific comments regarding the truthfulness of the promised benefits that are available when moving beyond the budgets. Naturally, opinions regarding the rationality of the ideas in general are given though.

Nevertheless, despite the principles of beyond budgeting impacting organizations on various different levels and being therefore challenging to comprehensively understand, the approach of studying the implications to the management control system interrelations has previously remained largely unexplored. Hence, this study takes first steps towards the explicit connection of the two streams of literature. This is surprising as the

implementation is generally acknowledged to require analyzing a whole set of controls, and a call for this kind of approach exists (e.g. Østergren and Stensaker 2011; Blumentritt, 2006). On the other hand, there is also a call for better understanding on how organizations use other management control systems to complement budgeting (e.g. Sivabalan et al., 2009), and the managerial relevance of such study has been acknowledged.

1.2. Structure of the study

Rest of this paper is organized as follows. After the introduction, the suggested reasons for budget use and the related problems are being reviewed in Chapter 2. This is done in order to understand the tasks that beyond budgeting should be capable to address and improve. In chapter 3, the framework illustrating the ideal features of an organization's entirety of management control systems in the existence of beyond budgeting is being built. Chapter 4 describes the financial planning practices used in Statoil, based on the existing case descriptions available. Chapter 5 discusses the methodological foundations of this study and introduces the case companies whose practices are under the analysis in chapter 6. Chapter 7 sets the empirical observations against the developed framework, as a comparative analysis between the ideal features of beyond budgeting and the practices used in each of the reviewed companies is being done. The chapter ends with discussion related to the observed weaknesses and paradoxes of beyond budgeting. Finally, chapter 8 summarizes the key findings of this study and discusses the theoretical contribution of the observations. Also the limitations regarding the research design are being addressed, and avenues for future studies suggested.

2. BUDGETING

The need for management control has traditionally been illustrated through the Agency theory of Jensen and Meckling (1976), which examines a relationship where a principal hires an agent to perform services on his behalf. In the context of organization's internal activities, the principal refers to the top management, whereas the agent refers to the lower level management (Østergren and Stensaker, 2011). Control systems are needed to ensure that the agent is acting in accordance to the principal's interests and to decrease the risk of moral hazard.

Budgets are the tools that have traditionally been used for such control purposes in most of the organizations, and therefore in order to understand the requirements and the need for an alternative control system, the reasons and related problems for budget use are now being reviewed. The chapter ends with the introduction of the beyond budgeting principles.

2.1. Reasons to budget

During the years, numerous of academic researchers and practitioners have given their opinions about the most important reasons for the use of budgets (e.g. Hilton et al., 2006; Sivabalan et al., 2009; Libby and Lindsay, 2010; Hansen, 2011). Some of the researchers study the reasons more broadly (e.g. Hansen, 2011), while others aim to analyze the topic more in detail (e.g. Vazonienė and Stončiuvienė, 2012) and with different emphasis. This is natural as there is no universal format for budget design that could be applied everywhere, and therefore each organization should design its budgeting system to focus on the most important issues to that particular organization (Hansen, 2011). Regardless of the tradeoffs made in the design of such system, budgets are in general described to provide a framework where the different activities of an organization are compressed into a set of financial statements (Otley, 1999).

2.1.1. The periodic breakdown

As all researchers tend to emphasize different tasks, this study summarizes the main reasons for budgeting through its role in the different phases of a general business pro-

cess. Following the study of Sivabalan et al. (2009), the included phases are pre-period, intra-period, and post-period. This periodic breakdown is illustrated in Figure 1.

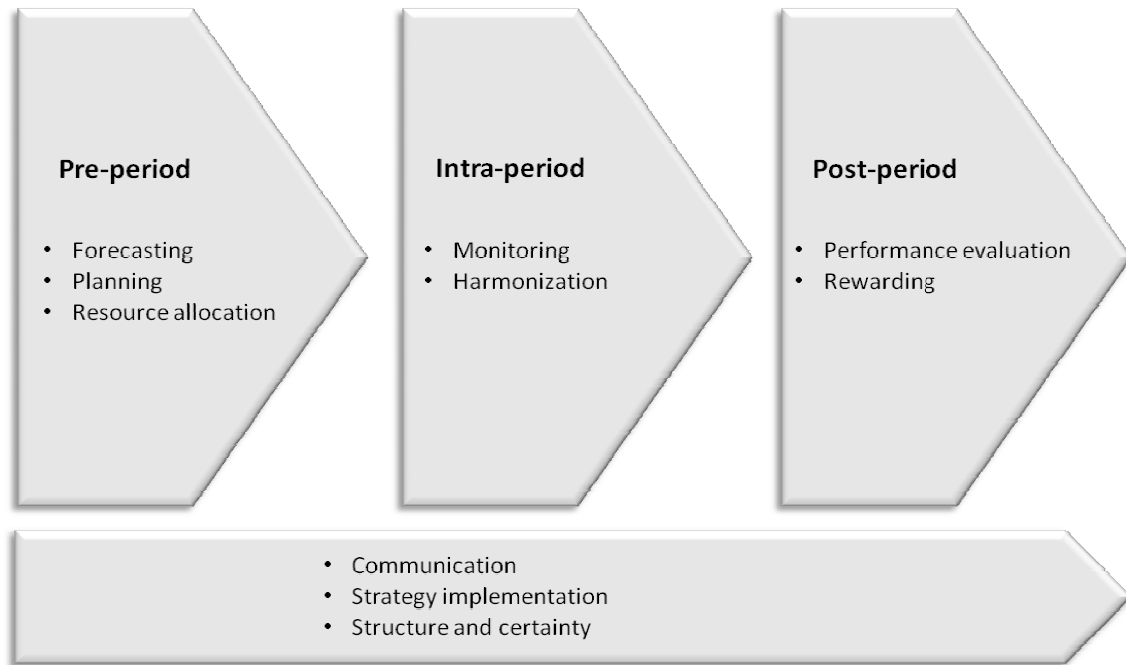


Figure 1: Periodic breakdown of reasons to budget

The pre-period phase refers to operational planning (Sivabalan, 2009) and forecasting (Hansen, 2011). More specifically, budgets are proposed to be used for (1) the delegation of duties, (2) coordination and allocation of resources and expenses, (3) management of production capacity, and (4) the determination of required selling prices (Vazonienė and Stončiuvienė, 2012; Hilton et al., 2006; Sivabalan et al., 2009). Naturally, the actual content of the planning function of a company's budget is highly dependent on the industry the organization is operating at (Hansen, 2011), and therefore at its simplest, a company's budgeting process may include only forecasts for sales and capital expenditures (Gary, 2003).

In the intra-period phase, the focus is on internal control, and budgeting can thus be considered to be a monitoring device for managers and the board of directors to control the operational and financial performance (Sivabalan et al., 2009). The actual results are compared to the budgeted numbers in order to find possible variances, and the underly-

ing reasons for the divergences are determined so that the business activities can be controlled and harmonized (Vazonienė and Stončiuvienė, 2012).

In the post-period phase, the focus of budgeting is on performance evaluation. More specifically, Sivabalan et al. (2009) subcategorize the evaluation function into staff evaluation and business unit evaluation. As the incentives of the employees can be tied to the attainment of the budgets, Hilton et al. (2006) and Vazonienė and Stončiuvienė (2012) attach also staff motivation to the evaluation function, which is a inclusion that seems to be logical as the budget-based incentive contracts are commonly used in practice (Fisher et al., 2003; Gary, 2003).

2.1.2. Other reasons

Finally, there are also other reasons for the budget use that cannot be categorized under only one of the phases. First of them is communication, which refers to the facilitation of the flow of information to guide the employees to strive towards a common goal (Hilton et al., 2006). Indeed, through the resource allocation decisions, budgets can be for example used to stimulate certain type of behavior (Sivabalan et al., 2009) and to communicate business strategies and long-term plans (Vazonienė and Stončiuvienė, 2012). In fact, Libby and Lindsay (2010) found that North-American companies find budgeting as the most important mean for implementing business unit strategy. Moreover, Rickards (2006) notes that in addition to internal communication, budgets are also used to fulfill the information need of external parties, such as banks and investors.

Secondly, Marginson and Ogden (2005) argue that managers confronted with ambiguity in their work may perceive positively the structure and certainty offered by traditional budgets. Thus, in the absence of clear-cut goals, budgets provide clear objectives for managers to be used when directing subordinates in accordance to the directive path-goal theory of financial controls.

2.1.3. Discussion

In their survey, Sivabalan et al. (2009) found that organizations consider planning (=pre-period), control (=intra-period), and evaluation (=post-period) reasons all to be important, even though planning and control reasons are regarded to be more important

than evaluation reasons. However, the post-period reasons should not be underestimated as Libby and Lindsay (2010) found that as many as 79% of the mid- to large-sized North-American companies use budgeting for managerial motivation and performance evaluation. Nevertheless, as Hansen et al. (2003) argue, the usefulness of budgets as a control mechanism is dependent on the stability of operating environment and the quality of the predictive models in use, and therefore excessive generalizations of the relative importance should be avoided.

2.2. Problems of budgeting

Despite the widespread use of budgets, the related problems have been acknowledged and discussed for years (e.g. Lowe and Shaw, 1968; Merchant, 1985). In general, the literature related to the criticism against budgeting can be roughly divided into two main groups; while others argue that the use of budgets is fundamentally defective, others argue that the problems emerge only because of the way that budgets are used. Nevertheless, there is also a strong dissatisfaction among the organizations as most of the companies using budgets for control are planning to improve the process. (Libby and Lindsay, 2010) In this study, the most commonly proposed budget-related problems are classified into three categories.

2.2.1. Game-playing

Using budgets as a strategic tool provokes employees to engage in dysfunctional game-playing (Hansen et al., 2003; Neely et al., 2003), where the budgeted numbers can be manipulated to be more favorable for some of the parties involved (Libby and Lindsay, 2010). Hope and Fraser (2003) list six typical harmful ways to game the numbers to be: (1) negotiating lowest targets and highest rewards, (2) focusing only on achieving the financial targets, not on the customer satisfaction, (3) never providing accurate forecasts, (4) asking more resources than what is really needed, (5) not exceeding the targets, and (6) always spending the whole budget in order to avoid losing the resources in the next period. Other typical examples of behavior of this kind include spending money before getting approvals and shifting the money between different accounts to avoid budget overruns (Simons, 1995).

Libby and Lindsay (2010) found that deferring necessary expenditures to future periods and negotiating easier targets by “sandbagging” are the most common ways of budget gaming, and reported to occur almost in every organization. Thereby it should be very common that the budgets become misleading when used in operational planning as the numbers cannot be trusted to reflect the best knowledge. On the other hand, when the budgets are used to evaluate performance, the managers get compensated and credited for questionable merits.

2.2.2. Time-related issues

Budgets have also commonly been criticized for being too time-consuming to produce (e.g. Neely et al., 2003; Libby and Lindsay, 2010). The budgeting process, where multiple rounds of negotiating and agreeing upon the numbers are made in different organizational levels, usually begins already several months prior to the year which it relates to (Libby and Lindsay, 2010; Gary, 2003). As companies have increased the frequency of their budgeting in order to increase the accuracy of the forecasts in the altering environment, the workload has increased to even greater extent (Hope and Fraser, 2003). And when the employees and managers need to spend so much time on budgeting it naturally decreases the time that they have available for running the actual business. Problem is that despite the large amount of resources that are used to produce the budgets, the majority of organizations still acknowledge that predicting the external changes is difficult and find budgets quickly to become outdated (Libby and Lindsay, 2009). The organizations are hence professed to be inflexible and unable to foresee the changes lying in the environment.

2.2.3. Strategic issues

Another common argument against the use of traditional budgets is that they often tend to be unaligned with the company’s strategy, as the focus is only on the following year (Neely et al., 2003). Indeed, strategic issues usually have longer perspective, and as the managers are trying only to meet the yearly budgets, they easily forget the strategic considerations (Hope and Fraser, 2003). Thus, despite the chosen strategic direction, budgets are seen to strengthen vertical control and thereby constrain the responsiveness of an organization. The increased verticality, for one, reinforces departmental barriers and

restricts knowledge sharing (Neely et al., 2003). Moreover, it has been argued that even though an organization should be strategically forward-looking, the budgets are typically based on the numbers of the previous years (Hope and Fraser, 2003), and therefore their usage is sometimes compared to driving a car by looking through the rear view mirror (Otley, 1999).

Budgets are also being accused of directing the resources only for the best projects within the divisions, instead of the best projects in the whole organization (Hope et al., 2011) and to restrict the drive for constant improvement (Libby and Lindsay, 2010), innovation, and learning (Marginson and Ogden, 2005). Finally, Østergren and Stensaker (2011) address the possibility of a division perversely being credited for obtaining lower costs than targeted, while simultaneously failing to meet its sales targets.

2.3. In the search of a solution

Different kind of alternatives to improve budgeting and to overcome the related problems has been introduced. Such propositions include concepts such as activity based budgeting, rolling budgeting and zero-based budgeting. However, it is also commonly argued that these models have not been able to give complete solutions to the problems. (Neely et al., 2003) Rolling forecast for example is produced periodically during the year to reflect the existing market realities. The more accurate numbers increase managers' trust on the budgets to be used in operational planning, but on the other hand, problems related to the performance evaluation and goal congruence increase as the constantly changing performance targets are difficult to understand (Sivabalan et al., 2009). Against this view, it is no surprise that budgets still play a central role in the management control processes of most organizations (Østergren, Stensaker, 2011) and that companies tend to continue the use of traditional annual budgets as a primary planning tool (Shastri and Stout, 2008). There are also researchers still finding traditional budgets to be vital for any organization (e.g. Marginson and Ogden, 2005; Stevens, 2004).

2.3.1. Beyond budgeting

A completely different stream of literature believes that the budgets are fundamentally flawed, and argue that instead of only improving, companies should move beyond them (Hansen et al., 2003). This movement is called ‘beyond budgeting’ and it aims to maximize operational performance through the adjustment of management processes and organizational structures to better respond to the needs of contemporary organizations (Hope and Fraser, 2003). In other words, the question is not only about abandoning traditional budgeting, but also about using the concept to force organizations to examine and rethink their current management control practices in general. After being originally introduced in the beginning of the 2000’s (Hope and Fraser, 2003), this ideology has recently received an increasing amount of attention (e.g. Bourmistrov and Kaarbøe, 2013; Østergren and Stensaker, 2011).

The concept of beyond budgeting was originally created by an organization known as Beyond Budgeting Roundtable (BBRT), founded by the US-based research and development organization called Consortium for Advanced Manufacturing International (CAM-I) (Becker et al., 2010). The members of BBRT involve academic researchers, consultants, and organizations that all are interested in operating without budgets. The idea is to transfer the knowledge from both academia to practitioners and also reversely from practitioners to academia (Libby and Lindsay, 2010). This setting seems to be reasonable as budgeting can be considered to be a socio-technical artifact, which Berry et al. (2009) define to be an embodiment of both theory and practice.

