Beyond Budgeting and change: a case study

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Received 1 May 2012
Revised 7 November 2012
30 July 2013
23 August 2013
16 September 2013
Accepted 26 September 2013

Abstract

Purpose – This paper aims to investigate reasons for going Beyond Budgeting and the practical issues organizations face when they change their management accounting system based on inspiration from the Beyond Budgeting model.

Design/methodology/approach – The authors apply a case study approach. The primary data source is interviews. The case company is a global company in the agri-food industry that is organized as a cooperative.

Findings – The authors propose that many organizations that change their management accounting system on the basis of inspiration from Beyond Budgeting will maintain fixed budget targets. Furthermore, the authors propose that even when the use of budgets at the corporate level focuses on few line items, the diagnostic use of budgeting at lower levels in the organization may focus on a larger number of line items.

Research limitations/implications – The study is subject to the usual limitations of case-based research. The propositions made in the paper should be further investigated in other organizations attempting to change their management accounting system with inspiration from Beyond Budgeting.

Practical implications – This study shows that the lack of internal benchmarks and the need to deliver the expected results to the company's owners might hinder the implementation of the Beyond Budgeting model as described in the practitioner-based Beyond Budgeting literature.

Originality/value – The paper is one of the few case studies in the academic literature to analyze the practical issues organizations face when changing their way of budgeting on the basis of inspiration from Beyond Budgeting.

Keywords Ownership structure, Budgeting, Perceived environmental uncertainty, Relative performance evaluation, Beyond budgeting, Fixed performance contract

Paper type Case study

1. Introduction

In recent years, consultants and practitioners have proposed the abandonment of traditional annual budgets in favor of a more adaptive and radically decentralized

JEL classification – M41

This paper is based on a chapter of the corresponding author's PhD dissertation completed in June 2010. The authors acknowledge the useful comments given by participants at a workshop at Turku School of Economics in September 2009 and participants at a workshop at Norwegian School of Economics in Bergen in September 2010. The authors also wish to thank Anita Vang and Vibeke Jørgensen for proofreading and Tina Pedersen (In the Margins Editing) for providing additional language help. Finally, the authors wish to thank Kari Lukka for his suggestions and comments to earlier versions of the paper and are also thankful to the two anonymous reviewers for their helpful comments.

Journal of Accounting & Organizational Change
Vol. 10 No. 3, 2014
pp. 409-423

1832-5912
DOI 10.1108/JAOC-05-2012-0032

management model known as "Beyond Budgeting". Among the publications that have attracted attention are those by Bogsnes (2009), Hope and Fraser (2003a), Bunce *et al.* (1995), Wallander (1999) and Morlidge and Player (2010). They criticize traditional annual budgets as being "fixed performance contracts", and suggest that budgets should be replaced with a more adaptive model based on management accounting techniques, such as rolling forecasts, non-financial performance measures and relative performance evaluations.

However, the Beyond Budgeting literature leaves many questions unanswered. For example, why are budgets still widely used if they are unsuitable for today's business environment? In addition, the prominence of relative performance targets in the Beyond Budgeting literature may affect the universal applicability of the model. In this regard, Hansen *et al.* (2003) point out that many organizations might not have good relative performance data. This leads to our overall research question, which we address in relation to the change process in a specific organization: Are the Beyond Budgeting principles universally adoptable or do certain circumstances hinder the implementation of core Beyond Budgeting techniques?

This paper presents a case study of a cooperative in the agri-food industry, which has changed its management accounting systems using inspiration from the Beyond Budgeting approach. The paper contributes to management accounting research by identifying reasons for going beyond budgeting as well as circumstances that hinder the practical implementation of Beyond Budgeting. In the case company, the lack of internal benchmarks resulting from the company's structure and the need to deliver the expected results to the company's owners resulted in the implementation of fixed and absolute targets despite the inspiration from the Beyond Budgeting principles. Thus, we find that the structure of an organization and the preferences of a company's owners can affect the perceived appropriateness of relative performance evaluations.

