Nalan Mejzini & Hendrik Seidel

Challenging the Principles of the Beyond Budgeting Model

Can you really go beyond?

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Karlstad, May 2015

Nalan Mejzini & Hendrik Seidel
Abstract

This thesis examines whether the principles of the beyond budgeting model are entirely separated from any budgeting approach. Research has shown that managers express their concern that budgets are indispensable in their nature. However, the beyond budgeting advocates stress that improving existing budget approaches is not sufficient. Companies should rather abandon budgets and operate according to the beyond budget principles. This contrast between the views triggered the authors of this thesis to investigate whether the beyond budgeting model is a management control system that operates entirely free of any budgets. The investigation is finished with a case study on Svenska Handelsbanken, which is seen as the role model for beyond budgeting. It is investigated whether this particular corporation manages to operate free of budgets.

The researchers have developed a conceptual framework, in order to compare the beyond budgeting principles with the most commonly used budgeting approaches. The investigation reveals that the principles are predominantly different from any budgeting approach. However, capital investments, resource allocation, and the control functions overlap partly with budgeting, even though the scope of the beyond budgeting model exceeds all the other approaches.

The study further discloses that Svenska Handelsbanken allocates resources on the regional level in a very traditional budgeting way. Furthermore, staff and cash flow planning are also within the traditional budgeting approaches.

Overall, the results suggest that the principles have to be updated to break free from budgeting and really go ‘beyond’. The so-called ‘better budgeting’ seems to be a hybrid between traditional and beyond budgeting. This hybrid cannot be replaced at this stage of the beyond budgeting model.

Keywords

Activity-Based Budgeting, Balanced Scorecard, Better Budgeting, Beyond Budgeting, Beyond Budgeting Model, Budget Definition, Rolling Forecast, Svenska Handelsbanken, Traditional Budgeting
# Table of Content

Acknowledgement .................................................................................. I
Abstract .................................................................................................. II
List of Abbreviations ............................................................................... V
List of Figures ........................................................................................ VI
List of Tables .......................................................................................... VI
1. Introduction ......................................................................................... 1
   1.1. Background ................................................................................... 1
   1.2. Problem Discussion and Aim ......................................................... 2
2. Theoretical Framework ........................................................................ 4
   2.1 Budgeting and the Budgeting Functions ........................................... 4
   2.2 Preparation of Budgets ................................................................... 6
   2.3 Alternative Budgeting Approaches ................................................ 7
      2.3.1 Rolling Budgets and Rolling Forecasts ...................................... 7
      2.3.2 Activity-Based Budgeting ......................................................... 8
      2.3.3 The Balanced Scorecard ......................................................... 9
   2.4 From Critiques on Traditional Budgeting to Beyond Budgeting .... 9
   2.5 The Beyond Budgeting Model ....................................................... 11
      2.5.1 The Management and Leadership Principles ......................... 12
3. Methodology ....................................................................................... 16
   3.1 The Research Strategy and Design ............................................... 16
   3.2 Structure of the Research Model and the Analysis of the BBM ...... 17
   3.3 Analysis of the ‘Handelsbanken Way’ in light of the Conceptual Framework and the BBM ......................................................... 19
   3.4 Limitations .................................................................................... 20
   3.5 Trustworthiness ............................................................................. 21
4. Conceptual Framework ....................................................................... 22
   4.1 The Time Horizon .......................................................................... 22
      4.1.1 Long-Term Perspective – The Strategic Dimension ............. 22
      4.1.2 Short-Term Perspective – The Operational Dimension .......... 23
   4.2 Characteristics of the Budgeting Approaches ............................... 24
      4.2.1 Characteristics of Traditional Budgeting ............................... 24
      4.2.2 Characteristics of the Better Budgeting Approaches ............ 26
      4.2.2.1 Characteristics of Rolling Budget and Rolling Forecast ........ 26
      4.2.2.2 Characteristics of Activity-Based Budgeting ................... 27
      4.2.2.3 Characteristics of the Balanced Scorecard ....................... 28
5. Empirics of the ‘Handelsbanken Way’ ................................................. 30
   5.1 Background of Svenska Handelsbanken ....................................... 30
   5.2 Secondary Findings ....................................................................... 30

III
6. Discussion and Analysis ................................................................. 32
   6.1 Classifying the Beyond Budgeting Principles ................................ 32
   6.2 Discussion of the Handelsbanken Way ........................................ 39
7. Conclusions and Future Research .................................................... 45
   7.1 The Principles which are ‘Beyond’ ............................................. 45
   7.2 The Partly Overlapping Principles ............................................. 45
   7.3 The ‘Handelsbanken Way’ ....................................................... 46
   7.4 Future Research ................................................................. 47
References .................................................................................... 48
Appendix ....................................................................................... VII
## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABB</td>
<td>Activity-Based Budgeting</td>
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<tr>
<td>BB</td>
<td>Beyond Budgeting</td>
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<td>BBM</td>
<td>Beyond Budgeting Model</td>
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<td>BSC</td>
<td>Balanced Scorecard</td>
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<tr>
<td>CAM-I</td>
<td>Consortium of Advanced Management International</td>
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<tr>
<td>CCC</td>
<td>Chief Company Controller</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
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<td>RB</td>
<td>Rolling Budgeting</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>RF</td>
<td>Rolling Forecast</td>
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<tr>
<td>SH</td>
<td>Svenska Handelsbanken</td>
</tr>
<tr>
<td>TB</td>
<td>Traditional Budgeting</td>
</tr>
</tbody>
</table>
List of Figures

Figure 1: Process from Forecast to Master Budget ........................................... 7
Figure 2: Procedure of the thesis ........................................................................ 17
Figure 3: Planned Arrangement of the Conceptual Framework .......................... 18
Figure 4: Schematic Presentation of the Analysis .................................................. 20
Figure 5: The scope of the conceptual framework .............................................. 24
Figure 6: Summary of the Intersections of the BBM with other Budgeting
Approaches ............................................................................................................. 38
Figure 7: The Handelsbanken Way and the Scope of Budgeting ....................... 44
Figure 8: Conclusion of the Findings .................................................................... 46

List of Tables

Table 1: Principles of the BBM, adapted from Hope and Frazer (2001, p.13) ........ 12
Table 2: Summary of Traditional Budgeting .......................................................... 25
Table 3: Summary of Rolling Budget/Forecast ..................................................... 26
Table 4: Summary of Activity-Based Budgeting .................................................... 28
Table 5: Summary of Balanced Scorecard ............................................................. 29
Table 6: The Analysis Model .................................................................................... VII
Table 7: Beyond Budgeting in light of the Conceptual Framework ..................... VIII
Table 8: Summary of the Discussion about SH ...................................................... IX
1. Introduction

The first chapter will provide an overview of the subject and the study area. The introduction starts with a brief background of the subject. Afterwards, the paper’s aim and research questions will be treated and introduced.