Usually the journey towards beyond budgeting is described to be a two-step process. The first step is to update the budgeting practices and introduce new adaptive processes making the performance management more relevant to its users, and to reduce the costs of budgeting. The second step is to support the achieved results with radical decentralization of organizational structures. The two-staged process has been illustrated through twelve principles that have been updated several times during the past ten years. (Player, 2003; Hope and Fraser, 2003; Hansen, 2003) The current set of principles is shown in Table 1.

Table 1: Principles of beyond budgeting (Hope et al., 2011)

1. Values	Bind people to a common cause, not a central plan
2. Governance	Govern through shared values and sound judgment, not detailed rules and regulations
3. Transparency	Make information open and transparent, don't restrict and control it
4. Teams	Organize around a seamless network of accountable teams, not centralized functions
5. Trust	Trust teams to regulate their performance, don't micro-manage them
6. Accountability	Base accountability on holistic criteria and peer reviews, not on hierarchical relationships
7. Goals	Set ambitious medium-term goals, not short-term fixed targets
8. Rewards	Base rewards on relative performance, not on meeting fixed targets
9. Planning	Make planning a continuous and inclusive process, not a top-down annual event
10. Coordination	Coordinate interactions dynamically, not through annual budgets
11. Resources	Make resources available just-in-time, not just-in-case
12. Controls	Base controls on fast, frequent feedback, not budget variances

In general, the principles can be summarized to support empowerment, use of relative benchmarked measures, and free flow of information. However, it can be argued that even though some of the principles are more explicit than others, the list in general fails to give very concrete instructions for the abandonment of budgets. And despite the attempts of BBRT to update the principles during the past years, the overall message has remained confusing.

2.3.2. Related contradictions

Perhaps due to this ambiguity, the concept has received a lot of criticism and the academia is far from being unanimous when it comes to the applicability of beyond budget-

ing. First of all, the idea of operating without budgets often evokes suspects that companies would lose control over their operations. For example, Rickards (2006) states that beyond budgeting is based on total management action freedom and therefore it is not suitable to be used for control purposes. Similarly Otley (1999) doubts that an organization could survive without the existence of traditional budgetary tools, even if it would be using other modern performance management tools such as balanced scorecards in its operations. On his more recent publications, Otley (2008) also argues that beyond budgeting lacks the way of maintaining a holistic overview that traditional budgeting system is capable to provide.

Secondly, beyond budgeting is seen to be suitable for only a limited number of companies. For example, Vaznonienė and Stončiuvienė (2012) argue that as beyond budgeting's implementation costs are higher compared to only updating the existing budgeting system, it can be used only in a small number of large companies who have enough money for the implementation. On the other hand, Libby and Lindsay (2010) limit the range of suitable companies even more when they argue that the principles of beyond budgeting can only be used in stable industries; the authors underline that the exemplar companies of beyond budgeting do not operate on businesses where organizations need to adapt quickly. Similarly Rickards (2006) argue that beyond budgeting is not suitable for manufacturing companies as in those companies resources must be planned already in advance, and operating without budgets would lead to resource scarcity or overstock.

Finally, perhaps the most typical skeptical comment regarding beyond budgeting relates to its low popularity in general. For example Neely et al. (2003) admit that only a few companies have truly been able to go beyond budgeting despite many taking steps towards it. Similarly also Libby and Lindsay (2010) doubt that budgets would be fundamentally flawed as there are a lot of successful companies still using budgets. However, it can be argued that this logic would basically reject every innovation as they are always something that has not previously been done. Moreover, as there are successful companies among the beyond budgeting adopters too, it can be concluded that the existing financial planning practices are not the only drivers behind the success of a company. Anyway, due to the numerous contradictions surrounding the discussion, more comprehensive understanding of beyond budgeting is needed.

3. MANAGEMENT CONTROL SYSTEMS UNDER BEYOND BUDGETING

Like argued earlier, the idea of beyond budgeting has been vaguely expressed and therefore a framework enabling more comprehensive understanding of the ideology is needed. In order to do this, published literature and the existing case-studies of beyond budgeting are now connected to the literature related to the entirety of management control systems. The aim is to understand all the implications that the implementation of beyond budgeting should have on the organization's management control system, in which the essence is the balance between organizational control and flexibility (Simons, 1995).

The analysis of the actual proposed impacts and features of beyond budgeting is built on the basis of Malmi and Brown's (2008) framework, which provides a conceptual typology of management control systems working as a package. The package is illustrated through the separation of five different groups of control shown in Figure 2: (1) planning, (2) cybernetic, (3) reward and compensation, (4) administrative and (5) cultural controls.

Cultural Controls						
Clans		Values			Symbols	
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
Administrative Controls						
Governance Structure		Organisation Structure			Policies and Procedures	

Figure 2: Management control systems as a package (Malmi and Brown, 2008)

The different controls are now being analyzed individually in relation to the ideas of beyond budgeting. Finally, the developed framework summarizing the discussion will be presented.

3.1. Planning

In the typology of Malmi and Brown (2008), planning refers to the goal- and standard setting done ex-ante in an organization to direct and guide the employee behavior. Setting and aligning the targets and goals across the different functional areas to be in line with each other clarifies the behavior that is expected from the employees. While action planning focuses on tactical issues related on the period of the following year, long range planning emphasizes strategic issues with longer perspective. Like shown in chapter 2, budgeting is usually regarded to play a major role in the planning phase and hence its abandonment should have several important implications for this control. Therefore the study of Merchant and Van der Stede (2007) who attach budgeting directly to the planning control is now followed, despite Malmi and Brown (2008) originally separating budgeting from planning in their typology.

3.1.1. Separation of target setting and planning

One crucial difference to Malmi and Brown's (2008) conceptualization of planning is that according to the beyond budgeting ideology, target setting and planning should be separated from each other (Østergren and Stensaker, 2011). This is done in order to increase the accuracy of the forecasts to reflect the best organizational knowledge of the future, as the numbers are not subject to dysfunctional gaming behavior anymore. In other words, when there are no connections to performance evaluation, there are no incentives to game the numbers and hence planning becomes no longer distorted because of wishful thinking and target negotiations (Hope et al., 2011). In the existence of traditional budgets, the numbers are the same for both targets and forecasts (Bourmistrov and Kaarbøe, 2013).

The target setting process should focus only on the targets and not on the resources that might be needed, nor the means to reach the targets. In other words, target-setting should be only about clarifying where the company is heading (Bourmistrov and Kaarbøe, 2013). Goals should be strategic and set ambitiously relative to either external benchmarks or internal peers, depending where to find comparable targets (Hope et al., 2011). In other words, instead of setting fixed targets based on the budgeted numbers, the managers should focus on relative key performance indicators such as return on eq-

uity and cost-to-income ratios (Player, 2003). According to the advocates, this kind of relative improvement contract should stimulate to continuous performance improvement as managers must endlessly continue striving for better results compared to their benchmarks or peers. Setting stretchable goals also lightens the process of target setting as relative measures do not need to be reset as often as the absolute year-end targets. Similarly, as the focus is on the big numbers instead of assessment at detailed level, the workload is expected to decrease. (Østergren and Stensaker, 2011; Hope and Fraser, 2003; Simons 1995)

The planning process should then focus only on how to reach the ambitious goals set earlier in the target setting process (Bourmistrov and Kaarbøe, 2013). This refers to the decisions related to the pre-phase tasks of budgeting, such as delegation of duties and management of production capacity (e.g. Vazonienė and Stončiuvienė, 2012; Sivabalan et al., 2009). While the targets are set at higher levels in the organization, the plans should be developed at lower levels. In other words, the means for reaching targets is decentralized to be developed within the boundaries set by the targets (Østergren and Stensaker, 2011). Top management should implement a coach-and-support way of leading and intervene in operations only if the decentralized managers are unable to solve a problem, or request support (Richards, 2006). Similarly also Schonberger (1996) argues that formal top-down planning is an impediment for developing best possible operations. To underline this separation, the target-setting process can for example take place already early in the spring, whereas planning is not done until the autumn (Østergren and Stensaker, 2011).

According to the beyond budgeting philosophy, planning should be done with the help of rolling forecasts, which are updated usually quarterly and always cover the same period. In other words, the scope of forecasts does not shorten towards the year-end and does not envision a fixed end at the end of the fiscal year, as traditional budgets do. Rolling forecasts should include only few key variables to minimize the workload, but as they are updated regularly the increased accuracy is ensured. (Hope et al., 2011) The use of rolling forecasts makes the planning to be more flexible to respond to the changes in the environment (Max, 2005). Finally, Bourmistrov and Kaarbøe (2013) underline the importance to understand that in the setting of beyond budgeting, the aim of forecasting is to find the gaps between the targets and plans, and thereby provide infor-

mation about the required changes. In the setting of traditional budgeting, the forecasts are synonymous with plans.

3.1.2. Allocation of resources

Like shown earlier, also the allocation of resources is one important task traditionally done with the help of budgets in the pre-period phase, and therefore now discussed under the planning controls (Sivabalan et al., 2009; Hilton et al., 2006). Malmi and Brown (2008) underline that in the context of management control systems, it is important to understand whether planning is done to decide on future activities or whether it involves committing employees to the organizational targets. Therefore the focus now is on the process of resource allocation that affects the behavior of the employees and not on the allocation decisions per se.

According to the beyond budgeting principles, resources should not be allocated on a yearly basis, but instead continuously following a centrally planned just-in-time ideology (Hope et al., 2011, Østergren and Stensaker, 2011). In other words, a central committee should be formed to actively manage the resource portfolio and to evaluate the projects individually through a common set of qualitative and quantitative criteria. A well-functioning information system plays a crucial role here as it provides information about where the business is accelerating and where cooling off (Banham, 2012). This arrangement is done in order to ensure financing to be given for the overall best projects in the organization, not just for the best projects within a division. Managerial focus is directed to emphasize continuous search of good projects, and the problem of necessary projects being rejected due to the budget constraints of the business units, is removed (Bourmistrov and Kaarbøe, 2013). Also the problematic issue of business units approving their projects only to spend the whole budget in order to avoid losing the resources in the next period is mitigated (Hope et al., 2011).

Another suggested feature of beyond budgeting in this context relates to the acquirement of back office functions through internal markets. Thus, instead of being cost centers, the support functions become profit centers whose resources the operating units can acquire at an agreed price. The idea is to put the back office functions under market

pressure and simultaneously ensure that the cost allocation is based on causalities. (Hope et al., 2011)

3.2. Cybernetic control and rewarding

Cybernetic control in Malmi and Brown's (2008) typology can be described as a feedback system built to measure performance. According to the authors, it can be regarded either as an information system or as a part of the control system package, depending on the way it is used. If the behavior of the employees is linked to the targets and the revealing variances, the cybernetic system becomes a part of the MCS package. The four basic cybernetic systems that are included in the typology are: (1) budgets, (2) financial measures, (3) non-financial measures, and (4) hybrids. (Malmi and Brown, 2008)

Reward and compensation controls are usually closely linked to cybernetic controls as they refer to systems built to motivate the employees and to align the goals of their activities into those of the organization (Bonner and Sprinkle, 2002). However, Malmi and Brown (2008) have separated them in their typology because they acknowledge that there are also other reasons for the compensation schemes to exist, such as employee retaining and encouragement of cultural control. Despite this separation, these two controls are now discussed together as the beyond budgeting principles do not give any specific recommendations related to those other reasons of rewarding, and the principles regarding these two controls are similar. Whereas planning control refers to the pre-period phase, cybernetic control and rewarding refer to post-period phase of budgeting, as the focus is now on the performance evaluation.

3.2.1. Use of relative indicators and benchmarks

According to the beyond budgeting principles 7 and 8, the performance management process of an organization should be based on relative improvement contracts rather than on fixed targets (Hope et al., 2011). Additionally, the evaluation should be about benchmarking key performance dimensions against competitors or peers (Hansen et al., 2003). These KPIs should be both financial and non-financial, and should transparently reflect the company's existing medium-term strategic goals (Chenhall, 2008; Hope and

Fraser, 2003b). The use of Kaplan and Norton's (1992) balanced scorecard is recommended in order to find the appropriate indicators (Neely et al., 2003).

The main benefit that the use of relative indicators and benchmarking is argued to offer is that they stimulate the employees to strive for continuous performance improvement. Because even though the managers do know what KPIs they are evaluated against, in the absence of absolute numbers they cannot know what is enough and what is not. This should reduce the amount of gaming behavior where for example available profits are reserved to next year (Hope and Fraser, 2003b). On the other hand, relative contracts make rewarding principles to become more accurate and better based on causalities as no manager is rewarded on a basis of good budget negotiating skills or market upturns anymore. This is currently a common problem, as there are studies showing that the link between executive compensation and firm performance is not very straightforward in practice (e.g. Ozkan, 2011). Vice versa, relative indicators also enable well-performing managers to be acknowledged even when the markets are going down in general, if they just perform better than their competitors or peers (Hope and Fraser, 2003). In other words, relative indicators take into account the two different elements of organization's demand that Hansen (2011) defines to be generated by either macroeconomic factors or the actions of the salespersons.

Some authors (e.g. Baker et al., 1994; Hansen et al., 2003; Chenhall, 2008) also recommend basing the rewards partially on subjective evaluation in order to encourage employees to take strategic initiatives and to capture the long-term opportunities that benchmarking alone does not fully support. Similar view is also taken by Neely et al. (2003) who note that the benefits of investments often lag.

3.2.2. Group incentives and non-financial rewarding

In the context of beyond budgeting it is necessary to consider rewarding similarly to Sivabalan et al. (2009) who distinguish staff evaluation and business unit evaluation from each other: according to the ideology, rewarding should collectively involve teams instead of giving bonuses to individuals (Hope et al., 2011; Hansen et al., 2003). The potential benefits of the group incentives are also acknowledged among the studies outside the discussion related to beyond budgeting (e.g. Drake et al., 1999). Also Berry et

al. (2009) conclude that many organizations have found collaborative relationships to foster better performance and therefore the aim should be at creating a workplace where everyone is working towards the same goal, instead of competing with each other.

Finally, the advocates of beyond budgeting underline the importance of using non-financial rewarding practices to motivate the employees. Indeed, Hope et al. (2011) underline that employee recognition is often more powerful way to motivate the employees than pure financial compensation. They even argue that financial incentives are not necessarily needed at all. However, it should be reminded that the strength of non-financial incentives vary a lot from country to country and therefore these issues should be carefully considered in the context of organizations' culture and environment.