The paper contributes to extant research by responding to the call made by Frow *et al.* (2010) for studies of organizations with budgeting practices aimed at balancing the need for control with the need for flexibility. In this regard, this paper illustrates how a budget based on aggregated financial targets needs to be supported by a budgeting system with detailed line items, even if no performance targets are associated with those items. In the case company, such detail was used at lower levels in the organization for operational-planning purposes to explain variances in performance and to track deviations from plans.

Similar to the study by Frow *et al.* (2010), this study illustrates that budgets have a role to play in organizations that simultaneously face uncertainty and a need for financial control. Despite the case company being inspired by the Beyond Budgeting approach, the company's new system was significantly different from the approach as presented in the Beyond Budgeting literature. In fact, budgets were not fully abandoned. Similarly, other recent studies describe how some Beyond Budgeting companies maintain some form of budgetary planning but decouple target setting from their planning systems (Bourmistrov and Kaarbøe, 2013; Henttu-Aho and Järvinen, 2013).

This paper is structured in the following way. In Section 2, we review the literature concerning why and how organizations should go Beyond Budgeting. The methodology is introduced in Section 3, while the case company is described in Section 4. The background for the case company's desire to change its budgeting system is presented in Section 5, and the implemented solution is analyzed in Section 6. Finally, the findings are discussed and conclusions are made in Section 7.

2. Beyond Budgeting – why and how

Most of the literature on Beyond Budgeting is based on the experiences of practitioners and consultants (Hope and Fraser, 1997, 1999, 2003a, 2003b, 2003c; Bogsnes, 2009). Hence, this stream of literature shares characteristics with research on other practitioner-based concepts – "traditional" practices are criticized, a new solution is presented and detailed examples of firms successfully adopting the technique are provided. In the rest of this section, the arguments made in the literature for going Beyond Budgeting, as well as advice given for adopting Beyond Budgeting principles, are presented in more detail.

2.1 Why adopt Beyond Budgeting?

Increasing environmental uncertainty is one of the main arguments for abandoning traditional budgets (Ekholm and Wallin, 2000; Otley, 1999). However, Hartmann (2000, 2005) and Ekholm and Wallin (2011) point out that the academic literature is inconsistent with regard to the relationship between environmental uncertainty and reliance on accounting-based performance measures. As pointed out by Libby and Lindsey (2003), the arguments in the practitioner-based Beyond Budgeting literature for abandoning budgeting are centered on criticisms of traditional budgets, especially the role of budgets as fixed performance contracts. In their well-known book on *Beyond Budgeting*, Hope and Fraser (2003a, pp. 4-15) argue for abandoning budgets. In this regard, they make three key arguments.

2.1.1 Budgeting is cumbersome and too expensive. Hope and Fraser (2003a) focus on the costs associated with preparing and negotiating budgets, and the costs of following-up on those budgets. Along these lines, Player (2003, p. 3) argues that "[a]ll of the member companies in BBRT[1] joined because they recognized that the budgeting process was too long and too expensive". Likewise, Bogsnes (2009, pp. 48-52) mentions the cost of making budgets ("the efficiency problem") as an argument for going Beyond Budgeting. However, the fact that a management accounting system has costs is obvious. Therefore, the validity of the statement should be assessed in relation to the benefits of budgeting. In other words, if budgeting has lost its value due to changes in the business environment and if the costs of running a budget system have risen, then a change toward a more cost-effective way of controlling organizations might be appropriate.

2.1.2 The extent of gaming has risen to unacceptable levels. The argument made by Hope and Fraser (2003a) is that traditional budgets tend to become fixed performance contracts in which goal achievement is the success criterion. Therefore, subordinates will try to obtain the easiest budget goals possible. Furthermore, when a budget goal is set, there is a risk that subordinates will engage in gaming and other dysfunctional behavior to reach the target. Bogsnes (2009) also highlights that a budget (especially the bonuses attached to budget targets) may motivate gaming and thereby affect the quality of the budget.