1.1. Background

“The basic idea in budgeting is to conserve and increase the capital of a business”
(Theiss 1937, p.48)

As quoted from a budgetary research article written in the 1930th, budgeting is still an omnipresent management tool applied by modern businesses (Ekholm & Wallin 2000). Ever since, comprehensive research on budgeting was conducted, focusing on cost estimation, standardization of processes, and profit planning for planning security (Hartmann 2000). However, critiques of budgeting grew since the 1970th. Budget gaming (Hansen et al. 2003) as well as dysfunctional behavior came into focus (Hopwood 1972; Otley 1978). Practitioners as well as researchers have been arguing that budgets are inflexible, time-consuming, and fast outdated due to a dynamic environment (Ekholm & Wallin 2000; Hope & Fraser 2003a; Libby & Lindsay 2003). While one direction of research focuses on improving the existing budget approach to overcome its possible shortcomings (Neely et al. 2003; Libby & Lindsay 2007; Uyar 2009), Hope and Fraser have been emphasizing that “better budgeting is not the answer” (Hope & Fraser 2001, p.9).

Jan Wallander, former CEO of Svenska Handelsbanken (SH), a Swedish international bank, based his work on the fact that he radically decentralized Handelsbanken in the 1970th, which led to the ‘beyond budgeting’ scholar. Eye-catching titles such as “Budgeting – an unnecessary evil” (Wallander 1999) and “Bye-bye budget” (Gurton 1999) were used by beyond budgeting advocates to promote their point of view that companies must abandon budgeting entirely (Hope & Fraser 2003). SH is seen as the role model for introducing the new approach to abandon budgeting (Lindsay & Libby 2007a; Hope & Fraser 2003a).

Hope and Fraser (2003) argue that going beyond budgets is the answer to the problems caused by budgeting. Thus, from their perception there is no other way than radical decentralizing an organization to go beyond budgeting in order to be ready for modern challenges (Hope & Fraser 1999).

The extreme unilateral and negative point of view on annual budgets by the beyond budgeting scholar has induced other researchers to investigate the usage of budgets in Swedish (Ekholm & Wallin 2000) and U.S.-American firms (Libby & Lindsay
The purpose was to find the companies’ perspective on the application of budgeting. In all three studies, evidence was found that an overwhelming majority of the investigated companies apply budgeting. Moreover, managers find budgets indispensable in their nature. Nevertheless, there is always room for improvements of the existing budget approaches towards developing a more flexible and ‘better’ budgetary process (Ekholm & Wallin 2000; Libby & Lindsay 2007; Libby & Lindsay 2010).

Over the past decades, budgets have been used for several reasons: planning, performance evaluation, and control (Henttu-Aho & Järvinen 2013). As budgeting is such a multi-faceted management control system, there are several different reasons why companies employ it (Hansen & Van der Stede 2004). Pursuing the goal to abandon budgets such as Hope and Fraser (2003a) suggest, still means that the necessity of planning, control and, evaluation function remain (Henttu-Aho & Järvinen 2013). Thus, as multiple purposes for budgeting exist, they still must be adopted by other management control systems. The emerging change in the development of new budgeting practice as well as trying to move beyond budgeting is still an on-going process.

1.2. Problem Discussion and Aim

Budgeting has been highly criticized for being a holdback for organizations to compete successfully, be innovative, flexible, and creative in the new information age (Bourmistrov & Kaarboe 2013; Hope & Frazer 2003c). The critique on budgeting has led to the development and introductions of ‘better budgeting’ approaches such as activity-based budgeting (ABB) as alternatives to be more adaptive in the new information age and in order to gain competitive advantages (Uyar 2009). However, Hope and Frazer (2001; 2003b) have been arguing that even better budgeting approaches are not the solution and budgets have to be abandoned entirely. Their twelve principles are the base for the so-called ‘Beyond Budgeting Model’ (BBM) to guide organizations to ‘go beyond’ and operate without any budgets. The question is however, how do the principles work entirely separated from any budgeting approach when managers indicate that budgets are indispensable? Having this in mind, no research has ever critically considered the beyond budgeting (BB) principles in comparison with the most common budgeting approaches to investigate whether the BBM is entirely separated from any other budgeting approach or not. This would consequently mean that the BBM is just another improved budgeting and the claim that budgeting has to be abandoned could not be reasoned. In order to compare the different budgeting approaches with the BBM, the existing literature has to represent them clearly distinct from each
other. Against this background, the literature has revealed the shortcomings of having a generally accepted definition of what budgeting is and its possible scope in an organization.

The main purpose of the thesis is to investigate whether the principles of the BBM are beyond the traditional way of budgeting and better budgeting approaches. Moreover, the thesis aims to investigate whether the principles of the BBM can cover all existing budgeting functions. Furthermore, it is interesting to investigate whether Svenska Handelsbanken is able to operate without budgets in practice. Hence, the research questions are:

- **Do the principles of the beyond budgeting model overlap with any characteristics of the traditional way of budgeting or another budgeting approaches?**

- **Are the beyond budgeting principles able to cover all possible functions of budgeting?**

- **Is Svenska Handelsbanken able to operate ‘beyond’ budgeting?**
2. Theoretical Framework

Chapter two presents the underlying theory that is necessary for the present investigation. Firstly, a general definition of what budgeting and its roots is given. Afterwards, the context of forecasts, budgets and planning are drawn for comprehensibility. Lastly, alternative budgeting approaches are introduced as well as the beyond budgeting model.

2.1 Budgeting and the Budgeting Functions

Budget research has created extensive knowledge about budgeting as a management control system. However, there is no one specific definition that is accepted worldwide for the term “Budget” and it’s functions (Ekholm & Wallin 2000). According to Lewis (1952, p.69) who researched budgeting in the public sector, it can be described as an essential form of applied economics as it requires “the allocation of scarce resources among competitive demands”. This definition is in line with Wildavsky (1997) who states that budgeting is the activity that allocates limited financial resources. As “budgeting was being adopted” (Theiss 1937, p.48) from governmental organizations, it came into focus for businesses in the 1940’s (ibid.). Theiss (1937) argues that setting standards is an important pre-requirement and thus already part of budgeting.

By using budgets, “managers assure that resources are obtained and used efficiently and effectively in the accomplishment of the organization’s objectives” (Anthony et al. 1972, p.4).