3.3. Administrative controls

The design and monitoring of working processes is a typical way to control the behavior of employees (Alvesson and Kärreman, 2004). Malmi and Brown (2008) use the term 'administrative controls' to refer to the arrangements of organizational structure and liability distribution. In their typology, employee behavior can be affected through (1) the organization design and structure, (2) governance structures within the firm, and (3) the procedures and policies that has been set. The governance structure refers to the level of bureaucracy within the organization, while the procedures and policies determine the standards for behavior. While organizational design is often regarded as given, Malmi and Brown (2008) consider it to be an important control device that is under the control of the managers.

The adoption of beyond budgeting has a strong impact on administrative controls, as an essential part of the ideology deals with radical decentralization and empowerment. It means authorizing employees at different levels to make the decisions independently in accordance to the company's strategy and mission, without the immediate interaction of group executives (Hansen et al., 2003; Hope et al., 2011). The primary aim of decentralization is to enable business processes to integrate around delivering customer value (Chenhall, 2008). In other words, customers are thought to be best served and emerging opportunities observed if there are no hierarchical obstacles on the way. Hope and Fraser (2003) also underline that it is the intrinsic motivation that really drives the performance.

However, promoting empowerment without losing control is not an easy task to do and therefore great emphasis on considerations regarding different forms of control is needed (Simons, 1995). Indeed, Berry et al. (2009) acknowledge that one of the biggest challenges for management control is to develop systems orchestrating both horizontal and vertical relationships. Argyris (1998) analyses the reasons behind the frequent failures in empowerment and makes a distinction between internal and external commitment, where the latter refers to employees trying to fulfill the contractual obligations that are given to them under the command-and-control type of management. Internal commitment refers to employees being committed by their personal reasons, and hence is close to the concept of empowerment, which allows employees to have control over their own tasks and procedures to reach the targets. The author states that companies often struggle with inconsistencies and contradictions related to mixing these two different types of commitments.

The idea of moving away from traditional vertical structures and processes is also captured under the concept called 'horizontal organization'. The concept is very similar to the principles of beyond budgeting, as horizontal organization is described to strive for continuous improvement and customer orientation through flattened structures and a team-based focus. In order to gain more comprehensive understanding of beyond budgeting in this context, the related literature will be connected to the discussion. What makes this interesting, is the fact that whereas beyond budgeting is strongly a management accounting based concept, are the ideas of horizontal organizations mostly been developed among other disciplines, and not previously been connected to each other. (Chenhall, 2008)

3.3.1. Decentralized organizational design

Traditionally organizations have been arranged on a basis of strong vertical hierarchies where managers are enabled to control their organizations from the center (Hope and Fraser, 2003; Chenhall, 2008). However, with the help of better information technology, companies have recently started to remove various levels of management leading to flattened organizations where the importance of lateral relations is increased (Van der Meer-Kooistra and Scapens, 2008; Berry et al., 2009). Also the beyond budgeting philosophy supports this movement by encouraging organizations to abandon the tradition-

al command and control –type of management in order to make the employees at all organization levels to be more committed to the strategy (Hope et al., 2011). According to Hansen et al. (2003), this is especially important as the modern management innovations that organizations are adopting are in strong contrast with the hierarchical nature of traditional budgetary control.

According to the idea of beyond budgeting, the structural decentralization should result in arranging organizations around a network of cross-functional teams and processes to ensure adequate flexibility (Hope et al., 2011; Van der Meer-Kooistra and Scapens, 2008). As discussed earlier, these teams are empowered to develop the means for reaching the targets within the given boundaries, which on the other hand can be a big challenge for most of the leaders (Østergren and Stensaker, 2011). Thereby instead of only being accountable for the results of the departments, managers are also made responsible for them (Bourmistrov and Kaarbøe, 2013). However, besides the flexibility, also firmness is needed and therefore the responsibilities need to be clearly defined (Van der Meer-Kooistra and Scapens, 2008; Ostroff, 1999).

3.3.2. Governance through open information

As the radical decentralization of beyond budgeting is based on self-regulation and empowerment, a clear governance framework enabling the front-line employees to make the decisions is needed (Hope et al., 2011). But even though the advocates of beyond budgeting underline the importance of having a clear governance framework, the principles give only little guidance to it as the only explicit recommendation is to promote shared values for the employees. Therefore other studies in the field of management accounting are now used to enrich the discussion.

Van der Meer-Kooistra and Scapens (2008) study similar issues while they explore the nature of lateral relations and develop a framework for the package of governance practices for such relations both within and between organizations. The authors use the term ‘lateral relation’ to refer to the arrangements where managers co-operate with their colleagues at similar hierarchical levels. They conclude that lateral relations require different forms of governance than the control under hierarchical structures, and separate four structures of governance for both internal and inter-firm relationships. Whereas eco-

conomic structure (1) refers to the economic contracts, such as performance measures and quality requirements agreed by the parties, focuses institutional structure (2) on ensuring that the organization's internal arrangements happen within the external boundaries set by the legal and other regulative requirements. Social structure (3) is about the behavioral norms such as communication and information sharing, and finally, technical structure (4) refers to the use of technical arrangements, such as available information systems and production techniques. The authors recognize that not all the lateral relations necessarily have the same elements but suggest the use of this framework to be used when examining them.

As the issues related to economic structures have been discussed already in the previous chapters and as the institutional issues are beyond the scope of this study, the concentration is now on the social and technical structures of governance. More specifically, the topic of information sharing that is included in both structures is important, as the beyond budgeting principles suggest making information open and transparent (Hope et al., 2011). In fact, Bourmistrov and Kaarbøe (2013) remind that usually one of the initial reasons motivating companies to move beyond budgeting is to make the information more dynamic and visible, compared to using traditional budgets as a communication tool. However, when budgets are no longer used, companies need to specify what information flows are needed (Ferreira and Otley, 2009).

Bourmistrov and Kaarbøe (2013) study how the demand and supply for managerial information is changed when the principles of beyond budgeting are being implemented in two companies. Firstly, they conclude that in order to support the idea of decentralization, information should be transparent and accessible to everyone in the organization. This is because when managers are expected to solve the problems at their own levels, they should have all the necessary information for effective decision making (Hope et al., 2011). The accessibility can be enhanced with investments on IT systems and large databases (Neely et al., 2003). Secondly, the authors find the frequency of information supply to increase due to the use of rolling forecasts. The information supply also becomes more accurate as the target setting is separated from planning in order to avoid dysfunctional game-playing, like discussed earlier in this study. Finally, the more accurate forecasting and the decentralized planning provide opportunities for more frequent

lateral discussions between business controllers and managers, and thereby the amount of informal communication is also found to be increased.

3.4. Cultural controls

Organizational culture refers to the shared basic assumptions among the organizational members that represent a mutual knowledge of how to act, think and feel in different situations (Busco et al., 2006). It thus produces behavioral norms through the interaction of shared values, organizational structures and control systems (Henri, 2006). And even though there has been discussion going on whether culture is dominated by control or vice versa (Berry et al., 2009; Henri, 2006), there seems to be a strong support to the idea that people can be persuaded to adapt certain values, norms, and ideas of organizational life (Alvesson and Kärreman, 2004). In fact, as Collier (2005) concludes that in an entrepreneurial organization group norms and culture can be even more important than formal controls, it indicates social controls to play a major role in the context of beyond budgeting. Additionally, studies related to the implementation of balanced scorecards show that cultural issues sometimes work as constraints to the effective use of the technique (Richards, 2006). Hence, rather than just a change in the accounting techniques, the journey towards beyond budgeting is a matter of change in the mindsets of the employees (Bourmistrov and Kaarbøe, 2013).

Malmi and Brown (2008) include three cultural controls into their typology: (1) values, (2) symbols, and (3) clans. Value controls refer to the formal organizational definitions, such as mission statements, that provide basic values and give direction for the organization (Simons, 1994). Symbols are visible expressions, such as dress codes, that are used to develop a certain culture, and finally, clan controls refer to the distinct subcultures emerged from the socialization process within the firm, that may relate for example to different professions (Ouchi, 1979).

3.4.1. High responsibility culture

The introduction of beyond budgeting is a large cultural change as all the employees need to get used to the relative performance measures and decentralized structures (Hope et al., 2011; Chenhall, 2008). This explicitly implies that the implementation is

not just a matter of finance department, but also efforts of human resources department are needed to create appropriate culture (Bourmistrov and Kaarb e, 2013). According to the principles, people should be bonded to a common cause and a high responsibility culture should be created in order to give boundaries for the empowered teams to operate within (Hope et al., 2011). The actual means for building such culture is again practically missing from the related literature, but presumably would be highly company-specific anyway. Nevertheless, managers should be aware of the values within an organization before trying to adapt new organizational processes into use (Henri, 2006).

3.4.2. Psychological climate accommodating trust

The critics of traditional budgeting argue that budgets are based on central control and thereby assume the absence of trust. On the contrary, the relative improvement contract of beyond budgeting is underlined to be based on self-regulation which assumes that the teams can be trusted to manage their own affairs within the agreed boundaries, and to be fully accountable for their results. (Hope et al., 2011) Trust thereby is seen essential when promoting beyond budgeting into an organization, and such structures that mitigate the risks of different units with different motives working together should be used (Van der Meer-Kooistra and Scapens, 2008). As the level of trust is more personal than organizational matter, individual psychological climate should be separated from the organizational culture as suggested by Chenhall (2008). According to the author, psychological climate refers to the perceptions of the employees about the internal environment in the organization.

On the other hand, as the implementation of beyond budgeting is an individual mental state and behavior change that includes many reforms to the way of thinking, it can be perceived differently by different employees. Bourmistrov and Kaarb e (2013) describe the process as moving managers outside their “comfort” zones towards a “stretch” zone, where new ways of thinking must be seized on. The change is easier for those managers who have already found traditional budgets to be discommodious and thus are open to change, than for those who have not felt traditional budgets to be restrictive. The authors therefore underline the importance of acknowledging the differing individual mental states in order to avoid moving to a “panic” zone where high level of anxiety and

lower level of performance exists. Thus, a proper level of certainties and uncertainties are needed.

3.5. Complete framework

Figure 3 summarizes the whole previous discussion by illustrating the key ideal features of the entirety of management control systems in the setting of beyond budgeting. It contains the normative prescriptions of the literature for the control package design, arranged around three sets of control. Following the study of Ferreira and Otley (2009), the whole package of controls is surrounded by operational environment, which is one important contingency factor outside the direct control of management (Hansen et al., 2003).

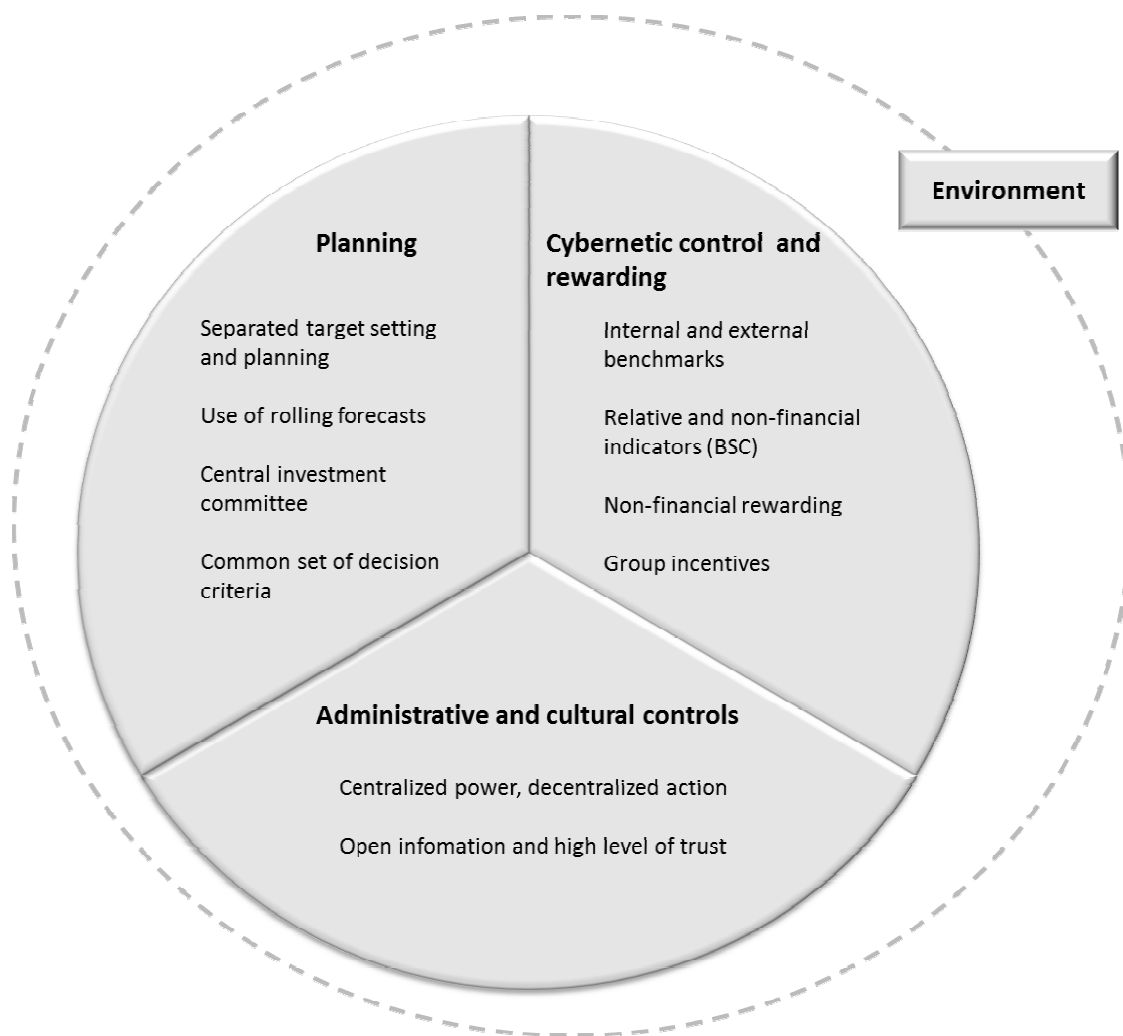


Figure 3: Ideal features of beyond budgeting

The contingency approach to management accounting rests upon an idea that the specific circumstances that an organization operates in, define the features of appropriate planning and control systems. In other words, there is no universal format for every organization on which to build their accounting systems and the key is instead to match the circumstances to the aspects of an accounting system. (Otley, 1980) Therefore, the set of controls should not be considered in isolation to its environment.

Another reason for the decision to add environment to the framework is that through the facilitation of relative indicators and benchmarks, beyond budgeting aims to decrease the effect of environmental uncertainty. In other words, when large changes in the economy occur, such indicators adapt to the changed situation automatically whereas

the absolute figures of traditional budgets would need to be reset. On the other hand, managers can also be compensated during the bad times in the economy, if they just manage to perform better compared to their internal or external peers. Keeping this in mind, it is surprising to find that the literature related to contingency factors in the design of management control systems is not previously referenced in the discussion of beyond budgeting (Hansen et al., 2003).