2.1.3 Budgeting is out of kilter with the competitive environment. Hope and Fraser (2003a) argue that traditional budgeting was developed at a time when the business environment was more stable and less competitive than it is today. As a result, a more adaptive way of managing is now needed. Accordingly, Hope and Fraser (2003a) argue that the organization needs to be empowered to be able to better cope with today's business environment. Similarly, Bogsnes (2009) criticizes budgets as being unsuitable for the business environment that companies currently face. He focuses not only on the inadequacy of the annual planning horizon of the budget in a competitive and turbulent environment but also on the need to decentralize responsibilities to enable the organization to act in fast-changing environments and on the problems of evaluating performance relative to fixed targets. Bogsnes (2009, pp. 16-17) also argues that detailed budgeting is meaningless in uncertain business environments where it is impossible to predict each individual line item a year (or more) in advance. Comparable critiques are found in other Beyond Budgeting research (Bunce, 2003; Player, 2003).

2.2 How to go Beyond Budgeting: issues and practicalities

When an organization goes Beyond Budgeting, it abandons the traditional budget in favor of a range of techniques intended to make the organization more adaptive, and it adopts a radically decentralized way of managing (Hope and Fraser, 2003a). The literature lists 12 principles of Beyond Budgeting (Bogsnes, 2009; Hope and Fraser, 2003a), including specific techniques, such as rolling forecast, relative performance evaluation, balanced scorecard and the creation of empowered teams.

Among the management accounting techniques included in the Beyond Budgeting model, relative performance evaluation needs special attention, as it is often presented as a main feature of the Beyond Budgeting model (Hope and Fraser, 2003a, 2003b, 2003c; Bunce, 2003; Player, 2003). Originally, the suggestion to replace fixed budgets with relative performance evaluation was inspired by the Swedish bank Svenska Handelsbanken, which has a branch structure in which internal benchmarking of branches is possible. However, as Hansen *et al.* (2003) suggest, relative performance evaluation is not widely used, as firms often lack relevant internal benchmarks. Furthermore, such evaluations can suffer from common-measure bias (Lipe and Salterio, 2000; Salterio, 2012). Bogsnes (2009, p. 62) "disagree[s] with those saying that because units in their business are not as comparable as bank branches and regions there is little to learn", although he admits that "benchmarking just makes it a bit easier".

Another possibility mentioned in the Beyond Budgeting literature is the application of performance targets relative to an industry benchmark, as was initially done by the petrochemical firm, Borealis (Kaplan and Jorgensen, 2002). However, Bogsnes (2009, p. 89) mentions that the relative measurement of return on capital used in Borealis was replaced with absolute financial targets after a few years.

Rolling forecasts also hold a prominent position in the Beyond Budgeting literature (Hope and Fraser, 2003a, 2003b), although the technical aspects of preparing a rolling forecast are not presented in detail. Even Morlidge and Player (2010), who explicitly focus on forecasting, do not provide much technical detail on implementing a budgeting system based on rolling forecasts. However, the consensus in the Beyond Budgeting literature seems to be that a forecast does not need to be approved and that there is no penalty if there are variances between a forecast and actual results (Hope and Fraser, 2003b; Bogsnes, 2009).

Few case studies of Beyond Budgeting are covered in the academic literature. In one of them, Østergren and Stensaker (2011) report how the implementation of Beyond Budgeting led to more centralized target setting combined with more decentralized action. Similarly, Henttu-Aho and Järvinen (2013) describe how firms attempting to abandon budgets still maintain a system for financial target setting, while Bourmistrov and Kaarbøe (2013) describe how two Beyond Budgeting companies unbundled target setting from planning and resource allocation.

When it comes to advice on the actual implementation of Beyond Budgeting, Bogsnes (2009) describes Beyond Budgeting as more of a philosophy than a fixed recipe, and he focuses on the resistance to change inherent in the organization. Like Hope and Fraser (2003a, p. 96), Bogsnes (2009) advises implementers to start creating a case for change by convincing the organization that the traditional budgeting system is dysfunctional to move toward acceptance of the Beyond Budgeting model. In general, Bogsnes (2009, pp. 205-206) characterizes the implementation of Beyond Budgeting as "one war but a thousand battles". He suggests refraining from designing 100 per cent of the model in advance and instead "design[ing] to 80 per cent and jump[ing]" (Bogsnes, 2009, p. 200). Bogsnes (2009) does not describe the techniques that should be implemented from the start, as the order and timing might vary.