Otley’s (1978) approach on the other hand looks at the effectiveness of budgets. Budgets are not only the allocation of resources but also tools which are used as benchmarks; the actual performance data is compared with the pre-set budgetary data (Horngren et al. 2010). Furthermore, budget systems can be used for evaluation purposes as a by-product, even though they are usually not designed for it (Otley 1978). As managers are self-serving individuals, who aim to maximize their own utility (Davis et al. 1997), budgets can help to keep them within pre-defined boundaries (Soobaroyen 2007).

Horngren (1994) emphasizes that budgets constitute the quantification of future plans of actions. Data of past periods are used to consider the future expected performance. Based on that, resources are allocated to reach the best possible outcome. Horngren (1994) punctuates the existence of financial and non-financial budgets and defines budgets generally by its functions: coordination of activities, implementing plans, communication, authorizing actions, motivation, budgetary control, and performance evaluation. Henttu-Aho and Järvinen (2013) define budgeting by three functions: planning, control, and evaluation yet. According to
Ekholm and Wallin (2000), budgets are used to allocate funds, coordination of operations, internal communication, implementation of the organization’s strategy, and the motivations of employees. Hansen and Stede (2004) pursue a multidimensional nature of budgeting with focus on a practice-defined reasons-to-budget. From their point of view, budgeting has a short- and long-term dimension. The short-term or operational budgeting is typically determined for a period of one year (Shim & Siegel 2009). Hansen & Van der Stede (2004, p.416) stress the two short-term budget functions “operational planning and performance evaluation” (Hansen & Van der Stede 2004, p.416).

Barrett and Fraser (1977) focus on the short-term perspective of budgeting in their work. They point out three major functions of operational budgets, namely planning, motivation, and evaluation. The goal is commonly defined by the long-term strategy; therefore, the operational budget can also be described as the short-term execution of a corporation’s strategy. Aside from that, operational budgets set goals for employees that are used as benchmarks for motivation. Based on this, employees are evaluated by comparing their goals with the outcome of a period. Thus, motivation and evaluation are temporally separated. The authors further define coordination and education as minor roles. The coordination is necessary to match the operational budget with the financial and the capital budget. The financial budget is projecting future cash flows and the capital budget is the quantification of future capital expenditures (Barrett & Fraser 1977).

Govindarajan and Anthony (2001) describe an operating budget as a one-year-share of the strategic planning and thereby the execution of it. An operational budget typically includes a revenue budget, production budget, and marketing budget, by just naming a few. In contrast, Churchill (1984) argues that a short-term budget may cover less than a twelve-month period.

Budgeting is further defined in strategic terms as well (Hansen & Van der Stede 2004; Merchant & Van der Stede 2007; Horngren et al. 2010; Blumentritt 2006). However, while Churchill (1984) considers a strategic budget to cover a time frame of three to five years, Horngren et al. (2010) argue it could last between five to ten years. According to Horngren et al. (2010), the most future-oriented and forward-looking budget is called ‘strategic plan’. Govindarajan and Anthony (2001) define strategic planning as the decision process of the corporation’s strategic orientation and the accompanied programs, which are executed to implement the strategy. Strategic planning in general covers a longer period than the (strategic) budgeting. On the other hand, Hansen and Van der Stede (2004) define the long-term (strategic) budgets with two dimensions: strategy formation and communication of goals. Strategic budgeting can help to form a strategy rather than just implement it.
Simons (1995) argues that the use of budgets and profit plans do not only help to monitor goals but also to shape them. Aside from that, strategic budgets have a communicative role. Information is shared by strategic plans between different business units and hierarchy levels (Hansen & Van der Stede 2004; Simons 1995).

2.2 Preparation of Budgets

In order to understand the relationship between forecasting, budgeting and the final budget, this section will explain the path from forecasts to the master budget. According to Govindarajan and Anthony (2001), a company has to forecast the development of the future. This is based on previous periods, where managers can individually decide how many periods are taken into consideration to generate predictions. Forecasts are predictions of what will most likely happen, and may or may not be stated in monetary terms. As higher management does normally not approve forecasts, there is no reason to meet the predicted results. As soon as new information occurs, the forecast is updated (Govindarajan & Anthony 2001). Strategic planning is very much influenced by the predictions of the forecast. Notwithstanding the choice of strategy, short-term (operational) budgeting is a slice of the strategic planning, covering a certain period of time (Govindarajan & Anthony 2001).

After the operational budget is set, the corporate management consolidates all business unit budgets (the so-called “periodic business plan” or “master budget”) (Horngren et al. 2010). The master budget includes a set of operating schedules as well as a planned financial statement. It contains the capital expenditures (capital budget) for the upcoming period. By consolidating the different operational budgets, subunits enter into competition, as resources are limited (Govindarajan & Anthony 2001). The task of the corporate management is then to choose the projects with the best success prospects such as the highest return on investment (ibid.). While the master budget is a standard or plan, it becomes a control device to measure and evaluate the performance at the end of the period. Thus, the master budget is also used as a benchmark (Shim & Siegel 2009).

The following figure will present the relationship from forecasts to the master budget.
2.3 Alternative Budgeting Approaches

Alternative budgeting approaches have emerged in the past decades to improve the efficiency of budgeting (Hansen 2011). These approaches are also called ‘better budgeting’ (Hope and Fraser 2003b).

2.3.1 Rolling Budgets and Rolling Forecasts

Rolling budgets (RB) are updated periodically when a time period drops (Horngren 1994). The budget is accurate, constantly forward-looking, and covers always the same time horizon (Hansen & Van der Stede 2004; Ekholm & Wallin 2000). According to Barrett and Fraser (1977), the RB is updated every three to four month. As a result, budgeting “becomes a more or less continuous process” (Barrett & Fraser 1977, p.144). The advantage is the reduction of role conflicts that might appear through the budgeting process. By applying this approach, the budget used for evaluation purposes is up to date and takes unpredictable changes into account (for the next added period). Hence, the role conflict between a fair evaluation and the motivation is reduced as the motivation can be impaired by a “fixed standards” philosophy (Barrett & Fraser 1977, p.142). When a period ends, top management can compare the budgeted targets and objectives with the actual results. As the periods in a RB are relatively shorter than a budget period of twelve month for instance, the manager’s motivation is maintained, as he knows that the budget will not be adjusted ex post for evaluation purposes. Consequently, the manager has the same budget target fixed within a time span, which is normally short enough that unforeseeable events do not change the final results. Precisely because of these results, rewards are based on a shorter period and managers can commonly tolerate the missing of one period budget target (Barrett & Fraser 1977).
Hansen et al. (2003) argue the “feasibility of accurate budgets (e.g. for planning purpose) is more important” (Hansen et al. 2003, p.108) than the demand of managers to have a certain fixed budget target they can commit to regardless changing circumstances.