4. MANAGEMENT CONTROL AT STATOIL

Statoil is a large multinational Norwegian oil and energy company that is being publicly listed in the stocks of New York and Oslo, and more importantly, it is the most often referred recent beyond budgeting adopter in the literature (e.g. Bourmistrov and Kaarbøe, 2013; Østergren and Stensaker, 2011; Banham, 2012; Bogsnes, 2009). This chapter reviews the existing case descriptions regarding the practices of Statoil in order to demonstrate how the principles of beyond budgeting have been adopted in practice. More importantly, the idea is to enable possibility to make comparisons to the case companies of this study, and to build a basis for the upcoming discussion related to the idealizations of beyond budgeting.

But first of all, it is important to underline that even though Statoil officially abandoned budgets in 2005, the use of the system is described to be voluntary. Indeed, the units are also allowed to continue the use of annual budgeting (Bogsnes, 2009), and therefore the following description reflects the practices of an ideal unit in the company. Anyway, Figure 4 gives an overview of the ideal planning process used in Statoil.

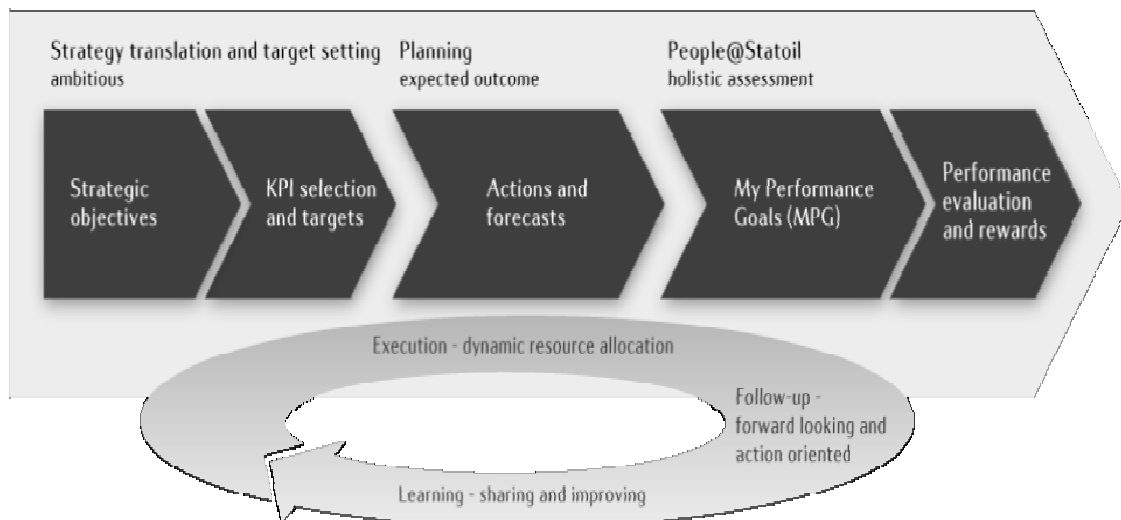


Figure 4: Ambition to action at Statoil (Bogsnes, 2009)

4.1. Ambition to action

The planning processes at Statoil are structured around ‘Ambition to action’, which is the company’s own version of balanced scorecard, and is described to have four features that make it unique compared to other typical scorecards. Firstly, it is a stand-alone system and hence is not only supplementing traditional budgets. Secondly, it is perceived to successfully balance the trade-off between central alignment and local ownership, and thirdly, to take the strategic objectives of the company alongside to the traditional KPIs. Finally, it is considered to accommodate the integration of the company’s processes particularly well. (Bogsnes, 2009) In order to simplify the discussion and increase the direct comparability, the ‘Ambition to action’ is from now on referred only as a ‘scorecard’ in this study.

All the planning processes at Statoil begin after the company’s strategy is being formulated in the spring. The group-level strategy process is continuous, meaning that it can be reviewed always when needed, or in either of the regular semiannual executive committee sessions. Thus, the strategy of the company is not perceived to be fixed. The developed strategic objectives have a medium-term perspective, where the precise length of the term varies depending on the rhythm of the particular business unit. Nevertheless, the term is not fixed to the fiscal year and can therefore be for example 18 months long (Banham, 2012). The objectives are described to remain stable unless there are any major changes occurring in the chosen strategic direction. (Bogsnes, 2009)

After the strategy formulation is finished, the scorecards are used to translate the strategy into more concrete KPI targets that reflect the ambitions of the top management (Østergren and Stensaker, 2011). Thus, the starting point in the target setting is not at the sub-departmental level as it has previously been, but on the assessment of what is needed to meet the strategic ambition of the management. The top management team sets the delivery goals for the unit managers, and respectively the superior of a particular business unit has the authority for target approval of his subordinates. Targets in the group-level scorecard are approved by the board. (Bogsnes, 2009)

After the target setting process has been finalized, the company moves into the planning phase during the autumn. The planning is described to be only about (1) developing actions that are needed to meet the strategic objectives and (2) forecasting the expected

consequences. However, unlike recommended in the beyond budgeting literature, Statoil uses quarterly updated fixed short-term forecasts in its planning phase, as the company considers them to be more suitable for the oil industry. Further justification for this decision is not reported in the literature, but the forecasting horizon again is told to vary depending on the business in question (The Statoil Book, 2013). Nevertheless, after the plans have been developed, a target review takes place in order to avoid uncomfortable situations where the original targets are not realistically achievable for the particular subject. (Bogsnes, 2009)

The business follow-up is done every month, as review meetings are arranged to compare the realistic forecasts to the pre-defined targets (The Statoil Book, 2013). Important thus is to understand that the comparison is not done between actual figures and budgeted targets, as the aim of the follow-up is to look forward (Bogsnes, 2009).

4.2. Resource allocation

The authority for resource allocation decisions at Statoil is decentralized for the units to happen within the boundaries set by the targets. In other words, the top management guides the resource allocation decisions indirectly by altering the targets and profitability criteria, instead of interfering in the affairs of the units. Additionally, to ensure sufficient control over the investments, the decentralized action is supplemented with a common set of decision criteria for projects, and with explicit decision authorities that state the size of a decision a manager is allowed to make before having to go up in the organizational hierarchy. (Bogsnes, 2009)

Statoil also has several central committees reviewing the largest projects from different organizational angles and giving independent recommendations whether they should be initiated or not. These ‘arenas’ pressure test the technology development-, investment-, and IT projects at defined maturity stages to ensure the quality and consistency across the organization. The committees do not have decision power as such, but the units are described to usually follow their recommendations. Anyway, all investments should be reviewed in such arenas and the received recommendation should be included in the final decision document. If extra financing is needed, the units can acquire it around the year, but good argumentation is needed to receive the approval (Bogsnes, 2009; The Statoil Book, 2013)

4.3. People@Statoil

The employee performance evaluation process at Statoil is referred as 'People@Statoil' and is also done with the help of the company scorecards. The individual bonus payments are based on holistic assessments as besides reviewing the KPIs, also subjective considerations are taken into account: the performance is assessed against the ambitiousness of the targets and the sustainability of the delivered results. The performance evaluation is thus considered to address both delivery and behavior. Statoil has also at place a collective bonus system that is based on the company's overall performance, where the amount of payment is tied to the company's share price. More specifically, the employees can use 5% of their base salary to buy the company shares and receive one free share for each one that is bought. The shares are not allowed to be sold until two years have passed. (Bogsnes, 2009; The Statoil Book, 2013)

All the scorecards are described to have 10-15 key performance indicators that are to be reviewed twice in a year. The company aims to use relative measures and benchmarks as much as possible, but acknowledge the difficultness of finding appropriate data for such use in practice. At group-level, benchmark data is easier to find and company's relative return on capital employed (ROCE) and relative shareholder return are compared to a league of 14 reasonably similar companies. In the absence of reliable benchmark data, the units are usually benchmarked against their own past performance and the connection between input and output is being measured (Østergren and Stensaker, 2011). Finally, Statoil has introduced internal league standings for the health, safety, and environmental issues. Thus, all the units are put on a table where they can see whether they perform better or worse than their peers. This arrangement is considered to remove the need for re-negotiating the targets every year, and make the units more likely to accept the targets without protests. On the other hand, it is thought that a low performing unit might become interested in learning from those above it. (Bogsnes, 2009)

4.4. Open information and 'The Statoil Book'

Like discussed earlier, the top management at Statoil does not aim to micromanage the business units and thereby the decision power is decentralized. This arrangement is further supported with the use of relative indicators that enable units to operate more inde-

pendently if they manage to perform well: higher output allows also higher spending on input. Also the relatively flat organizational structure seems to follow the idea of decentralization: Statoil is a matrix organization and is arranged around 6 hierarchical levels, horizontally formed by different process owners (The Statoil Book, 2013).

Besides using the scorecards and target setting, the empowerment is also governed with open information and common values. Indeed, the company has made major investments to improve its IT systems, and even introduced a separate project for the development. Nowadays the company's information system (MIS) plays a crucial role making the information as transparent as possible. The open information is considered to create peer pressure for the business units (Bourmistrov and Kaarbøe, 2013) and it is also used to help the front-line teams to perform their daily operations. On the other hand, the common values are formally promoted with the help of 'The Statoil Book', which is a booklet that is given to each employee in the company. It describes how things should be done in the company and provides some guidance by discussing the company values and leadership principles, operating model, and corporate policies. Thus, the booklet sets the standards for behavior and shows what is expected. Finally, the employees are trusted to have common sense and therefore sound business judgment is also considered to be an explicit boundary for behavior. (Bogsnes, 2009; Østergren and Stensaker, 2011; The Statoil Book, 2013)

5. METHODOLOGY

In this chapter, the methodological foundations for this study are being presented. First, the chosen research method is presented and justified as the main features of the method will be discussed and the related problems addressed. Secondly, the reasoning for the decisions regarding case company selection and data collection is presented.

5.1. Research method

The research method of this study can be viewed either as an explanatory or descriptive multiple case-study: existing management control practices of specific case companies are being examined, and the reasons behind those particular practices are being analyzed (Scapens, 1990; Parker, 2012). The aim of the empirical part is to describe how the case companies have complemented their budgeting, and then use the derived framework to compare the arrangements to the ideal features of beyond budgeting, and to the practices of Statoil. As the literature review in this study also refined the sparse and ambiguous concept of beyond budgeting by distinguishing the main elements from the related literature, it can also be considered as a sort of theory refinement study, where greater precision to the construct is being sought (Keating, 1995). That said, it is important to underline that the concept of beyond budgeting is not a real theory, but instead a concept created by practitioners. Nevertheless, as Vaivio (2008) argues, also such consultancy views must be scrutinized and refined as they have often become popular in practice, and are therefore too important to be left outside the interest of researchers.

The popularity of qualitative case studies in the field of management accounting research has increased during the past decades (Scapens, 1990). They provide an alternative to the more traditional positivist quantitative research agenda by recognizing that accounting is a construct of organizational reality, and that the insights to the subject can also emerge from the process of qualitative data analysis (Parker, 2012). In other words, qualitative case studies are able to explain the decisions behind particular accounting practices, whereas positive theories influenced by neoclassical economics are more useful when predicting the outcomes and making generalizations of trends (Scapens, 1990). Moreover, Vaivio (2008) argues that qualitative research enables to go

beyond the functionalist view of management accounting phenomenon where the reality is assumed to be overly practical and perfect. In practice, the decision processes are seldom that rational and linear.

The qualitative case approach also allows researcher to change the direction of the study (Eisenhardt, 1989) if necessary, which can be considered to be an asset as the boundaries of beyond budgeting have previously been defined only vaguely like discussed earlier in this study. Indeed, as Parker (2012) and Vaivio (2008) argue, the qualitative case approach is especially suitable when the previous literature provide only fragmented frame of the topic in question; the ideas for reconstruction and criticism of such concepts are best found if the study is able to provide sufficiently thorough understanding of the practices in use (Merchant and Van der Stede, 2006). In the context of beyond budgeting, this means that it is not enough to describe whether an organization has some specific tool in use or not; more important is to understand why the decision has been made, and what are the consequences that have followed.

There is also a general call for such studies in this field of management accounting to gain deeper understanding of the related issues (e.g. Libby and Lindsay, 2010; Berry et al., 2009; Østergren and Stensaker 2011) and to critically examine such normative prescriptions of process improvements that originally have been created by practitioners (e.g. Vaivio, 2008). It has also been argued that questionnaires and statistical analyses can give only a superficial view of the practices in use (Scapens, 1990). Indeed, given the dynamic nature of control systems design (Berry et al., 2009) and the complexity of the issues related to the entirety of management control systems (Malmi and Brown, 2008), in-depth qualitative case studies are needed to understand all the related interlinks.

5.2. Issues related to generalization, depth, and rigor

Important is to understand that the purpose of qualitative case studies differ from the positivist research tradition. A case study is not a statistical study with a small number of samples, and the aim of such study is not to make any universally generalizable findings that could be applied to a broader population (Vaivio, 2008; Parker, 2003). Instead, they examine specific organizational activities and changes (Van der Meer-Kooistra and Vosselmann, 2006) and give building blocks for future studies to lean on when testing

the validity across larger population (Vaivio, 2008). Similarly also Lukka and Kasanen (1995) argue that while not being capable of doing statistical generalizations, qualitative research can still expose the strengths and weaknesses of a concept in question, as it is being put into contact with empirical reality.

Thus, the aim of this study is not to generalize the results in a statistical sense, but to clarify the discussion around beyond budgeting and perhaps provide basis and typology for future studies to be tested with larger population. The sights are set on examining the control processes interacting with the specific organizational activities and changes like suggested by Van der Meer-Kooistra and Vosselman (2006). It can also be argued that making statistical generalizations of this topic would be difficult even if there would be an existing framework for executing such study, as the company practices can only be conceptualized at a certain point of time and new organizational or environmental changes can occur rather quickly (Chenhall, 2008).

One main dilemma regarding the qualitative research design is the question of depth versus breadth (Vaivio, 2008). In other words, should the research focus solely on a one single organization or should it aim to address a phenomenon that exists across multiple companies? As performing a holistic study of the whole organizational system is considered to be rather unattainable (Scapens, 1990), the depth of this study is slightly reduced and the breadth increased to involve two case companies. The decision to perform a multiple case study was done also in order to gain richer empirical evidence as focusing on only one organization would not provide possibilities for comparative search of similarities and differences in the patterns of behavior (Vaivio, 2008), and would thus supposedly restrict the ability to draw conclusions. On the other hand, the reason for not including any more companies to the analysis relates to the fact that the workload would quickly increase beyond the reasonable level without essentially improving the ability for making generalizations of the observations. In other words, it is believed that two case companies can provide at least some evidence, and the possible statistical studies with larger populations should be done by future researchers on the basis of this study.