3. Methodology

The case company was selected after company employees had mentioned to one of the authors that the organization had decided to change its budgeting procedure to a model based on inspiration from Beyond Budgeting. Data for the study were collected from multiple sources, including interviews, internal reports about the development of the budgeting system, budget reports, annual reports and information from the company Web site.

Our analysis of the budget reports and the internal reports about the development of the system focused on identifying elements adopted from the Beyond Budgeting model. Budget reports relevant at the time of data collection were studied. However, for reasons of confidentiality, we were only allowed to study those reports in a meeting room at the company's headquarters. Furthermore, we studied annual reports from 2003 to 2008 together with information from the company's Web site, with a focus on how the case company described its competitive environment.

Interviews took place at the case company in the autumn of 2007 and the winter of 2007/2008. In total, 15 interviews were conducted with interviewees who represented different parts of the organization, both horizontally and vertically. The interviewees included the group's chief financial officer (CFO) (executive vice president), two business-group directors (executive vice presidents), three business-group CFOs and three plant managers (representing two different business groups). Two corporate finance directors were also interviewed (as a new director was appointed after the initial interviews were conducted, both the new and the old director of corporate finance were interviewed), as were two deputy directors involved in budgeting.

Most of the interviews were structured around the themes outlined in the previous section. Of the 15 interviews, 12 were tape-recorded, transcribed and analyzed. Meeting summaries were made for the remaining three interviews. The transcribed interviews were coded according to the three points outlined in Section 2.1, and we also coded for information that explained the design of budgeting model. All information on how the budgeting model was designed was carefully examined and used in assessing the degree to which the design directions in the Beyond Budgeting literature had been followed.

4. The case company

The case company, FoodCorp (name disguised), is a company in the agri-food industry with four individual business groups. At the time of the case study, it had an annual turnover of > €5 billion and > 15,000 employees. Its primary customers are retailers, and FoodCorp has production and sales worldwide. FoodCorp is organized as a cooperative and is primarily owned by Scandinavian farmers (called cooperative members). The cooperative members are not only owners of FoodCorp – they are also its suppliers. In fact, the owners are obliged to supply the bulk of their production to FoodCorp. The agri-food industry is characterized by a wave of consolidations, and cooperatives are actively taking part in this process (Van der Krogt *et al.*, 2007). FoodCorp is also active in this consolidation process and the company itself is a result of several mergers.

In a cooperative, any net income for the year is either distributed to the farmers in proportion to the amount (or value) of the goods they supplied to the cooperative or it is transferred to equity (Cobia, 1989)[2]. The distributions from the cooperative are of utmost importance to the farmers, as such distributions often constitute their main or only source of income. Farmers subjectively compare their cooperatives with alternative trading partners and their own farming operations with those of other farms (Österberg and Nilsson, 2009). If they are dissatisfied, cooperative members can switch to a better-performing competitor to gain access to higher income.

5. Why did FoodCorp change its budgeting process?

FoodCorp started changing its budgeting process in 2003 in connection with the implementation of a new enterprise resource planning (ERP) system. At the time, the company decided to closely examine several business processes, including its planning and budgeting procedures. During that analysis, the Beyond Budgeting principles emerged as a relevant idea. FoodCorp, therefore, met with management consultants specialized in Beyond Budgeting and visited companies known for their use of Beyond Budgeting, including Borealis, which was emphasized as a Beyond Budgeting company by Hope and Fraser (2003a), as well as by Bogsnes (2009). A deputy director of corporate finance explained:

> We want a form of management that is forward looking instead of backward looking.

Several of the managers in corporate finance mentioned the increasing environmental uncertainty as a reason for the focus on Beyond Budgeting. The increase in environmental uncertainty was also apparent in FoodCorp's annual reports and confirmed by managers outside corporate finance. As a CFO of a business group said:

> Things are going faster at least […]. In that way, I think it has become more difficult. I think that more things are happening both faster and more confusing. Complexity has increased, I must say.

The representatives of corporate finance argued that budgets were of little use to the business groups given the increase in environmental uncertainty. A deputy director in corporate finance explained:

> Why should they have a budget? What should they use it for? They can make some assumptions about what to produce next year […] but it changes all the time. The assumptions are gone the day after you have made your budget.