After reviewing the RB literature, it can be argued that the term ‘rolling budgets’ (RB) and ‘rolling forecasts’ (RF) are similar to each other. Moreover, both techniques require resources that are permanent, in order to administrate them continuously (Neely et al. 2003). On that score, both terms are used as synonyms.

### 2.3.2 Activity-Based Budgeting

ABB has its roots in the activity- and capacity-based research area (Hansen 2011). It focuses on the costs of specific activities, which are necessary to produce and sell products and services (Horngren 1994). The most important advantage is that the budgeting process ties the “capacity planning more strongly into the firms’ processes” (Hansen 2011, p.304). Hansen (2003) further argues that inefficient allocated resources that can easily be identified and used in another way to increase efficiencies.

ABB determines the cost of every activity unit in each area (Horngren 1994). Resource demands are computed so that the budget for each activity results in a consolidated budget. The consolidated budget is much more accurate than a normal budget as every activity is determined separately. The comparison of the plan and the actual results at the end of a period are thereby meaningful as changes can be tracked back to a certain activity. However, indirect costs such as overall administration costs must be allocated as well. They are typically separated from the activities and hold in separate similar cost pools (Horngren 1994). According to Hansen (2011), the flexibility increases significantly as the responds to unpredictable changes reduces. Hansen et al. (2003) use the Closed-Loop Model to explain the differences between budgeting and ABB. This however, will further be discussed in the conceptual framework, as redundancy shall be avoided.

By applying the ABB, inefficient activities are eliminated whereby spare resources can be reallocated (Cooper & Kaplan 1992; Silver et al. 1998). When a corporation is planning to change its strategic direction, the “revised demands for resources can be estimated with an activity-based model” can serve as an important management plan (Cooper & Kaplan 1992, p.11).
2.3.3 The Balanced Scorecard

The Balanced Scorecard (BSC) translates the strategy of a corporation into objectives and measures. It combines financial measures with three other perspectives: ‘customers’, ‘internal business processes’, and ‘learning and growth’ (Kaplan & Norton 1996b; Kaplan & Norton 2001). The authors clarify the necessity to separate strategic planning from operational budgeting processes. Based on the set strategy, the management can create short-term targets for the scorecard which are used as benchmarks to indicate and express the management’s belief about the speed of implementation and the impact on the strategy (Kaplan & Norton 1996a). The authors draw the conclusion that strategic planning has to incorporate a budget process as well as other operational targets. The budget should further include measures to monitor the strategy implementation.

This managing strategy has four processes: translating the vision, communication and linking, business planning, as well as feedback and learning (Kaplan & Norton 1996b). The translated vision has to be communicated on all hierarchy levels to ensure the alignment between short-term objectives and long-term strategies. The next process is business planning, aiming to allocate resources according to the strategy. Furthermore, benchmarks are set for the future development of the implementation. The advantage of a scorecard is that a company is forced to integrate the strategy planning and the budgeting process. All four perspectives have to have a share in the short-term planning (Kaplan & Norton 1996b).

The last process, feedback and learning, closes the cycle. The strategy learning does not only take financial results such as budget targets into account, but also the three other perspectives (Kaplan & Norton 1996b). Budget reviews cannot assimilate complex, turbulent environmental changes, as they are merely one-dimensional. Instead, the BSC gives a holistic picture by integrating three elements for the feedback system. First, it visualizes the “company’s shared vision” by defining clear operational goals (Kaplan & Norton 1996b, p.84). Second, a strategic feedback system is used to test the alignment of every business unit strategy with the corporation’s strategy. Finally, the BSC allows the integration of performance drivers (retraining of employees for instance) with objectives (such as higher sales to certain customers) to critically evaluate the feasibility of theory underlying the strategy (Kaplan & Norton 1996b).

2.4 From Critiques on Traditional Budgeting to Beyond Budgeting

The traditional way of budgeting has been highly criticized for not being able to keep up with the changes in the organizational environment, also known as the new information age (Bourmistrov & Kaarboe 2013; Hope & Frazer 2003c). The rapid
advancement of technology and the financial crises has been two of the main reasons for these changes (Frow et al. 2010). The biggest challenge that organizations are facing now is how to handle the chase of strategic adaption, target achievements (Bourmistrov & Kaarboe 2013), and keeping up with the development, in order to gain competitive advantages while not falling behind competitors (Uyar 2009; Hope & Frazer 2003c).

In past decades, much research was conducted to investigate the potential dysfunctional consequences of budgeting (Wallander 1999; Simons 1994; Soobaroyen 2007; Jaworski & Young 1992; Otley 1978; Hopwood 1972), it tends “to get people to do something they might not otherwise do” instead of, “making people want to do something” (Hope & Frazer 2003b, p106). In Hope and Frazer’s article from 1997, it is stated that budgets are a holdback to both innovation and creativity, not capable to let organizations compete successfully and for being too inwardly oriented, because of their uniformity and fixation (Bourmistrov & Kaarboe 2013). Moreover, it is argued that

“annually determined budgetary targets, and the delineated responsibilities associated with them, are seen to limit the scope of empowered managers to operate flexibly, militate against team-working within and between departments, inhibit innovative responses to unforeseen contingencies” (Frow et al. 2010, p445).

Hope and Frazer (2003b) keep arguing that budgets should be abandoned, highly because of the continuously high performances that will never be achieved through budgets. The reason is that when incentives are schemed, which is the case with traditional budgeting (TB), the managers will only seek to maximize the profits of the organization until the incentives stops. According to Hope and Frazer (2001), there are some delusions with budgets (that fixed targets will maximize the organizations profit, that incentives lead to motivation, that annual planning will maximize market opportunities etc.), but the truth with budgeting is the opposite.

However, the TB approach as a management and control tool is not applicable for modern and complex organizations (Hope & Frazer 2003b). Nowadays, organizations are dependent on customer service, design, innovation, and quality, in order to achieve success and gain competitive advantages (ibid.) Furthermore, TB is also seen as time consuming and tends to prevent organizations from not only being flexible but also being adaptive to new situations that are unpredictable (Libby & Lindsay 2010). Wallander (1999) argues that if a company believes in budgeting, one will oversee some accidental occurrences. Another highlighted critique is budget gaming, this means that managers tend to tie their targets to compensation
contracts, in order to gain positive measurements of performance and thereby get bonuses (Libby & Lindsay 2007).