On the other hand, Parker (2012) reminds that qualitative tradition embraces researcher's closer relationship with the case company and thereby the issues of reflexivity and rigor are needed to be taken into consideration. Hence, it is important to mention that no

prior connections between the case companies and the researcher exist, enabling the observations to be better done as an ‘outsider’. Likewise, as will be described next, the decision to interview organizations outside the orbit of beyond budgeting advocates allows this study to enhance its objectivity as the case companies do not have any commercial interests at play like suggested by Vaivio (2008).

5.3. Description of the case companies and data collection

The empirical part of this study was done as a multiple case study, which examined how two Finnish publicly listed multinational corporations outside the orbit of beyond budgeting use other management control systems to complement budgeting. To protect the anonymity of the case companies, they are being referred as ‘Company X’ and ‘Company Y’, and no exact background data of them is provided. Nevertheless, the reasoning for the company selection is now given.

First of all, it was considered to be important that neither of the case companies is among the members of Beyond Budgeting Round Table, as it was concluded in the literature review that Hope and Fraser (2003) compressed the original twelve principles from the best practices of real-world companies explicitly operating without budgets, and that the idea of BBRT is to transfer the knowledge from practitioners to academia. In other words, it was assumed that companies that have moved beyond budgeting follow the ideas rather closely, as the principles are at least partially based on the companies themselves. Thus, in order to enrich the discussion and avoid making circular arguments and paradoxical conclusions, the chosen approach, that is alternative to the general tradition of beyond budgeting research where the practices of explicit adopters are being analyzed (e.g. Bourmistrov and Kaarbøe, 2013; Østergren and Stensaker 2011; Bogsnes, 2009), was chosen. On the other hand, as beyond budgeting can be considered to be a consultancy view that is originally created by practitioners, the existence of commercial interests should be acknowledged (Vaivio, 2008). Indeed, contacting persons who have own interests at play may easily expose the objectivity of the study, as the interviewees that most freely speak out are often agents that promote the new practice (Vaivio, 2008). Therefore the decision to examine organizations outside the orbit of BBRT also mitigates the problem of exposing the objectivity of the study.

Secondly, in order to attain the comparability to Statoil, which is a large Nordic organization, listed in the stocks of New York and Oslo, the company selection was influenced by the issues related to size, publicity, and origins. Therefore the both chosen case companies are Finnish multinational corporations listed in the NASDAQ OMX Helsinki. More precisely, Company X is a large-cap firm, and Company Y is a small-cap company. The issue related to the size of the company was also considered to be important as it was assumed that if the companies are large enough, they presumably have systematic and well-developed control processes in place. Thus, neither of the companies can be managed with only pure business instinct of the central management.

Thirdly, as it was shown earlier, the literature criticizing the idea of beyond budgeting claims that the principles are suitable only for companies with unlimited resources (Vazonienė and Stončiuvienė, 2012) operating in stable industries (Libby and Lindsay, 2010). Moreover, it has been stated that beyond budgeting is especially unsuitable for manufacturing companies as their operations need to be planned in advance. In order to take this criticism into account and challenge the ideas of beyond budgeting even further, it was considered to be necessary to find such companies that do not meet the proposed ideal characters of beyond budgeting. Hence, both chosen case companies operate within a highly volatile technology industry, and as they have recently gone through large reconstructions and been forced to strongly cut costs, it can be assumed that the both of them have tight control processes at place, and no excess money available. Moreover, Company X is partially a manufacturing company.

Due to the complexity and context-specificity of the topic and the non-existent previous knowledge of the specific organizational practices, the data collection of the case companies was carried out through semi-structured in-depth interviews. Such face-to-face meetings can be described as a certain form of interactive conversations, where the pre-determined structure of the interviewer is combined with greater flexibility (Ritchie & Lewis, 2003). In other words, some pre-formulated questions are being used without strict adherence to them, allowing new questions to emerge during the conversation (Myers, 2009).

The persons that were chosen to be interviewed represent the authors responsible for the budgeting- and financial planning processes in the companies, and thereby were considered to have the most comprehensive understanding of the practices in use. More specif-

ically, the person that was interviewed at Company X, works as a director of business planning and analysis (from now on referred as ‘Director’), and is part of the team operating right under the corporate CFO. The team is responsible for management reporting, the development of business planning processes, financials of the strategic initiatives, and also produces market forecasts. On the other hand, two business controllers (from now on referred as ‘Controller 1’ and ‘Controller 2’) were being interviewed separately at Company Y. Besides working with the concern’s internal calculations such as forecasting, budgeting and project calculations, the two business controllers also produce the company interims and participate in the compilation of financial statements. They also share the seats in the management teams in each of the company’s business units. Each of the semi-structured one-hour interviews took place at the corporate headquarters of both companies during the September 2013. The interviews were recorded.

On the other hand, the decision for not interviewing the representatives of Statoil was made as there are multiple existing case descriptions regarding the company practices already available (e.g. Bourmistrov and Kaarbøe, 2013; Østergren and Stensaker, 2011). Moreover, the company itself tries to follow the original idea of BBRT, and thus rather openly share the information related to its journey towards beyond budgeting (e.g. The Statoil Book, 2013; Bogsnes, 2009). It was also concluded that no prior studies have summarized the information available from these sources.

6. CASE DESCRIPTION

The empirical part of this study focuses on analyzing how the case companies complement their budgeting practices with other management control systems. In other words, this chapter aims to describe the arrangements that the companies have independently made to mitigate the budget-related problems proposed in the literature. The chapter ends with a discussion related to the discomfort of balancing between accuracy and workload, addressed by both case companies.

6.1. General description of the planning processes

Before being able to discuss the ways that the case companies have mitigated the budget-related problems, an overview of the processes at place must be provided. Therefore a general description of the existing practices in both case companies is now given.

6.1.1. Business planning processes at Company X

The basic planning processes at Company X are divided into three time perspectives: long-range, annual and short-term.

Long-range planning

The long-range plan at Company X is strategically focused and it covers three of the following calendar years, where the current year is taken out from the annual forecast at place. The plan is usually formulated during the spring and it is described to follow a centralistic approach. In other words, despite the conversations with the different business units, the long-range plan is a top-down exercise where the goal is to put strategy into numbers. The plan includes a lot of different scenarios and is completely an excel-based iterative process.

Previously the long-range plan at Company X was done every year simultaneously with the company's annual strategic updates, but this practice has since changed as the company is currently updating its corporate strategy only when found to be necessary. In other words, instead of annually imposing a new strategy, the aim is to update the current one only when considered to be required, and edit only those parts of the strategy

that are being changed. However, as the financial figures are considered to be impossible to be updated only partially, the company has found it necessary to continue the annual practice of compiling the general financial view of the situation. Hence, the team responsible for long-term planning participates in the strategy projects and annually alters the underlying forecasts based on them.

Annual planning

In 2011, the company began to use the current practice of annual planning where the aim is to produce a holistic plan by supporting the financial figures with workforce planning, opportunity and risk analyses, and also with strategic prioritizations and qualitative targets. After being approved, the annual budget offers the operative milestones that should be achieved in order to be able to follow the organization's strategic initiatives.

The formulation process begins during the fall when the team responsible for the business analysis creates a CEO planning memo to be approved by both CFO and CEO. The memo sets the corporate-level assumptions and target requirements to be delivered down to the organization. After that, a two-month planning process begins where all the business units formulate their own detailed business plans. During that process, the business units validate the top-line guidance and are allowed to make requirements to change them. In other words, the top-line guidance represents the best possible outcome which can then be stretched to a way or another. The negotiations in general are divided into two distinct processes: one process for the fixed costs and one process for the sales and margins. The latter culminates in the late fall when an event called 'business interlock' is arranged, where the representatives of the business units and different regions negotiate and agree on the sales- and gross margin targets per region. The former process of approving fixed costs is simpler and occurs during the two-month planning period. After the negotiations have been finished, the annual plan sets the targets for sales and expenditures for which both are monitored against on a monthly basis. Additionally, it sets the fixed cost budget and expresses the qualitative targets.

Previously the whole target setting process began by examining an official corporate-level market forecast and then deriving the achievable market share from the forecast to be the new target. In other words, instead of forecasting sales to be a specific monetary

figure, the amount of sales was estimated through the approximation of the market share percentage. The role of market shares has since reduced a bit as it is not seen to be the most restricting factor in the business anymore, but it is still considered to be important.

Rolling forecasts

Short-term planning at Company X is done with the help of rolling forecasts, which have a perspective of current plus four of the following quarters. The forecast is updated every month to reflect the best knowledge of the most probable outcome. Therefore the formulation process follows a bottom-up approach, where everything begins when the salesmen first create their own individual forecasts.

The rolling forecast itself is formulated at a very detailed level and is done for each period, comprising figures related to regions, individual customers, and product variants. The reason for the high level of details is that the rolling forecast is directly linked to the logistics system of the organization. In other words, the logistics plan defining the amounts of different product variants to be delivered to specific customers is formulated directly based on the forecast, with only minor adjustments done if perceived to be necessary. In practice, the responsible team defines only the minimum level for the required amount of details, and the business units are allowed to forecast even in more detail if they consider it to be necessary. The forecast is then compared to the annual plan, and the requirement to take any actions is considered. The interviewed Director illustrates this forward-looking perspective by underlining that the explanation for variance must be made immediately when the forecast starts to differ from the budget

"If the actual costs unexpectedly overrun the forecast and annual budget, there will be ructions. Because that would mean that you don't have the situation under control and that your forecasts cannot be trusted."

6.1.2. Business planning processes at Company Y

Business planning at Company Y is arranged around two separate processes: annual budgeting and rolling forecasts.

Annual budgeting process

The budgeting process at Company Y starts during the October and typically lasts two months, unless there are any organizational changes planned to be implemented during the upcoming year. The whole process begins when the top management and the board of directors set the organizational growth and profit targets for the following year. During the same time the prospects of the business units are being analyzed with the help of company's sales organization, as it is evaluated which of the units have growth potential and which are closer to a zero growth. Decreasing budgets are not typically even accepted. Based on the growth prospects, the targets are then delivered to each business unit. The business unit managers then follow the similar procedure and deliver the received targets to the managers of their sub-units, who then start to formulate the budgets on the templates made by the business controllers. The sum of the sub-units' budgets become the budget of a business unit, and similarly when all the business unit-level numbers are summed together, it becomes the company-level budget. Thus, as the business units are responsible for the compilation of budgets, the role of finance department is only to coordinate and support the process. The budgets of the group's support functions are also formulated and allocated to the sub-unit level.

However, usually there is some resistance in the business units to accept the stretch targets set by the top management team and therefore the budget negotiation process includes multiple rounds when the business units, controllers and top management try to find the appropriate level of requirements to be delivered for each unit. Nevertheless, the final deadline for the budgets to be finalized is in December, when the board of directors convenes to accept the proposed targets.

Rolling forecast process

Company Y uses rolling forecasts in its operational planning, which are updated every week and have a scope of two quartiles. The forecasting process follows a bottom-up approach where the project managers are first required to forecast their future turnovers,

and then the managers of the sub-units compile the project data, making necessary adjustments if consider it to be necessary. This arrangement is done in order to ensure that the forecasts reflect the most realistic view of the future. However, even though all units formulate the forecasts on the same templates created by the business controllers, the way that the information is compiled varies depending on the practices of the unit managers. Nevertheless, the amount of details in the rolling forecast is identical to annual budgets as they both use the same template, with the exception that unlike the annual budgets, rolling forecasts are done at project-level.

The management teams of the business units meet every week to monitor the progress of forecasts in relation to the targets set in advance by the budgets. The biggest variances are identified and the reasons behind them examined. Depending on the situation, business units are then either required to cut costs, or the budget variance is accepted as a result of an unforeseen external factor beyond the control of the business units. In other words, the rolling forecast is used to control if there is a need to either cut costs or to take actions improving the turnover in order to meet the predetermined targets. Similarly the board of directors convenes to make comparisons between forecasts and budgets every month.

6.2. Arrangements mitigating the problems of budgeting

Like mentioned in chapter 2, the budget-related problems have been acknowledged for years, and most of the companies are constantly improving their processes to mitigate the problems. Next, the arrangements that the case companies have made to their practices are being described.

6.2.1. Biased target setting and the inaccuracy of the forecasts

Budgets have been criticized for encouraging employees to negotiate lowest possible targets for themselves and to simultaneously endanger the accuracy of the forecasts as they are being biased by the related target setting. In order to mitigate this problem, both case companies have made organizational arrangements as the separate processes of annual planning and rolling forecasting in both organizations function differently and are used for different purposes. Thus, both case companies seem to use the annual

budgets mainly for target setting, as they are being formulated following a top-down approach, where the top management sets the targets for the units and regions to be reached in the next period. On the other hand, rolling forecasts are formulated bottom-up, and used for both operational planning and to give truthful signals to the management whether the company is on the right track. Also the end-users of the forecasts and budgets differ as the comment of Controller 2 at Company Y reveals:

“The board of directors is more interested to follow the budgets, while we inside the company manage the business and are more interested in the information of the forecasts.”

This arrangement of separating the processes enhances the reliability of the forecasts as the accuracy is no longer distorted by the simultaneous target setting and wishful thinking. On the other hand, as the target setting is done following a top-down approach, the main decision power is centralized and the problem of negotiating too low targets can be mitigated at least to some extent through the top management putting more target pressure on the units. However, it is worth mentioning that the truth is not quite this straightforward as in both companies the business units are also allowed to participate in the target setting process. This decision is done in order to make the employees more committed to the common organizational goals. Anyway, the top management always has the final decision power over the targets as the Director at Company X concludes:

“Everyone is allowed to say their opinions, but the targets that are set by the top-line managers are not altered easily ... unless you have some good argumentation behind the request.”

This practice of separating target setting from planning has not always been at place. Indeed, previously Company X had a half-year planning cycle where the current month's version of the short-term rolling forecast was simply adjusted to meet the corporate goals and then 'frozen' to be the new biannual target. In other words, the plans and targets were the same numbers as suggested in the traditional budgeting literature. However, according to the Director, this led to having problems with supply planning as the target setting was linked to the production management:

“The demand for a specific product was kept high with a pure will when it should have been evident that the forecasted market demand is not going to be realized. This led to having problems with overproduction.”

Finally, while the separation of these two elements increases the accuracy of the forecasts, the problem of game playing the targets as low as possible is not mitigated that easily. Indeed, both Business Controllers at Company Y admit that there is still a certain incentive for such behavior. Similarly also the Director at Company X considers this to be a sort of ‘built-in’ problem of budgeting and acknowledges such game playing to be rather inevitable in target setting.