This statement follows the arguments made by proponents of Beyond Budgeting (Bogsnes, 2009; Bunce *et al.*, 1995; Hope and Fraser, 2003a). However, the initial aim of the change process was not to improve FoodCorp's ability to deal with uncertainty in its environment. Instead, the change process started as an ERP implementation with the aim of simplifying things and lowering the cost of budgeting. As an executive director stated:

> At least we could see that the calendar time and the resources we spent on the budget took up far too much time.

Along these lines, a deputy director in corporate finance explained the original background for changing the budgeting procedure:

> If you ask operations whether we had a good management accounting system before, then I think that everyone would answer that we did. Therefore, it was more a question of making it cheaper.

As discussed above, the turbulent business environment and the resources consumed by the budgeting process were given as reasons for FoodCorp's shift toward Beyond Budgeting. The problem of gaming in connection with budgeting was not an issue.

6. How did FoodCorp change its budgeting process?

Even though the idea of Beyond Budgeting was a source of inspiration when FoodCorp began to change its budgeting procedure, the Beyond Budgeting model, as described by Hope and Fraser (2003a), was not adopted as such. As a deputy director of corporate finance explained:

> We have looked at Beyond Budgeting, but we have not tried to take advantage of all 12 points, but there are elements and as you can hear there are also elements that directly contradict [Beyond Budgeting].

Instead, the company's new system focused on top-down target setting combined with a reduction in the detail level in the budget. The top-down targets imposed on subordinate units relied on traditional accounting performance measures (e.g. cost or profit) and were fixed.

6.1 Fixed targets

At first sight, there are indications that Beyond Budgeting should have been relevant for FoodCorp. The decisive success criterion in terms of retaining or attracting suppliers is the organization's ability to offer farmers a higher payout than competitors. In line with arguments for relative performance targets in the Beyond Budgeting literature, it could be argued that FoodCorp should use relative performance evaluations as proposed by Hope and Fraser (2003a). The challenge is that external relative performance evaluations can only be undertaken with a time lag, and they must be based on external financial reports. Internally, the separate units in FoodCorp lacked possible peers against which they could benchmark due to their specializations. A deputy director in corporate finance explained:

> Our production units differ widely. They are so specialized.

This was not the only barrier to adopting the entire Beyond Budgeting model. The idea of totally abandoning budgets had been discussed in the executive management group but was turned down. As an executive director stated:

> Abandoning budgets has not really been considered. Only as a provocative idea!

As a reason for this, the executive director mentioned FoodCorp's ownership structure – the company is owned by suppliers, and the payout from FoodCorp is the primary source of income for its owners. As an executive director explained:

> FoodCorp is a very large part of our owners' current income. Their personal financial security is therefore dependent on knowing what they can expect from the company next year.

Therefore, the aim of the management control system at FoodCorp was to increase the likelihood that the owners would receive the expected payback. Consequently, the company felt an annual target was required. As an executive director mentioned:

> There has also been pressure to make sure that when expected payback is communicated to the owners, then it was a good idea to live up to this expected payback.

A deputy director of corporate finance explained:

> We need stability. We need a fixed profit, so that the farmers feel sure that they will get their money when the year is over.

As pointed out by Frow *et al.* (2010, p. 454), companies listed on the stock exchange have a "requirement for predictable goal achievement". This requirement is equally prevalent among cooperatives. As an executive director explained:

> We work hard to give our owners reliable predictions. All companies, including listed companies, do that, but we have a special responsibility to give them correct guidance on where we are heading.

FoodCorp's solution to the "requirement for predictable goal achievement" was to impose a fixed target on each business group (top-down targets) that was to be achieved despite changing environmental circumstances. The targets were, therefore, intended to motivate new ways of thinking. Furthermore, the organization planned to supplement the target setting with a forecasting procedure to keep track of whether the target would be reached. However, the forecasting part of the control system was not initially implemented.

The overall idea of imposing targets was that the budgeting process would start with a calculation of the expected payout to the farmers. With a peer group as a benchmark (based on historical data), the board was to decide on the payout level. This aggregated target was to be cascaded down to the different subunits, which could then prepare budgets specifying how they would reach the imposed target. As the vision was to allow greater freedom in deciding how to reach the imposed targets, the corporate finance believed there should be no need for a great deal of detail in the budgeting. Accordingly, the budgets had only few line items.