2.5 The Beyond Budgeting Model

Due to the critiques on TB, a new management model called the Beyond Budgeting Model (BBM) was introduced in 1998 as a response (Hope & Frazer 2001). The BBM is very much emphasizing decentralization rather than a top-down model as the traditional way of budgeting has been seen (Uyar 2009).

BB is about abandoning TB techniques and controlling organizations without them (Hope & Frazer 2003b). Furthermore, within the BBM no fixed performance contracts exist, but rather key performance indicators (KPI) are used. The KPIs are defined as: “Performance measures used to set goals and assess and organization’s performance based on its critical success factors” (Hope & Frazer 2003c, p.214).

With this in mind, Hope and Frazer (2003c) define BB as followed:

“It offers an alternative management model based on the decision-making needs of front-line managers. It is a coherent set if alternative processes that support relative targets and rewards, continuous planning, resources on demand, dynamic cross-company coordination, and a rich array of multilevel controls” (Hope & Frazer 2003c, p. 214).

There are twelve principles that underlie the BBM. These are introduced as guidelines for managing and leading organizations without any budgets. The first six are the ‘performance management’ principles (“What to do”) and the last six are related to ‘leadership’ (“How to do it”). The following table illustrates the BBM principles.
Table 1: Principles of the BBM, adapted from Hope and Frazer (2001, p.13)

<table>
<thead>
<tr>
<th>The Beyond Budgeting Model (BBM)</th>
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<tr>
<td><strong>Management Principles</strong></td>
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<tr>
<td>1 Beat the competition</td>
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<tr>
<td>2 Reward team-based competitive success</td>
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<tr>
<td>3 Make strategy a continuous and inclusive process</td>
</tr>
<tr>
<td>4 Draw resources when needed</td>
</tr>
<tr>
<td>5 Coordinate cross-company interactions through &quot;market-line&quot; forces</td>
</tr>
<tr>
<td>6 Provide fast, open information for multi-level control</td>
</tr>
<tr>
<td><strong>Leadership Principles</strong></td>
</tr>
<tr>
<td>7 Create a performance climate based on sustained competitive success</td>
</tr>
<tr>
<td>8 Build the commitment of teams to a common purpose, clear values, and shared rewards</td>
</tr>
<tr>
<td>9 Devolve strategy to front line teams and provide the freedom and capability to act</td>
</tr>
<tr>
<td>10 Champion frugality and challenge the value-added contribution of all resources</td>
</tr>
<tr>
<td>11 Organize around a network of teams that dynamically connect their capabilities to serve the external customer</td>
</tr>
<tr>
<td>12 Support transparent and open information systems</td>
</tr>
</tbody>
</table>

The main objective of the BBM is to “to satisfy customers profitability” (Hope & Frazer 2001, p.12). Hope and Frazer (2001) argue that customer satisfaction leads to shareholder’s wealth, which in turn is the main objective for shareholders. Hope and Frazer (2003c) have developed these principles based on companies that are BB. These principles are further described and defined, in order to gain a better understanding of the principles, the BBM, and their purpose.

2.5.1 The Management and Leadership Principles

The twelve BB principles are presented in a more detailed way. The principles are further merged to six principles. This is done because principle seven to twelve just explain (“How to do it?”) the first six. Hence, the corresponding principles are matched.
1. Beat the Competition

7. Create a performance climate based on sustained competitive success

The organization should aim to beat its competitors instead of their previous year’s budget. The targets are set together with the managers as a team and are continuously adjusting to the organizations competitors’ performances and the markets evolutions (de Wall 2005). The targets are set on external benchmarks and internal peers and should be separated from both rewards and performance evaluation, in order not to compare performances with the targets. Moreover, the targets are not set for a year but rather on lengthen period, in order for the team to achieve them (Hope and Frazer 2003c). Furthermore, according to Wallander (1999) the achievements of targets cannot be seen through budgets and compared with last year’s budget, but the achievements of targets are seen in the return on capital – compared with its competitors’ return on capital. The organization should be lead without any fixed targets by establishing empowerment and challenge their employees, in order to increase their motivation and make them share their knowledge (Hope & Frazer 2003c).

2. Reward Team-Based Competitive Success

8. Build the commitment of teams to a common purpose, clear values, and shared rewards

According to Hope and Frazer (2003b), individual reward systems are not effective and efficient for the organization, since the organizations’ success is achieved by employees’ team effort and not through individuals. Therefore, the rewards should be based on the team results. The rewards will be given to the team, which has achieved an acceptable performance by comparing the different teams KPIs in the end of the year (Hope & Frazer 2003c). Moreover, by rewarding teams instead of individuals this will stimulate and motivate the teams on a higher level (de Wall 2005). The managers are required to commit the team to a common purpose with clear values and shared rewards, in order to maintain the effective empowerment (Hope & Frazer 2003c).
3. Make Strategy a Continuous and Inclusive Process

9. Devolve strategy to front line teams and provide the freedom and capability to act

Even in the BBM, strategies are set. The difference is that the process is continuous and it is a bottom-up process unlike the traditional way of budgeting, which has a fixed top-down process. Besides, the front line employees have an input in the strategy and thereby the strategy process is more flexible and adaptive to new upcoming situations and circumstances (de Wall 2005). Moreover, it is argued that when devolving the strategy and responsibility to the front line teams, it is more likely for organizations to create value continuously for their customers (Hope & Frazer 2003c).

4. Draw Resources when needed

10. Champion frugality and challenge the value-added contribution of all resources

This principle is about allocating the resources to the units that have the greatest need. According to the principle, business units should decide for themselves how much recourses are needed each year, in order to successfully meet the demand of the market. The different units of the organization also make their investment plans by themselves with different investment pools each year, meaning that there are no fixed investment budgets (de Wall 2005). RF and analyses of previous investments are used in investment portfolios when resources for projects are needed. The resources will be given when required (Hope & Frazer 2003c).

5. Coordinate Cross-Company Interactions through “market-line” Forces

11. Organize around a network of teams that dynamically connect their capabilities to serve the external customers

The business units of a BB organization aim to cooperate by sharing their knowledge and match their resources with each other to satisfy and meet their customers’ demand. Customers always have priority so that the organization can gain competitive advantage by have extraordinary satisfied customers (Hope & Frazer 2003c).
6. Provide Fast, Open Information for Multi-level Control

12. Support transparent and open information system

By using the BBM, information should be open and fast provided to the employees. It must be available and easy to access for all employees who need it within the organization (de Wall 2005). RF with variables such as “orders, sales, costs, profits and cash flows” (Hope & Frazer 2003 p.87) are communicated to give a more accurate view of future performance. RF takes new upcoming situations into account. KPI are also very useful, since it is seen as a replacement for budgetary control (Hope & Frazer 2003c).
3. Methodology

Firstly, the methodology chapter starts with an introduction to the research design and strategy. Secondly, the construction of the conceptual framework is introduced. Thirdly, the procedure of the comparison between the conceptual framework and the BBM is presented. Afterwards, this chapter gives a short introduction to the course of action how the analysis of the BBM and the micro case study on SH are connected. Lastly, the limitations and trustworthiness are presented.