6.2.2. Lack of flexibility and the excessive use of the pre-allocated resources

The literature criticizing the use of annual budgeting also accuses budgets for rejecting important projects due to the budget constraints, and on the other hand, for provoking business units to spend the whole budget in order to avoid losing the resources in the next period. However, when unanticipated opportunities arise during the year, the budgets of the case companies seem to be much more flexible than proposed by the critics. Indeed, in both companies it is possible to apply extra financing from the top management team or board of directors, depending on the size of the project. The Director at Company X admits that in practice the starting point is that every unit should prioritize their own projects and spending to find the required financing for the new projects. Similarly also Controller 1 at Company Y describes that extra financing is usually given only to projects that are justified with argumentation that is based on pure financial benefits:

“Making the employees more satisfied in general is not a valid argument when applying extra financing.”

On the other hand, the proposed problem of resources being used only to avoid losing them in the next period seems to be exaggerated as neither of the case companies considers it to be a problem, even though acknowledging the existence of some incentives for such behavior. Indeed, Controller 2 at Company Y mention that the issue of spending all the money usually regards only the resources given for employee refreshment or education, which both are considered to be small sums in the overall picture of the business. Additionally, if a business unit realizes to have problems meeting the budgeted targets, it has an intrinsic incentive to cut all the extra costs and thereby restrict the amount of resources used for the employees. In other words, the units are considered to self-regulate their spending rather effectively. Controller 1 also underlines that the allo-

cation of resources is always dependent on the business aspects of the company in a way that if, for example, some specific investment is not done during the year, the top management considers its necessity again during the next budget negotiations.

Interestingly, the Director at Company X reveals that bigger problem regarding the usage of resources is actually quite the opposite than proposed in the literature: the management is more often surprised with the behavior where units are not spending all the budgeted resources. He considers this phenomenon to be a 'built-in under-utilization parameter' of budgeting, which results from two reasons. Firstly, the units and teams usually aim to use little bit less resources than budgeted, as they are aware that they will probably get recognized if they somewhat manage to meet the qualitative targets with fewer resources than originally budgeted. And vice versa, if they use more resources than budgeted, they know that they will be criticized. Secondly, as the business plans are often done based on the best possible scenarios, even a small delay somewhere in the business process can lead the actual costs to be lower than budgeted. If for example there is a delay in the production, also advertising campaigns must be delayed and the reserved resources will be left unused during that period. The problem is that when all the available resources are not invested in developing the business, the resources are used ineffectively. This problem is mitigated at least to some extent by simply taking more risks in the budgeting process as described by the Director at Company X:

“Especially in such organizations where this problem is large, regions are given, for example, more money for marketing than there actually is capacity in the total budget, because something is always left unused.”

Additionally, to ensure that financing is given to the overall best projects in the organization, Company X has introduced a process called 'business improvement interlock'. It aims to coordinate and prioritize development projects in IT and other processes over the boundaries of organization's internal units. Thereby the problem of resources being allocated ineffectively is further mitigated.

6.2.3. Overemphasis of the financial considerations

Budgets have also been criticized for making the employees willing to focus only on achieving the financial targets, instead of taking customer satisfaction or other valuable

non-financial aspects into account. In order to mitigate this problem, both case companies have designed their rewarding practices to accommodate also non-financial considerations as will be described next.

The individual bonus payments in Company X in general are partially based on the achievement of annual budgets and partially on the achievement of individual- or team-level targets, depending on the role and the organizational level that a person works at. At the lower levels of the organization, the payments are tied to the individual or group-level targets and scorecards. On the other hand, the higher the organizational level, the more the payments are tied to the organizational targets. Nevertheless, scorecards are being used to find appropriate strategic measures for the evaluation.

Similarly also Company Y has a bonus payment system tailored for the managers, salesmen, and some of the project owners. The performance evaluation is done with the help of scorecards and the budgeted numbers are used as a basis for finding appropriate target levels for the indicators. In fact, the company is currently introducing more systematic ways to use the scorecards for performance evaluation around the organization. Controller 1 underlines the importance of understanding that the absolute financial numbers reveal only one part of the truth, and in order to be able to anticipate the future challenges more comprehensively, also the qualitative indicators need to be closely monitored:

“Company’s turnover might seem to be at a decent level, but when the indicators, such as customer satisfaction, start to give early warnings, also the turnover and profitability will plunge at a certain point.”

Both companies also use non-financial rewarding practices to encourage the employees to widen their perspectives. For example, the employees and teams at Company Y are given public recognition as some of them are being rewarded for good work in the company’s staff-info every quartile. The awards are given based on either customer satisfaction surveys or peer recognition, and the reasoning is told publicly to the audience. Similarly also Company X has a system accommodating peer recognition, as the employees can indicate official compliments to their colleagues and after receiving five of these courtesies, the employee receives a small bonus. Also verbal gratitude from the top-line managers to the employees is given.

6.2.4. Budgets restricting the drive for constant improvement

It is argued in the literature that the absolute numbers used in the budgets restrict the organization's drive for constant improvement as the employees do not have any interests to exceed the given targets. In order to take this problem into account, both case companies have again taken similar steps to mitigation.

First of all, both companies have built their compensation systems in a way that the incentives are not capped by the budget. Indeed, in Company X, there has been a practice of rewarding the salesmen at an extra rate if they succeed to significantly exceed their targets. Naturally there is also a maximum limit for the compensation, but the upper limit has been set at very high level, around two times the original budget. Similarly also at Company Y, the upper limit is set so high that it mitigates the unwillingness to exceed the budgeted targets. Thereby both companies seem to share the view that one crucial factor affecting the goal congruence and commitment is the way that the thresholds for incentives are being set.

Secondly, the problem of low commitment to the organization's common goal of continuous improvement is also mitigated through the decentralization of power: it is the responsibility of individual business units and regions to formulate the detailed plans and find ways how reach the targets given to them. The role of the top management is to intervene only if the rolling forecasts start to differ from the budget. More specifically, at Company Y, also the managers of the sub-units are authorized to decide on everything related to that business, as long as the decisions happen within the boundaries set by the managers of the business unit in question. According to Controller 1, the idea behind this delegation of responsibilities is to commit the employees better to the common organizational goals.

As the units in both companies are not micromanaged, but instead given freedom to operate like individual organizations, the level of trust within the firms is perceived to be high. An interesting point of view is given by the Director at Company X as he comments that in a large multinational organization, managers do not have enough time to rationally prioritize over a large portfolio of initiatives. Instead, trust is the key factor behind the decision-making:

“The fact that academia easily forgets is that in reality managers have such a limited amount of time that one cannot give a comprehensive presentation of some investment proposal to be really evaluated based on facts... ..Instead, one presents only highlights of the proposal and puts his own, or his sponsor’s, personality and trustworthiness behind the recommendation.”

Finally, one incentive stimulating the continuous performance improvement is the fact that the better the units perform, the more they get freedom to make the decisions. In other words, if a unit is able to increase its sales beyond the original target, also the target of the expenditures is stretched accordingly. This naturally applies also vice versa, as described by Controller 2 at Company Y:

“If it starts to look that we are not going to meet the EBIT-targets, the expenditures are often fixed to a certain level.”

6.2.5. Budgets restricting the knowledge sharing

Finally, budgets are seen to reinforce departmental barriers and to restrict knowledge sharing. This problem of having high departmental barriers has been encountered also at Company Y, but in the existence of scorecards as a basis of evaluation, Controller 2 considers it to be more of a question about the determination of appropriate indicators, than a problem regarding the use of budgets. Indeed, previously the company had mostly unit-level performance indicators at place, which made the unit managers only to be concerned of ensuring that their own unit or sub-units are performing well. This led the company having problems with dysfunctional optimization where the units reserved resources to themselves, even if it would have been more effective to do internal transfers as Controller 2 at Company Y describes:

“The units become unwilling to give good employees to other units, or sub-units, even if they had no work to offer at the moment. ... They wanted to reserve the best resources off the chance that new projects would emerge.”

In order to avoid this inefficiency, more company-level performance measures were introduced to encourage the units to strive for what is best for the company as a whole.

In a more general level, the access to the financial figures is organized in a way that all units are able to see the numbers of their peers and thereby make comparisons to each other. For example, all managers at Company Y are able to find the budgeted numbers

of their peers at their own organizational level. Similarly at Company X, the management team and the finance department in each of the business units is able to see their own and their peers' financial figures.

6.3. Balance between accuracy and workload

One of the biggest problems related to budget use that is addressed in the literature is the difficulty of predicting the volatile future. In other words, foreseeing the external changes is difficult and therefore annual budgets often quickly become outdated. This is an issue also encountered and underlined in both case companies. Controller 1 at Company Y argues:

“One of the main challenges for traditional budgets is the fact that they are formulated to cover a whole calendar year. That is a terribly long period of time, as the environment is so hectic and the general economic situation can change already after the first quartile has passed.”

The quickly altering environment thus often causes the budgets in both companies to differ from the reality, especially when coming close to the year-end. However, the attitude towards reacting to the problem is different: Company X holds on to the budget even if the difference would be substantial, whereas Company Y considers such budgets to be meaningless and therefore rather formulate a new budget during the year. The re-formulation of the annual budget is exceptional though and done only if major changes in the premises occur.

The reason for the unwillingness to re-formulate the annual budgets is the additional workload that it would cause. Indeed, both case companies subscribe the common criticism of budgets being time consuming to produce, and stress the large number of working hours that are spent every year. Both companies also acknowledge that the easiest way to decrease the workload would be to integrate budgeting to other financial processes, and thereby abolish the need for maintaining two simultaneous processes. In other words, instead of having two separate processes for forecasting and budgeting, the forecast could only be 'frozen' once in a year to be the new annual target.

However, the integration of the processes would naturally cause other problems to emerge, as for example the dysfunctional game-playing would not be mitigated that

effectively and the accuracy of the forecasts would decrease. Hence, the Director at Company X describes this decision to be about balancing between effort and risk: the more separated are the processes, the better is the hedge against the game-playing, but on the other hand, the more burdened are the employees with work. In fact, Company X had previously a half-year budgeting cycle at place, and the Director acknowledges that due to the difficultness of predicting the future, there is still a strong desire in the organization to return back to the old practice, which is still in the organizational memory. However, this increased accuracy would come at the cost of increased workload.

7. DISCUSSION

This chapter combines the reviewed sets of management control practices, and hence compares the ideal features of beyond budgeting to the arrangements made in both Statoil and the case companies. In other words, the framework developed in the literature review is used to analyze the similarities between the three. After comparing the organizational arrangements, critical discussion about the radicalism and problems of beyond budgeting is given.

7.1. Comparative analysis of the practices

The comparative analysis is structured around three groups of control that were included in the framework developed earlier: (1) planning, (2) cybernetic control and rewarding, and (3) administrative and cultural controls.

7.1.1. Planning

Like described in the literature review, the ideal of beyond budgeting suggests that organizations should separate target setting from planning (Hope et al., 2011; Østergren and Stensaker, 2011), as in the existence of traditional budgets the numbers are argued to be the same for both uses (Bourmistrov and Kaarbøe, 2013). On the other hand, the basis for the resource allocation is argued to be traditionally done only during the budget negotiations (Vazonienė and Stončiuvienė, 2012; Sivabalan et al., 2009), whereas beyond budgeting suggests it to be done by a central committee that continuously evaluates individual projects through a common set of criteria (Hope et al., 2011, Østergren and Stensaker, 2011).

Having explicitly adopted the principles of beyond budgeting, it is not surprising that Statoil follows the idea of separating planning processes precisely; concrete targets that reflect the ambitions of the top management are formulated during the spring, whereas the separate planning process takes place in the autumn. However, what is perhaps more surprising is that also the case companies outside the orbit of beyond budgeting advocates seem to have separated the two proposed elements in a similar way. Indeed, the annual budgets are compiled following a top-down approach and are mainly used for

target setting, whereas the operational planning and forecasting is done bottom-up in a separate process. On the other hand, whereas both case companies are using rolling forecasts in their operational planning like proposed in the ideal of beyond budgeting, is Statoil using fixed short-term forecasts which envision a fixed end at the end of the period. Nevertheless, each of the reviewed organizations seems to follow the idea of being action and not explanation oriented, as the variations are sought to be forecasted in advance; the business follow-up compares forecasts, instead of actual costs, to the predetermined targets.

All the studied companies have also decentralized the authority for resource allocation decisions for the units to continuously happen within the boundaries given by the management. Indeed, instead of micromanaging the units, they are considered to self-regulate their behavior in accordance to the targets that are given to them. Statoil also has several central committees reviewing and giving recommendations regarding the largest projects in the fields of technology development, investments, and information technology. However, when being analyzed more carefully, it can be argued that this arrangement where multiple committees exist does not quite follow the ideal of beyond budgeting, where the purpose of such central committee is to ensure that financing is given for the overall best projects in the organization. Indeed, each committee at Statoil is capable to prioritize only over their own projects, instead of evaluating whether other parallel commissions would have better alternatives available. Therefore it can be concluded that despite not being as comprehensive system, the ‘business improvement interlock’ of Company X, where the development projects are being prioritized over the boundaries of organization’s internal units, follows the original idea of beyond budgeting more closely. Similarly also the fact that the board of directors at Company Y reviews all the largest projects, can be considered to demonstrate a practice that is relatively equivalent to having a central committee.

On the other hand, whereas Statoil aims to strictly follow the ideal of beyond budgeting and supplements the decentralized action with the help of common set of decision criteria, neither of the case companies have such official NPV or IRR limits for project approvals at place. The Director at Company X specifies two main reasons why creating such process that evaluates all the projects against a set of criteria is considered to be difficult in practice. Firstly, he argues that as everything depends on the assumptions

lying behind the calculations, almost every project can be estimated to show positive outcomes, if wanted. And even though the assumptions could be calibrated, the initiatives always have differing risk profiles that are difficult to be fairly taken into account. The second problem is the finite amount of resources available: the restricted capability to invest means that not all profitable projects can be initiated instantly. In other words, there might be multiple projects meeting the set of criteria and in that case it comes down to the managers of the investing units to decide on which projects should be prioritized. Noteworthy is that the descriptions of the practices used at Statoil do not reveal how important the common set of decision criteria is in reality, and do not address these problems at all.

Another crucial issue that the literature does not reveal from the resource allocation practices of Statoil is that how the decentralized action can take place if no resources are granted in advance. In other words, in the absence of budgets, how can the units independently decide on anything if no prior financing is given for the year? Therefore one can only assume that some kind of anticipatory resource allocation system must be at place also at Statoil. Similarly, the case descriptions do not discuss anything about the acquirement of back office functions either. Thereby the practice of having internal markets as suggested by Hope et al. (2011) cannot be verified to be at place in any of the reviewed companies. Related to this, Controller 1 at Company Y admits that even though the goal is naturally to do the allocation of the costs as directly as possible, a company must always make a compromise between the accuracy and the cost of calculating them.