Previously, the budgeting process had started from the bottom-up, with business groups preparing a detailed budget based on their expectations, followed by negotiations with group management before a final budget was approved. The changes in the budgeting procedures were intended to reduce the amount of time spent negotiating budget targets and to substitute the focus on explaining variances with a focus on reaching the annual target even in situations where budget assumptions might have been incorrect. An executive vice president explained:

> The management time and management accounting time you spend on explaining variances should be spent on making action plans.

The imposed targets would remain unchanged regardless of developments in the external environment. They were to be described in a performance contract and they were to be made part of the bonus system, which consisted of personal targets, business-unit targets and the overall group target. The targets would include financial and non-financial targets, with lower and upper caps on the bonuses.

However, despite the focus on aggregated targets, FoodCorp maintained a traditional budget report, which was distributed to its executive management and the board of directors. In that report, the actual profit and loss statement (P&L) was still compared to the budget, and explanations of variances were included. The difference between the old bottom-up method of budgeting and the top-down target setting was explained by an executive director:

> When you follow up on budget variances in the traditional budget world [you] say: "This was my budget and here are my variance explanations [...] so now you can explain".

However, this was different in the new system:

> We are employed in order to reach our targets despite that the exchange rate to the USD is 5.37, and they are to take corrective actions when necessary. This is the major difference.

And further on:

> Now we tell you: "This is fine, we listen to you but it does not change your goal".

Thus, the target was fixed and could only be changed in extreme situations. The executive director explained:

> Management should be saying that the target is fixed unless a catastrophe occurs – an extreme situation. Otherwise, the target is fixed and we do not want to listen to your long and rambling story.

While there was almost no flexibility with regard to the imposed targets, FoodCorp wanted to offer managers flexibility in achieving those targets. As a deputy director of corporate finance explained:

> We agree that this is [the manager's] target. [The manager] should then go for it and then [the manager] have the freedom to figure out how to do it.

Even though this system appears to offer the freedom and empowerment favored in the Beyond Budgeting model (Hope and Fraser, 2003a), there are some differences. The freedom FoodCorp gave to managers was not a way of *giving* them flexibility but a way of *making* them flexible, with targets used as the pressure device (Argyris, 1953). As the same deputy director explained:

> The target puts pressure on them [to develop] new ways of thinking.

This is in line with Merchant and Otley's (2007, p. 794) argument that one reason for holding managers responsible for factors they cannot control is that "organizations want managers to respond to changes in those factors". The idea is that even though the manager cannot influence the factor itself, the manager can and should try to influence the effect that a change in such factors has on performance.

6.2 Level of detail

After the change process was initiated, there were indications of increasing environmental uncertainty, which several of the managers in corporate finance mentioned as offering additional support for the change process. However, skepticism toward the changes in the budgeting process was voiced throughout the organization. One deputy manager in corporate finance commented:

> They do not have the readiness for change.

Corporate finance ascribed the dissatisfaction in the organization to a lack of willingness to change, rather than to the changes in the budgeting system being inappropriate. However, the corporate finance department continued arguing for less-detailed budgets. A deputy director in corporate finance explained:

> We do not think that a high level of detail offers any management value, and we do not want to tie up all these resources in creating [that level of detail] and following up on it.

This line of reasoning is in line with Bogsnes's (2009, pp. 16-17) argument that detailed budgets are meaningless in today's uncertain business environment. However, the business groups felt that they needed the level of detail common in the old system for diagnostic purposes (Simons, 1995). As a plant manager said:

> But my personal opinion is that management has forgotten to think of the consequences of doing this [...] those fluctuations of half or whole millions [...] we need to control them but we cannot with this system there.

And further on, the plant manager said:

> If you deliver the expected results, then you have a unit where you are the boss. If you do not deliver the expected results, then you will have a service visit from headquarters right away.

One of the problems with the aggregated level of budgeting was that FoodCorp continued to focus on budget specifics, and the units were asked detailed questions about budget variances. A plant manager explained:

> If you then do not reach the budgeted result, you are expected to be able to go back and yet explain on a detailed level. Then you just have lower-level documentation that is not included in the system.