3.1 The Research Strategy and Design

The methodology is a crucial part of a research. It aims to describe how the research will be carried out and how useful and necessary data can be collected and analyzed (Bryman & Bell 2011). In this thesis qualitative approaches are used, as they are “concerned with words, rather than numbers” (Bryman & Bell 2011 p.386). A research design is required for the planning and choice of methods, in order to support the implementation and fulfillment of the research. For the main purpose of this thesis, a comparative design is implemented. This aims to use the same methodology for the classification and the description of the characteristics of the different budgeting approaches. In order to be able to compare the different budgeting approaches, the characteristics of each of it will be set. For this reason, the theory section of the thesis is very diversified to be able to generate a clear and distinct definition of each approach. The conceptual framework aims to draw clear lines between the different budgeting approaches. These distinct definitions are executed for the development of the conceptual framework to compare it with the BB principles (Bryman & Bell 2011).

After comparing the BBM with the conceptual framework, to identify possible intersections of them, the thesis aims to use this part of the discussion for critically examine the ‘Handelsbanken Way’. The case study design applied for this depends mainly on the classification of the study (Hancock & Algozzine 2011). A case study is differed from general methods in the sense that an organization, a group or an individual is added in the research (Hancock & Algozzine 2011). In this paper, it is classified as intrinsic, since only one particular organization is in focus, and the purpose of the case study is to gain a deeper understanding (Hancock & Algozzine 2011). Thus, the micro case study aims to investigate whether the ‘Handelsbanken way’ is BB. The following figure illustrates the procedure of the research.
3.2 Structure of the Research Model and the Analysis of the BBM

According to Bryman and Bell (2011, p. 67), “the key to the comparative design is its ability to allow the distinguishing characteristics of two or more cases to act as a springboard for theoretical reflections about contrasting findings”. On this account, the first step will be to distinguish the different budgeting approaches. The theory section of the thesis has already shown that the authors make a pre-selection of which budgeting approaches are presented and consequently used for the thesis. Hence, the scope of the thesis is limited so that only a few budgeting approaches (TB, ABB, BSC and RB/RF) are used. The definitions and characteristics attributed to each budgeting approach differ heavily, depending on the researcher. In general, the most advanced theory on each budgeting approach is used. However, the authors do not make a general statement about the specific choice of a certain theory here. Instead, the authors will argue for and against a certain definition in the next chapter to have a clear and comparable research model. That is the reason why the conceptual framework section is so extensive. Hence, a qualitative approach, by reviewing essential literature (e.g. Hansen & Van der Stede 2004; Merchant & Van der Stede 2007; Horngren et al. 2010), is used.

To be able to compare the different budgeting approaches with the BBM, it is necessary to define the scope of budgeting in the dimensions time and function. Thus, the conceptual framework must consider:
Further, the conceptual framework must incorporate the most important budgeting approaches to generate a holistic picture and aims to

(3) Clearly separate traditional budgeting and other budgeting approaches.

To simplify the conceptual framework, the analysis model is summarized in a table (Table 6 in the appendix). It is formed in boxes, where distinctions between different budgeting approaches can clearly be seen. In these boxes, the characteristics are written in text (following the scheme of Figure 3). Hence, the model makes it possible to see which budgeting approaches cover which budgeting functions and time horizons. Afterwards, the conceptual framework is used in the discussion part of the thesis to compare it with the BBM. The aim is to examine each BB principles in comparison to the conceptual framework to see whether there are intersections.

The following Figure 3 illustrates the scheme of the conceptual framework. The time horizon together with the budgeting functions is presented on the horizontal axis, while the different budgeting approaches are presented on the vertical axis. Every cell in the figure represents the unique definition of a budgeting function of a certain budgeting approach.

Figure 3: Planned Arrangement of the Conceptual Framework
3.3 Analysis of the ‘Handelsbanken Way’ in light of the Conceptual Framework and the BBM

SH is used for the second part of the discussion. As mentioned before, SH is often used to explain the practical implications of the BBM (Lindsay & Libby 2007b). However, the so-called ‘Handelsbanken Way’ is not congruent with the BBM (Hansen et al. 2003) so that SH never claims to follow the BBM. Thus, the first part of the discussion, the comparison of budgeting approaches in light of the conceptual framework, is used to examine SH principles in a case study.

The case study of SH is based on a document analysis. Existing studies are reviewed to obtain essential information in order to fulfill the investigation of SH. The documents required for this research are previous case studies of SH and Internet sources, such as the SH website. The previous case studies on SH provide the investigation with fruitful information and gives a clear picture of how SH is operating without any budgets (e.g. Lindsay & Libby 2007b). SH’s website briefly introduces the bank, in order to have some background knowledge on that matter. The previous findings of SH are presented in the empirics. The approach of document analysis is mainly used because time and resources are limited for gathering primary data. Besides, all necessary information is available from previous studies, as SH is used as the example case to explain the BBM. The document analysis will provide important and necessary information for the research and give reliable answers to the research question.

The following illustration (Figure 4) will give an overview how the conceptual framework, the BBM and the ‘Handelsbanken Way’ are connected. The first part of the discussion and analysis focuses on possible intersections of the budgeting approaches included in the conceptual framework on the one side and the BBM’s principles on the other side. This part of the analysis will give insights whether the BBM is free of any other budgeting approach. In light of this first part, the second part will identify intersections of the ‘Handelsbanken Way’ with either the BB principles, the conceptual framework or both.
3.4 Limitations

During their research, the authors faced some challenges, which shall be addressed in this section. As mentioned in the introduction, there is massive research on budgeting existent. Thus, the authors had to decide on a pre-selection of literature. The theory section reveals, how diverse the literature on budgeting is. Thus, when developing the conceptual framework, the authors had to decide on some budgeting function by argumentation. Hansen and Van der Stede (2004) have shown in their research, how difficult it can be to decide on budgeting functions. Thereby, it can be noted that the conceptual framework of this thesis might have skipped some functions. An example is the information sharing and communication function in the long-term dimension: while literature revealed that the information function lies within the long run, the fifth and sixth principle of the BBM aims mostly at the short-term communication function. The authors however, interpret this in a way that these particular principles exceed the range of the original budgeting functions. In general, the chosen functions are based on what budgeting is in general so that the conceptual framework still remains reliable.