7.1.2. Cybernetic control and rewarding

The ideal model of organization's cybernetic control and rewarding in the existence of beyond budgeting should be based on relative improvement contracts and benchmarking. On the other hand, balanced scorecards are recommended to be used in order to find appropriate financial and non-financial KPIs that reflect the company's strategy (Neely et al., 2003). Finally, the concept stresses that rewarding should be collective and also non-financial rewards should be utilized. (Hope et al., 2011; Hansen et al., 2003)

First of all, the performance evaluation of the employees in each of the reviewed organizations is done with the help of scorecards that holistically assess the performance through both financial and non-financial KPIs. In other words, despite the case companies using budgeted numbers to determine the thresholds for financial indicators, the rewarding is also based on other strategic non-financial measures. Moreover, both case companies seem to have realized the motivating power of employee recognition and actively use non-financial rewarding practices, and have also collective bonus systems at place. On the other hand, the case descriptions regarding the practices of Statoil are again inadequate as they do not reveal how the company determines the appropriate target levels for its financial KPIs, or whether there are any non-financial rewarding systems at place. What is known though is that Statoil uses group incentives to encourage employees to collaborate with each other.

It is also known that Statoil aims to follow the idea of actively using relative measures and benchmarks. However, due to the fact that finding appropriate benchmark data for such use is difficult, especially in the lower levels of the organization, the company seems to be forced to mainly use only 'synthetic' benchmarks. In other words, the units are being measured against their own past performance. It can be argued though that making such comparisons to one's past performance cannot be considered as an example of orthodox benchmarking, and therefore the company's internal league standings for the health, safety, and environmental issues seem to represent the only real internal benchmarking at place. Moreover, as the only reported relative external benchmarking is made at the group-level, it can be concluded that despite the keen desire, Statoil's use of relative measures is not as extensive as the company would like to demonstrate.

Similar conclusions regarding the use of benchmarks are also been made in the case companies of this study. Hence, all the interviewees stress the difficultness of finding appropriate benchmark data, and thereby take the idea with a grain: neither of the companies thus uses external benchmarks when it comes to the budgeting, with only few exceptions of Company X benchmarking the budgeting process itself. Similarly, only some unsystematic internal benchmarking is done in both companies as the peers are being compared to each other always when applicable. The problem is that most of the projects and units are considered to have too different characteristics and premises to be

directly benchmarked, and therefore these comparisons are rather done in order to learn from the past mistakes and successes, than for the sake of active performance evaluation.

Finally, it was mentioned that Company X has previously used a certain type of relative approach in its group-level management control, as the target setting was based on the approximation of the market share percentages. Nevertheless, as the understanding and monitoring of the market shares is still considered to be important, the main difference to the Statoil's corresponding practice seems only to be the formality of the system. Similarly, even though relative measures are not being formally used in the budgeting process of Company Y as such, supplementary calculations with relativistic views are reported to be done in order to understand the changes in the markets.

7.1.3. Administrative and cultural controls

Finally, an essential part of beyond budgeting ideal deals with radical decentralization and empowerment, where the employees are authorized to make decisions independently without the immediate interaction of group executives (Hansen et al., 2003; Hope et al., 2011). And when the traditional command and control –type of management is abandoned, the governance of the organization should happen with the help of transparent and accessible information (Bourmistrov and Kaarbøe, 2013) and with the accommodation of high levels of trust (Hope et al., 2011).

Both Statoil and the case companies have decentralized the decision power of operational planning to happen within the boundaries given by the target setting of the management. In other words, each of the companies seem to have centralized power and decentralized actions like proposed in the beyond budgeting literature. Interestingly, as the case companies have made this arrangement in order to commit the employees to the common organizational goals, their reasoning is rather similar as proposed by Hope et al. (2011), who underline that the abandonment of command and control –type of management makes the employees at all organizational levels to become more committed to the strategy. Hence, it seems that both case companies have independently made same kind of observations as the advocates of beyond budgeting.

On the other hand, Statoil has invested a lot to improve its IT systems and nowadays the company's information system aims to make the information as transparent as possible.

Similarly, also both case companies have made large investments in IT and enabled their units to make comparisons to each other: the managers at Company Y are able to find the budgeted numbers of their peers, and correspondingly the management team and the finance department in each of the business unit at Company X are able to see their own and their peers' financial figures. Thus, in each of the reviewed organizations, the access to the financial figures is organized in a relatively open way, and for example the suggested problem of salesmen not knowing the contribution margins of their products (Hope and Fraser, 2003) is non-existent.

7.2. Observed similarities

The comparison of the ideal management control system of beyond budgeting, and the practices adopted by Statoil and the two case companies, demonstrates significant similarities between the three. Indeed, all of the reviewed organizations seem to have mitigated the budget-related problems by complementing their budgeting processes with other management control systems in a relatively similar manner as suggested in the beyond budgeting literature. What makes this interesting is the fact that both case companies have made all the arrangements independently without any connections to the concept of beyond budgeting. Moreover, as both case companies operate in volatile industries and have been forced to cut costs in order to adapt themselves into the changed situation, the findings give evidence that the arguments stating that the ideas of beyond budgeting could only be used in stable industries (Libby and Lindsay, 2010) by companies who have a lot of money (Vazonienė and Stončiuvienė, 2012), are at least questionable. Similarly also Rickard's (2006) argument of the principles being especially unsuitable for manufacturing companies, seems to be debatable.

The other way around, it seems that despite being an explicit and commonly referred beyond budgeting adopter, Statoil has not gone much further on its journey compared to the two case companies of this study. Hence, the company's management control system does not meet all the characteristics of an ideal beyond budgeting organization either. This is especially true when acknowledging that the use of Statoil's 'Ambition to Action' is voluntary, and therefore all the units are not even that beyond the budgets as described in this study. Thus, the previous description of the practices represents the

processes of an ideal unit, whereas there are still multiple units in the company utilizing more traditional budgeting practices.

Figure 5 illustrates these observations as it demonstrates which of the ideal practices of beyond budgeting have been adopted by the different companies reviewed in this study. The black dots in the Figure 5 stand for the ideas that were found to be at use, whereas the small circles refer to such practices that are in place, but cannot be considered to completely follow the original idea of beyond budgeting. The non-financial rewarding practices at Statoil were not reported in the literature, and therefore referred as ‘not reported’ (NR).

Key ideas of beyond budgeting	X	Y	Statoil
Planning			
Separated target setting and planning	•	•	•
Use of rolling forecasts	•	•	
Central investment committee	•	•	○
Common set of decision criteria			•
Cybernetic control and rewarding			
Internal and external benchmarks	○		○
Relative indicators	•	○	•
Non-financial indicators (BSC)	•	•	•
Non-financial rewarding	•	•	NR
Group incentives	•	•	•
Administrative and cultural controls			
Centralized power, decentralized action	•	•	•
Open information and trust	•	•	•

Figure 5: Adopted ideal practices of beyond budgeting

Based on this evidence, it seems that the ideas of beyond budgeting might not be as unique and radical as presented by the advocates: both of the case companies in this study have faced similar problems as suggested in the budgeting literature, and independently made same kind of arrangements to mitigate them as recommended by beyond budgeting. Thus, instead of being unable to independently develop their processes like assumed in the literature (e.g. Hope and Fraser, 2003), the organizations have been much more active in reality. Moreover, the voluntary use of Statoil's 'Ambition to Action' means that the group must be capable of fluidly accommodating the practices of beyond budgeting to the more traditional budgetary control used in some of the units. This even further strengthens the argument of beyond not being that radical as commonly suggested in the literature.

On the other hand, the evidence from the case companies suggests that the common thought of beyond budgeting distracting the whole management control system, because of the major changes that are needed to the existing practices, seems to be exaggerated. Indeed, even though each of the persons interviewed in this study underline that every organization always need to have a forecast and some baseline for which to compare the performance, none of them consider budgets to be irreplaceable as such. In fact, the word 'budget' has been in use at Company X only for the past couple of years, as the fixed baseline was previously considered to be a certain type of flexible 'plan'. However, the interviewed Director admits that this 'plan' was not any more flexible than budgets usually are, also indicating the slight difference between the two. Moreover, the suggested role of budgets fulfilling the information need of external parties is downplayed, as Controller 2 at Company Y argues that the information that is included in the company interims is not directly based on budgets. And when it comes to financial institutions such as creditors, Controller 1 comments that it is usually enough to show the figures from the balance sheet and hence it is rare that the company would show its prospects in monetary figures.

Among the advocates of beyond budgeting, the same need for a certain baseline is also acknowledged, but instead of using annual budgets, this baseline is recommended to be expressed through scorecards. But it can be argued that even though a company would be using only scorecards in its management control, it still needs to somehow be able to estimate the required target levels for the indicators, in order to measure whether the

performance is on sufficient level. Thus, some sort of estimations of the prospects is always needed, no matter whether they are called as budgets or not. Similarly Controller 2 at Company Y underline that a company can never get rid of the need to have a certain baseline for the prospects. And even though the baseline would be named differently, it is believed that people would eventually start to call it again as a 'budget' because the word is so embedded in the operations.

From this point of view, the idea of scorecards representing fundamentally different approach to budgets (Bogsnes, 2009) does not seem to be that straightforward. Indeed, the coherence of the management processes to systematically assume either central control or empowerment is not necessarily broken when the ideas of beyond budgeting are being connected to the use of traditional budgets, as has been argued by Hope and Fraser (2003). In other words, the coherency of the system depends on the way that the budgets are being used: if they are used mainly as a baseline for target setting and the planning is decentralized to happen in a separate process, beyond budgeting and annual budgets can indeed form a matching set.

Finally, it should be mentioned that the only ideal feature of beyond budgeting that is not adequately used in any of the reviewed organizations, is the use of relative benchmark data as a baseline. Unfortunately thus, the solution that beyond budgeting offers to the biggest problem addressed by both case companies seems to be the least applicable idea in practice: each of the reviewed organizations recognize the need for adaptive cybernetics, but lack both internal and external benchmark data.

7.3. Weaknesses of beyond budgeting and BBRT

The discussion above indicates that many of the ideas in beyond budgeting seem to be rather applicable, as the two case companies have independently been able to adopt the same ideas of complementing budgeting with other management control systems. The problem however is that the organizations have introduced the ideas without knowing to be following the principles, indicating a possible failure of beyond budgeting to hold itself together as a concept. A major reason behind this problem can be argued to be the exhaustive ambiguity of the twelve management principles, which fail to give sufficient portrayal of the ideas, and thereby restrict the ability to understand what moving beyond budgeting really means. The situation has been worsened by the exaggerated and unfo-

cused stream of promised enduring gains, which the advocating management consultants claim to be available for the implementers. While it has also been discovered that one common feature for successful innovations is that they are not too complex to understand (Rogers, 1995), it is no surprise that beyond budgeting has failed to gain popularity both among the academia and practice (e.g. Becker et al., 2010).

The vaguely defined principles have also caused studies to criticize the concept with flawed arguments that are often based on false understanding of the idea. In other words, the critics of beyond budgeting usually have paid no sufficient attention to the practices of the adopters and instead, tend to criticize the principles with incomplete arguments (e.g. Vazonienė and Stončiuvienė, 2012; Becker et al, 2010). This criticism naturally has decreased the popularity of beyond budgeting even more.

7.3.1. Commonly misunderstood features

First of all, a common conception distorting the discussion is that beyond budgeting is considered to be a synonym to abandoning budgets (e.g. Hansen et al., 2003), whilst the idea in reality is to abandon only the related problems. In other words, the original purpose of beyond budgeting has been to critically examine the reasons for budget use, and thereafter find ways to decrease its role in the business processes (e.g. Hope and Fraser, 2003). Hence, the question is not about automatically abandoning budgets altogether; all the tasks that are traditionally being done with the help of annual budgets are still being done, but they are only divided into separate and more holistic processes. It can thus be argued that ‘beyond budgeting’ is a misnomer for the concept as it fails to keep the flag of the ideology flying. In fact, Robin Fraser, who is one of the creators of beyond budgeting, said in an interview, that they originally started to call the ideology as ‘beyond budgeting’ even though they did not know what it would eventually be: no budgets, more budgets, or something else (Becker et al., 2010). Perhaps partially due to this deceptiveness, some of the recent publications of BBRT (e.g. Hope et al., 2011) tend to avoid using the term ‘beyond budgeting’ and rather discuss on building empowered and adaptive organizations. However, the original name of the concept seems to have become rooted in the academic discussion.

Secondly, beyond budgeting has been stated to be based on total management action freedom, and therefore to be unsuitable for control purposes (e.g. Rickards, 2006). However, as the idea is that management should closely monitor the rolling forecasts against the predetermined targets in order to forecast variations before they occur (Neely et al., 2003), and as the units are allowed to operate only within the boundaries set by the top management (Hope et al., 2011), the question is definitely not about total action freedom. Instead, only the scope of control is widened from pure monetary boundaries towards the use of more versatile belief systems. Similarly Hope and Fraser (2003b) underline that moving beyond the budgets does not mean abandoning targets and trusting that empowered employees will always work to the best of their abilities. Instead, empowerment actually requires greater control and is therefore also acknowledged to be dangerous (Simons, 1995).

The critics of beyond budgeting have also accused the concept for decreasing the ability to do operational planning (Hansen, 2011), and simultaneously to undermine management's credibility to provide forward-looking information to stockholders and analysts (Rickards, 2006). More specifically, the implementation is considered to be especially unsuitable for manufacturing companies, as operating without budgets is thought to lead to resource scarcity or overstock. However, beyond budgeting does not suggest abandoning planning as it specifically recommends it to be done with the help of rolling forecasts, and aims to make the planning more flexible as the forecasts do not envision a fixed end at the end of the fiscal year. This fact for some reason is usually ignored, as for example Hansen (2011) inconsistently argues that rolling forecasts have a higher probability of success than beyond budgeting. On the other hand, the case analysis in this study demonstrates that also a manufacturing company (Company X) is able to operate when most of the ideas of beyond budgeting have been implemented. Indeed, the problem of overstock was existent particularly under the traditional model of budgeting, and was mitigated after the target setting was separated from the planning, like suggested in the principles of beyond budgeting.

Finally, beyond budgeting is sometimes argued to focus mainly on the performance evaluation function, as it alters the employee compensation schemes from budget-based to relative performance contracts (e.g. Hansen, 2011). However, as shown earlier in this

study, performance evaluation is only a small part of the entirety of beyond budgeting ideology.

7.3.2. Paradoxality of the principles

The vaguely defined set of principles however, is not the only problem of beyond budgeting. Indeed, as the advocates tend to overemphasize the capability of their ideology, they end up making paradoxical arguments which decrease the plausibility of the idea in general.

First paradox relates to the balance between internal co-operation and competition. Indeed, the principles underline the importance of getting all the employees to collaborate and work towards common organizational goals, and thereby emphasize the importance of promoting group culture (Henri, 2006). In other words, open information sharing and team-work is exhorted, and the employees are encouraged to trust in each other (Hope et al., 2011). However, as the performance evaluation and rewarding is recommended to be made through internal benchmarking and peer reviews (Hansen et al., 2003), the employees will perversely be credited if they manage to perform better than their colleagues. Thus, as the incentives of the employees are based on the idea of competing against the peers, it is probable that information will be rather hidden than shared, and the emphasized desire to work towards a common goal will most likely decrease. It can hence be argued that this requirement for open information sharing and collaboration seems to conflict with the simultaneous encouragement to beat the peers in order to be rewarded.