As a consequence, business units at lower levels in the organization developed various spreadsheets to be able to still make traditional detailed budgets and to explain budget variances. When confronted with the requirement for details, subunits responded by changing locally. As one plant manager explained when asked about how the plant handled monthly reporting:

> It is the SAP system, which creates a report that is a little difficult to read my head of administration takes those numbers, reads them from a financial point of view and translates them for me so I get a half-page report from him with all of the numbers. In principle, he had his old system from before SAP with some spreadsheets and now he has the new one. In essence, he takes the new and pours it into the old.

Detailed budgets could be used at lower levels in FoodCorp because various levels of the organization tried to cope with the uncertain business environment in different ways to create some stability in planning. One plant manager explained the arguments:

> It is bad when you run all your plants at 85-90 per cent of capacity because everybody has bad excuses and explanations for lack of performance because they lack volume. You can instead fill up most plants and tell these plants: "Now there are no excuses for not reaching the budget". Then you can take one plant and isolate all of the problems there and then you can always find out what demands and expectations you have for that plant, but you also can expect all others to live up to expectations.

This is an example of a buffering tactic (Thompson, 1967) in which one plant absorbs the environmental uncertainty, while all of the others experience stability. In addition, FoodCorp also had a buffer product, which ensured that all raw materials were used even when sales fluctuated. As a food producer, FoodCorp would not keep perishable goods in a warehouse for longer periods of time. Instead, it could convert raw materials into a special powder product with a long durability. In this way, the unpredictability was handled using a buffer that mitigated the effects on the organization in accordance with the buffering tactics of stockpiling suggested by Thompson (1967).

7. Discussion and conclusions

As mentioned in the beginning, the Beyond Budgeting literature leaves many questions unanswered. For example, if budgets are unsuitable for today's business environment, why are they still widely used? How can an organization escape the annual fixed performance contract if it does not have any relative performance targets to use instead? Is the Beyond Budgeting model universally adaptable? The experiences reported in the Beyond Budgeting literature may reflect well-functioning management models, and there is certainly much to learn from others' experiences. However, often "{t}he logic behind what works at top performers, why it works and what will work elsewhere is barely unravelled" (Pfeffer and Sutton, 2006, p. 6) in the literature, which, in turn, leads to mindless imitations, as Pfeffer and Sutton (2006) argue in their call for more evidence-based management.

7.1 Reasons for going beyond budgeting

As discussed in Section 5, the arguments made by FoodCorp for going Beyond Budgeting are in line with some of the arguments made by Beyond Budgeting proponents, such as Hope and Fraser (2003a) and Bogsnes (2009). In particular, the arguments that budgets restrict organizations from adapting to rapidly changing business environments and that budgeting is a costly process were mentioned by FoodCorp. At the time of data collection and in previous years, FoodCorp faced environmental uncertainty, which caused large budget deviations and made planning difficult. FoodCorp felt that this supported the case for changing the budgeting system. In this regard, FoodCorp is an example of an organization that changes its budgeting process because its finance people adhere to the arguments made by Beyond Budgeting proponents. In other words, the supply side of the diffusion process succeeded in "selling" the negative story about traditional budgets (see Bjørnenak, 1997, for more on diffusion theory in connection with management accounting innovations).

7.2 Lack of benchmarks and need for predictable goal achievement

However, the implemented solution differed significantly from the 12 principles put forth by Hope and Fraser (2003a). FoodCorp's final model was characterized by fixed top-down targets supported by a budget with relatively few line items. In fact, the main paradox of this case is that FoodCorp ended up with a fixed performance contract, which is exactly what the Beyond Budgeting literature criticizes. The Beyond Budgeting literature suggests that environmental uncertainty should be handled using subjective performance evaluations (Hope and Fraser, 2003a) and relative performance evaluations (Hope and Fraser, 2003a; Wallander, 1999), which, in turn, imply a need for flexibility with regard to the targets. The first hindrance for the implementation of the Beyond Budgeting model in FoodCorp was the lack of internal benchmarks for evaluating the performance of individual responsibility centers. The use of internal benchmarking may require some kind of branch structure, as in the Svenska Handelsbanken case. Thus, going Beyond Budgeting by replacing fixed targets with benchmarks is likely to be more suitable in organizations where branch structures can be found (e.g. retail).