The definition of the approaches in the conceptual framework are based on argumentations, a residual risk persists that the definitions are still too broad so that smaller differentiation are not taken into account.

We found problems in defining TB due to the fact that no literature exists that point out the ‘traditional way’ of budgeting. Thus, the authors used general budgeting
literature to develop that kind of traditional definition
Furthermore, only frequently used budgeting approaches are presented and used in this investigation. Uncommon approaches, such as zero-based budgeting, are not regarded. Hence, it might be possible that there are more intersections of the BB principles with other budgeting approaches. Another limitation is seen in the micro case study. Using SH for this study was the most obvious as they are seen as the role model for the application of the BBM. Notwithstanding SH does not claim to apply the BB principles, but their own ‘Handelsbanken way’. In order to negotiate the problem of claiming that SH is trying to apply the BB principles, the researchers used an approach to see SH as a corporation that is going its own way in not using any budgets. However, by using the self-generated conceptual framework and the analysis of the BB principles some distortions which might occur in an early stage of this thesis might have influenced the SH analysis. Apart from that, by relying on secondary data on SH, the guarantee for the absence of biases due to opinions of other researchers cannot be given.

3.5 Trustworthiness

To achieve an acceptable level of trustworthiness, some criteria’s are required for qualitative researches. The thesis has to be (1) credible, (2) transferable, (3) dependable, and (4) confirmable (Shenton 2004). Starting with the first criteria, the investigation should measure or test what the authors actually intend to. For the paper to reach transferability, it is required that the findings are applicable in ones research. In order for the paper to be dependable, it is required that similar results are to be obtained if the same research with the same method was repeated. Confirmability, on the other hand is more difficult to be obtained. Consequently because the finding results has to be obtained by “experiences and ideas of the informants, rather than the characteristics and preferences of the researchers” (Shenton 2004 p.72). The present paper is based on scientific articles. No interviews and no experiments are implemented. Since scientific articles have an acceptable level of trustworthiness and the present paper is based on them, it is assumed for the present paper to have achieved an acceptable level of trustworthiness. The paper investigate what was intended to be investigated, the findings are applicable in the present research, it is assumed that similar results could be obtained by other researchers and the findings are not achieved based on our preferences and characteristics. In conclusion the thesis is assumed to fulfill the trustworthiness requirements credibility, transferability, dependability, and confirmability.
4. Conceptual Framework

The analysis will be based on the budgeting definitions and the distinction from each other made in this chapter. On this account, this chapter starts with defining the time horizon of the framework. It presents the budget functions and discusses and merges the conceptual framework. As there has been disagreements about the definitions of traditional budgeting and other budgeting approaches, the information of the theory section are used to develop those. After defining every budgeting approach, a brief definition of each approach is given. The entire conceptual framework can be found in the appendix.

4.1 The Time Horizon

Ekholm and Wallin (2000) argue that operational and strategic planning have to be separated. This is in line with other authors, who try to distinguish different aims of budgeting (Barrett & Fraser 1977; Hansen et al. 2003). According to Hansen and Van der Stede (2004), the short-term or operational perspective covers the time span up to a 12-month period. The long-term perspective on the other hand is a five to ten years ‘contract’ due to Horngren et al. (2010). Thus, every planning process that covers a longer range than the operational planning and execution is considered to be strategic. Having defined the two time horizons, the multiple uses of budgets have to be determined.

4.1.1 Long-Term Perspective – The Strategic Dimension

The long-term orientation of budgets is for strategic planning (Horngren et al. 2010). The long-range plan, which covers a period of up to 10 years, is building on the operational plan, since the operational plan is based on the strategic plan. Merchant and Van der Stede (2007) see budgetary control and strategy implementation as synonymous. Budgetary control however can be seen as an operational budgeting process as it measures the performance of a budgeted period with the set budget (Barrett & Fraser 1977). Extensive research has been conducted to validate that budgetary control may cause dysfunctional behavior, especially when the management control system is used in a diagnostic way (Simons 1994; Soobaroyen 2007; Otley 1978). The risk of strategic data manipulation caused by budgeting (Jaworski & Young 1992; Soobaroyen 2007) would support Merchant and Van der Stede’s (2007) point of view. For this thesis however, budgetary control is seen as described in the previous section, namely as an ‘error-based’ control mechanism for the analysis of an operational period (Frow et al. 2010).
However, Govindarajan and Anthony (2001) argue budgeting is the implementation of the strategic planning, while Hansen and Van der Stede (2004) discuss the interference of strategic planning through strategic budgeting. Following the argumentation of Hansen and Van der Stede (2004), which is based on Simons (1995) idea that budgets and profit plans contribute to the strategy, it becomes obvious that the strategy is (partly) formed by budgeting. Budgets are the strategic implementation and a tool to execute and quantify strategic planning (Horngren 1994), which still can change and influence the strategic planning (Hansen et al. 2003; Hansen & Van der Stede 2004).

Another role of budgets in the long run is information sharing. As it quantifies the strategic planning (Horngren 1994), it implements the strategy ‘in numbers’ which has an informative value for managers (Hansen & Van der Stede 2004). Hansen and Van der Stede (2004) go further and argue for the use of budgets within communicating goals. Long-term strategic budgets communicate the direction of the corporation in the future. Thus, communication and information sharing is merged to one other role of strategic budgeting.

4.1.2 Short-Term Perspective – The Operational Dimension

The underlying theory has shed light on the multiple and deviating definitions of budgeting. The information given will be used to define a holistic model to ensure that all possible functions and reasons for budgeting are described.

As most of the budget definitions set focus on the allocation of resources, the planning function of budgets is the first determination (Lewis 1952; Wildavsky 1997). This is in line with the argumentation by Hansen and Van der Stede (2004) who stress that planning for the operative time period is the essential part of budgeting. Thereby, the budget is set as a benchmark for the control purpose of it (Horngren 1994). In the end of a period, the actual result is measured against the planned budget to measure the performance of the unit (Otley 1978). To summarize, the role of the operational planning is the operationalization of the strategic planning (Govindarajan & Anthony 2001). As the budgetary control is temporal separated from operational planning, it will be seen as an independent function in the model (Frow et al. 2010).