Another paradoxality of the principles relates to the intended decentralization of action and the recommended use of central investment committees. More precisely, the radical decentralization seems to be one of the most important elements of beyond budgeting, as the units are encouraged to be given authority to make all the decisions related to reaching the ambitious targets set by the top management. However, it is also recommended that all the resources should be allocated by a central committee continuously evaluating the projects against a common set of criteria. In other words, inconsistent with the idea of radical decentralization, it is simultaneously recommended that the decision power should be centered around the investment committee. Moreover, it can

even be argued that this idea of having central committees fosters an updated version of the command-and-control –type of management, only with the exception that the ideas of the employees at the lower organizational levels are listened. Thus, it increases the level of hierarchy and complicates the decision-making processes, which in fact were the major impediments that beyond budgeting originally wanted to get rid of. On the other hand, it was also concluded earlier in this study that neither the literature promoting the principles, nor the case descriptions of Statoil reveal how this decentralized action can take place if no resources are granted in advance like normally done during the budget negotiations.

Finally, one paradox relates to the promised reduction in the workload needed for maintaining the financial planning processes. Indeed, Hope and Fraser (2003) argue that the implementation of beyond budgeting would increase the time available for running the actual business, as the time used for budgeting would decrease even 95%. However, it can be argued that in reality, the cumulative amount of work that is needed actually increases, as the different tasks of annual budgets are being divided into separate processes that function in parallel with each other. Thus, the formulation of the annual baseline may become easier, but the requirement to plan, evaluate, and allocate resources does not disappear from the company practices.

7.3.3. Inconsistency of the advocates

Finally, when considering the reasons behind the failure of beyond budgeting to remain a coherent concept, a lot has to do with the fact that also the advocates themselves are still far from being unanimous when it comes to the main content of the principles (Becker et al., 2010). For example, even though there has been a certain consensus about the idea that beyond budgeting has more to do with the implementation of a new management model than with budgeting (Rickards, 2006), there are simultaneously authors explicitly emphasizing the need for complete budget abandonment (e.g. Neely et al., 2003). These disagreements have recently started to break the original ideology into separate schools of thought, as for example BBRT's South American branch disengaged itself from the others in 2008, and North American branch started to promote its own six beyond budgeting principles (Becker et al., 2010). This means that the concept of beyond budgeting is not the same around the world.

Becker et al. (2010) conclude that one of the reasons behind the controversies is the attempt of the original members to keep the concept too strictly together by underlining that a company cannot be beyond the budgets, unless each of the twelve principles have been introduced. The authors find the trade-off between the concept's identity and plasticity to potentially work in both directions: while too strong identity might endanger the diffusion of a concept, too malleable model risks becoming unrecognizable as one and the same idea. Based on the evidence of this study, it seems that beyond budgeting might have faced both of these problems.

8. CONCLUSIONS

This study has examined the concept of beyond budgeting as a solution to the proposed budget-related problems and evaluated its ideas in relation to the entirety of management control systems. The purpose of this final chapter is to distill the key findings, and to discuss their theoretical contribution. Also the limitations regarding this study are being addressed, and finally, avenues for future research presented.

8.1. Key findings and theoretical contribution

The aim of this study was to examine and clarify the ambiguous concept of beyond budgeting, and to evaluate the applicability and radicalism of its ideas on mitigating the budget-related problems. The view from the literature was complemented with empirical analysis, which focused to comparatively examine how two case companies outside the orbit of beyond budgeting advocates have independently used other management control systems to complement their budgeting processes in order to find solutions to the same problems. Simultaneously, the idealizations of beyond budgeting in relation to the organizational reality were being discussed.

As the previous literature related to the concept of beyond budgeting was concluded to be fragmented and conflicting, a framework illustrating the main ideas was built by connecting the topic to the literature related to the entirety of management control systems. More specifically, the analysis was built on the basis of Malmi and Brown's framework, which was considered to provide an appropriate conceptual typology of management control systems working as a package for the study. Also other streams of academic literature both within and outside management accounting were connected to the discussion, as several previously unexplored issues were being critically addressed and close convergences to topics such as 'horizontal organization' and 'lateral relations' were found.

The developed framework illustrates the ideal features of an organization's entirety of management control system in the existence of beyond budgeting through three different groups of control. Firstly, under the planning control, beyond budgeting suggests that target setting and planning should be separated from each other in order to avoid dysfunctional game-playing and to increase the accuracy of the forecasts. On the other

hand, the accuracy and flexibility is supposed to be even further increased through the suggested use of regularly updated rolling forecasts. The resource allocation decisions should be done with the help of common decision criteria, and be reviewed by a central investment committee that actively manages the organization's resource portfolio. Secondly, the cybernetic control and rewarding should be based on the active use of both financial and non-financial relative indicators and benchmarks. The rewarding practices should be group-based, and accommodate also non-financial incentives. Finally, the administrative and cultural controls mainly focus on the issues related to empowerment and decentralization, as the employees are recommended to be authorized to make independent decisions without the immediate interaction of the executives. The units are trusted to self-regulate themselves effectively through the centralized target setting and shared organizational values and objectives.

Based on the analysis, it was thus summarized that beyond budgeting suggests distinguishing all the tasks traditionally assigned to the annual budgets, and on the other hand, adjusting the organizational structures to effectively support horizontal relations. Moreover, it was concluded that as the organizations can never get rid of the need to have a certain baseline, the question should therefore be more about moving beyond the problems of budgeting, instead of moving beyond the budgets altogether. On the other hand, it was argued that even though the journey towards beyond budgeting is usually described to be a two stage process, where the budgetary design is first altered and then radical decentralization takes place (e.g. Hansen, 2003), the steps should be considered rather inseparable as the budgetary design should always reflect the particular organizational design at place.

After clarifying the main ideas of beyond budgeting, the empirical part of this study concentrated on examining the radicalism and applicability of the principles. More specifically, the arrangements that the two Finnish publicly listed companies have independently made to mitigate the budget-related problems were being analyzed and compared. The discussion was further enriched, as also the practices of the most commonly referred recent beyond budgeting adopter were being reviewed and connected to the analysis. Interestingly, it was found that all the organizations have made rather similar arrangements to their management control processes, and hence have mitigated the budget-related problems largely in a similar way as suggested in the beyond budgeting

literature. On the other hand, it was also concluded that not even the practices of the explicit adopter meet all the ideal features of beyond budgeting.

The extensive literature review and the alternative approach to the empirical analysis gave fruitful basis for discussions evaluating the applicability of the ideas of beyond budgeting in relation to the organizational reality. Indeed, it was concluded that most of the ideas seem to have real managerial relevance, as the case companies have already been able to introduce them into their practices. However, it was also found that unfortunately beyond budgeting is unable to answer to the most important dilemma addressed by both case companies, as the idealization of available benchmarks disconnects the concept of adaptive cybernetics from the world of organizations' practice. Thus, the lack of information related to competitors, and the difficultness of finding comparable units inside the organization, makes proper benchmarking difficult in practice. This applies especially in the lower levels of the organization.

On the other hand, as the most applicable ideas are already being in use, it suggests that in contrast to common conception in the literature, the ideas of beyond budgeting might not be that revolutionary at all. Indeed, as it was also found that most of the feasible ideas are already presented under other streams of literature, it can even be argued that the applicable beyond budgeting principles are only summarizing the issues already addressed within the fields of organizational theory, management accounting, and management. For example, the idea of striving for continuous improvement and customer orientation through flattened structures and a team-based focus is also captured under the concept of horizontal organization. Also the arguments of Simons (1995) seem to reflect the idea of separating target setting from planning, as he underlines that while the motivation of the subordinates requires having stretch targets, are the most probable outcomes required for planning purposes. This critical perspective to beyond budgeting is in line with Vaivio's (2008) argument, as he underlines that the consultancy views of management accounting in general tend to draw on a vocabulary of reform combined with selectively documented 'success stories', where a closer examination of these new practices reveals that they often make only minor refinements to the existing practices, or achieve only local changes. Similarly also Otley (2008) argues that despite the increased amount of innovations in management accounting during the past two decades, some of these can be considered simply as 'old wine in new bottles'.

The findings of this study also address important questions regarding the previous research concluding that organizations in general are more interested in developing their budgeting practices, than moving beyond the budgets. Indeed, in the light of this study, it remains unclear how these two choices differ from each other: if a company separates its forecasting process from the annual budgets and begins to use scorecards and non-financial measures in its rewarding systems, is it then developing its budgeting processes, or moving beyond the budgets? Anyway, as both examined case companies were using their entirety of management control systems to complement budgeting, the common assumption in the beyond budgeting literature of budgets operating in isolation (e.g. Hope and Fraser, 2003), does not necessarily seem to reflect the reality of today.

Similarly, the truth about the prior studies underlining that only very few companies have been able to implement the ideas of beyond budgeting (e.g. Becker et al., 2010) might not be that straightforward. For example, if this study was done as a questionnaire, both case companies would have identified themselves to be the users of traditional budgets. Indeed, it was only the closer examination that revealed them to exploit most of the ideas suggested in beyond budgeting. Moreover, as the actual content of the concept differs between the advocating organizations, the questionnaires of the popularity might become even more skewed: if the examination is done in accordance to the European BBRT standards, the results are different than if the study was done in accordance to the US set of principles. Thus, in contrast to the common conception, beyond budgeting is not a one single concept, like for example balanced scorecard is.

Finally, it should be underlined that even though the perspective of the discussion in this study has been relatively theoretical, this study provides also managerial contribution to the practical world. Indeed, as the vast majority of organizations are reported to aim for budgetary process improvements, are the ideas of beyond budgeting worth paying attention. But when considering introducing the principles reviewed in this study, one must be cautious: the budgetary design should always reflect the most important issues of a particular organization, and is always dependent on the organizational context (Hansen, 2011). Therefore managers need to be aware of the possible cultural or contextual factors restraining the applicability of the ideas.

8.2. Limitations

Despite the relatively bold interpretation of the observations, the conclusions of this study are naturally subject to several limitations. First of all, albeit being a commonly recognized typology, the decision to develop the framework illustrating the key elements of beyond budgeting on the basis of Malmi and Brown's (2008) study may cause the analysis to downplay some of the aspects. Secondly, the empirical part was based on analyzing only two case companies and thereby the conclusions cannot be generalized in a statistical sense. Furthermore, as the nature of building planning and control systems is contingent upon the organizational context and a specific time frame, the results may change rather quickly.

On the other hand, also the decision to interview only people in the higher level of the organizational hierarchy may cause the study to fail to observe the reality of the employees and unit managers. For example, as the conclusions regarding the level of empowerment were done through the analysis of the organizational processes, instead of addressing direct questions to the employees at lower levels of the organization, the perceptions of the employees might differ from the reported. In other words, the empirical case analysis might reflect a sort of a description of an ideal organizational reality perceived by the interviewees.

Finally, as Scapens (1990) argues, there is no such thing as objective case study, and the natural bias of the researcher always effects on the achieved results. Thus, the researcher's initial objective of critically examining the beyond budgeting-related issues, might make this study subject to exaggerated interpretation of the observations. On the other hand, even though the researcher did not have any personal connections to the studied case companies, the researcher's own reflexivity in the interactive conversations with the company representatives might have affected on the results (Parker, 2012).

8.3. Avenues for future research

The analysis done in this study offers several fruitful avenues for future research. First of all, whereas this study presents its empirical findings based on only two case companies and does not aim to generalize the findings in a statistical sense, it gives the building blocks for future studies to lean on, when examining these issues with larger popula-

tion. In other words, a researcher might study whether the findings regarding the case companies of this study are only exceptions, or also applicable for other large companies. Important is to understand that when studying this topic with questionnaires, a researcher should concentrate on the decisions regarding top-down versus bottom-up budgeting approaches, and more specifically, look for causalities between the different budget practices and budget formulation processes in accordance to this study. Is the forecasting usually done following a bottom-up approach? And respectively, does the annual 'baseline' follow a top-down formulation process? On the other hand, a researcher should aim to find out whether the forecasting and planning processes are separated from each other and function complementing each other.

Secondly, this study proposed the principles of beyond budgeting to include several inconsistencies, and concluded that the existing case descriptions of the explicit adopters do not cover these issues comprehensively enough. Therefore it would be interesting to interview those organizations and find out how they have dealt with the inconsistencies. For example, how is the collision between organization's internal cooperation and competition mitigated? Or has the amount of work really decreased after the introduction of the principles, even when summing up all the processes that are now done individually?

Finally, the analysis of the case companies in this study revealed that both organizations have difficulties in predicting the future, and that the recommended idea of using relative benchmarks is problematic in practice. Thereby, a study focusing on different innovative ways to carry out the organization's cybernetic control offers many exciting avenues for research. There is also an acknowledged need among the academia for such studies, which focus on the external context of an organization, rather than only concentrating on internal activities (e.g. Otley, 1999). For example, one interesting suggestion that emerged during the preparation of this study was the use of scenario-based financial planning and target setting. Could the altering environment be taken into account with different scenarios? If so, what kind of requirements for the information systems would be needed to support the system? On the other hand, a researcher could also try to understand the preconditions for successful relative benchmarking and ask if there are any industries where competitor data is available.

Anyway, the complexity of examining beyond budgeting in relation to the entirety of management control systems is challenging, but also exciting and therefore future researchers should be encouraged to participate in the development of the ideas propounded in this study. It is probable that studies in this field will become more popular, as the academic papers are concluded often to follow behind the management accounting innovations developed by practitioners (Kasanen et al., 1993).

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Appendix 1: List of interviews

Director, Business Planning and Analysis, Company X ~ 60min, 25.9.2013.

Business Controller 1, Company Y ~ 60min, 18.9.2013.

Business Controller 2, Company Y ~ 60min, 18.9.2013.

Appendix 2: Interview structure

Theme 1: Background information of the interviewee

- *Name, title, working history, current job description*
- *Familiarity with the concept of beyond budgeting*

Theme 2: Budgeting and forecasting in general

- *Different time perspectives*
- *Responsibilities*
- *Top-down versus bottom-up*

Theme 3: Reasons for budget use

- *Planning*
- *Forecasting*
- *Target setting*
- *Performance evaluation*
- *Other reasons*

Theme 4: Perceived problems of budgeting

- *Different forms of dysfunctional game-playing*
- *Time consumption*
- *Inflexibility*
- *Difficultness of predicting the future*

Theme 5: Other issues

- *Use of non-financial indicators (balanced scorecards)*
- *Benchmarking and relative indicators*
- *Organizational structure*
- *Thoughts on the budget abandonment*