A second hindrance for the implementation of the Beyond Budgeting model in FoodCorp was the pressure to deliver the budgeted payback every year to the owners/suppliers. As the income that the owners/suppliers received from the cooperative was a major part of their total income, delivery of the expected results was prioritized. A fixed target was seen as the best way to ensure that expectations would be met. We suggest that the same effect might be seen in organizations with other types of ownership structures, such as companies owned by private equity funds and organizations in the public sector. In the public sector, for example, budgets are essential for spending approvals, thus making the abandonment of fixed budgets unrealistic. We, therefore, propose that many organizations that change their management accounting system on the basis of inspiration from Beyond Budgeting will maintain a fixed budget target instead of introducing relative performance evaluations as suggested by Beyond Budgeting proponents.

7.3 Number of line items

FoodCorp felt that the increased environmental uncertainty called for flexibility in budgeting. The company worked to satisfy this need by allowing flexibility in the way a target could be achieved. This is essentially identical to the principles described by Frow *et al.* (2010). However, despite the similarities between FoodCorp and the case study by Frow *et al.* (2010), there are also important differences. The study by Frow *et al.* (2010) is presented as a case of a well-functioning budgeting system, while the system at FoodCorp showed signs of malfunctioning. As illustrated in Section 6, dissatisfaction with the new system was evident. In fact, after most of the interviews for this case study had been conducted, the director of corporate finance and the deputy director responsible for budgeting left FoodCorp. Furthermore, the group's CFO "resigned by mutual agreement" in the spring of 2009.

Even though corporate finance explained the organizational resistance to change as a lack of readiness for change, the technical matter of missing line items was a major driver of the dissatisfaction in the organization. While performance was evaluated on the basis of highly aggregated measures from a corporate point of view, the diagnostic use of budgets at lower levels of the organization focused on a larger number of line items. Throughout the case-study period, the subsystems (e.g. Excel spreadsheets) maintained the focus on detailed budgets in the lower levels of the organization. In addition, the use of different buffering tactics created stability at lower levels in the organization, making detailed planning more appropriate. We, therefore, propose that even when the diagnostic use of budgets at the corporate level focuses on few line items (e.g. profit or total costs), the diagnostic use of budgeting at lower levels in the organization may focus on a larger number of line items.

7.4 Concluding remarks

The case of FoodCorp shows that changing the management accounting system with inspiration from Beyond Budgeting may have unexpected results. It may be difficult to replace fixed budget targets with relative performance evaluation, and the need for detailed budgets may vary also within the specific organization. Thus, our study indicates that Beyond Budgeting is not a standard solution and that Beyond Budgeting is not equally suitable in all kinds of organizations and in all situations. The present study indicates that a cooperative ownership structure is a factor that can influence whether an organization goes Beyond Budgeting or not. Organizations with other kinds of ownership structures might also have specific demands that might influence the possibility of going beyond budgeting. Thus, further research is needed in organizations with other kinds of ownership structures to find out why and how they change their budgeting system.

In this paper, we have studied one single case, and a few other case studies on firms attempting to go beyond budgeting have been published. However, more studies of firms that radically change their management control systems and processes could contribute to the literature, as this would not only give insight in the "why" and "how" questions in relation to Beyond Budgeting but also contribute to the more general insight in the whole management control package (for example, Malmi and Brown, 2008). When Beyond Budgeting is implemented or when Beyond Budgeting companies are studied, important questions arise: What techniques and systems replace the conventional budgeting process and how are these techniques used? Is it always a question of fixed or relative targets? Could it, under certain circumstances, be possible to combine the two ways of evaluation? Thus, further research is needed to identify how the Beyond Budgeting package will be configured under different circumstances. This would improve our understanding of how contemporary organizations design their budgeting systems to fit the business environment they are facing today.

Notes

1. BBRT is the Beyond Budgeting Roundtable, which was founded in 1997 to develop an alternative to budgeting (see www.bbrt.orgformoreinformation).
2. Some cooperatives also distribute some of their net income as dividends (Cobia, 1989).

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