Authors argue that another important function of budgeting is performance evaluation (Hansen & Van der Stede 2004; Barrett & Fraser 1977; Ekholm & Wallin 2000). Otley (1978) on the other hand argues against it, as budgets are not made for evaluation purposes. Furthermore, several authors have researched possible dysfunctional behavior caused by budgets (Hopwood 1972; Merchant 1990). Hartmann (2000) however, criticized the construction of the hypothesis to test
dysfunctional effects and the problem is that many investigations could not be replicated. Without going to deep into this research area, budgets are used for evaluation in practice (Ekholm & Wallin 2000). In fact, 36% of the responding ‘conservative’ companies agreed on “without the annual budget no targets can be set for people and no control, nor evaluation, of performance is possible”. This is proving the existence of the evaluation use of budgets. Whether or not, it has changed in the past decades, the model has to take into account that there is the possibility to use budgets for evaluation purposes. The following figure illustrates the scope of the conceptual framework.

![Figure 5: The scope of the conceptual framework](image)

4.2 Characteristics of the Budgeting Approaches

The underlying theory is used to distinguish the characteristics of each budgeting approach to make it suitable for the conceptual framework.

4.2.1 Characteristics of Traditional Budgeting

Libby & Lindsay (2003) define TB as a “command and control” system. TB are set as a one-year share of the strategic plan (Ekholm & Wallin 2000). Resources are allocated top-down (hierarchical) and subordinates are authorized to manage the set budgets. Planning is based on forecasts and former financial results. The master budget is set by higher management, based on the business unit budgets (Horngren et al. 2010). TB are reactive and very detailed (Östergren & Stensaker 2011). The operational planning of TB may include a sales and marketing budget, production budget, material budget, R&D budget, short-term capital budget, labor budget, selling and administrative budget, cash budget, staff planning and overhead as well as administration budgets (Shim & Siegel 2009). Budgetary control is traditionally seen as an error-based approach. The actual result is compared with the budgeted.
Typically, only deviations from the budget have to be explained. Thus, the goal is to stay within a given budget (Frow et al. 2010). The “emphasis is on periodic feedback and variances correction” (Frow et al. 2010, p.450). The diagnostic use of control by Simons (1995) suits the definition of TB as budgetary information is used to “continually monitor operational performance to check the progress towards their ‘outlook’” (Frow et al. 2010, p.450). Authors often see tight budgetary control, meaning that only small deviations from the operational plan are acceptable, as the TB control process (Van der Stede 2001).

TB are further used to motivate managers and employees to achieve the overall corporation’s objective by “committing them to a predetermined plan of action” (Barrett & Fraser 1977, p.138). After the budget is set, managers have fixed performance targets on which their rewards and individual evaluations are based (Simons 1995). As Otley (1978) stated, it is a useful secondary function of budgets so that traditionally, no complicated incentive and reward system has to be established.

Traditionally, the strategic budget quantifies the company’s strategy. The capital budget is such a long-term budget, as future investments and capital spending are determined (Shim & Siegel 2009). TB in the long-term perspective is often used for strategy renewal as the capital budget is set for new operations (Simons 1995; Blumentritt 2006). Traditional strategic budgeting is informative about new strategy developments and communicates the quantified strategy so that employees understand the ‘strategy by numbers’.

Table 2: Summary of Traditional Budgeting

<table>
<thead>
<tr>
<th>Traditional Budgeting</th>
<th>Short-Term Perspective</th>
<th>Long-Term Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Function</strong></td>
<td>Operational Planning</td>
<td>Budgetary Control</td>
</tr>
<tr>
<td>Features</td>
<td>Yearly, Top-Down, resource allocation</td>
<td>Reactive, error-based</td>
</tr>
</tbody>
</table>

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25
4.2.2 Characteristics of the Better Budgeting Approaches

4.2.2.1 Characteristics of Rolling Budget and Rolling Forecast

RB or RF is one alternative to TB and updated monthly, quarterly or even every four month (Neely et al. 2003; Horngren et al. 2010). Thus, to fit RB in the conceptual framework, it can already be said that there is no RB for the long-term perspective (Hansen & Van der Stede 2004). Literature has shown, that the maximum of consolidated RB result in a twelve-month period (Horngren 1994, Barrett & Fraser 1977). Thus, this section will focus on the operational side of RB. Planning is done more frequent, and thereby more accurately as new circumstances and environmental changes can be taken into account when budgets are set (Ekholm & Wallin 2000). Budgetary control is not as strict as in TB, the emphasis to meet the budget target is decreasing (Hansen et al. 2003; Hansen & Van der Stede 2004). When the accuracy of budgeting increases, the targets for managers are changing frequently which may impairs the managers motivation (Barrett & Fraser 1977; Hansen & Van der Stede 2004). While Barrett and Fraser (1977) argue for the advantages that an evaluation is fair by using updated budgets, Hansen and Van der Stede (2004) stress the opposite as managers are no longer as responsible for the performances as before. An accurate forecast, based on the newest information is most likely easier to meet with TB. By reviewing the used literature, RB do not have the same importance for evaluation purposes as in TB but rather increase the operational planning accuracy for the unit using that uses this approach.

Table 3: Summary of Rolling Budget/Forecast

<table>
<thead>
<tr>
<th>RB/RF</th>
<th>Short-Term Perspective</th>
<th>Long-Term Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Function</strong></td>
<td>Operational Planning</td>
<td>Budgetary Control</td>
</tr>
<tr>
<td><strong>Features</strong></td>
<td>Top-Down, updated 3-12 times a year</td>
<td>Pro-active due to updates</td>
</tr>
</tbody>
</table>
4.2.2.2 Characteristics of Activity-Based Budgeting

Literature on ABB is not as comprehensive as on (traditional) budgeting or BB. However, the available will be used to generate a sufficient definition of ABB. The (operational) planning process of the company includes the breakdown of activities and processes to meet the “customers and external needs” (Neely et al. 2003, p.24). Inefficiencies in resource allocation can be identified when this approach is applied (Hansen 2003).

The ABBs are consolidated and more accurate as every activity is considered individually. Hansen et al. (2003) argue that the main difference to a budget is that a feasible, operational ABB can be created before a financial budget is estimated. His argument is based on the application of the Closed Loop Model. Closed Loop means that the model is self-contained; information from the ABB may influence the strategy (Silver et al. 1998; Hansen et al. 2003). The Closed Loop Model however is one specific development algorithm by the CAM-I (Hansen et al. 2003). It is commonly used and draws a full picture of the ABB approach.

ABB is as its origin, very much focused on costs, generated by every activity. As TB tries to measure the costs against budgets, ABB is more detailed; the origin of the cost driver can be identified much easier (Hansen et al. 2003; Cooper & Kaplan 1992). Thus, the advantage is that deviations from the budget can easily be tracked back to a certain activity (Horngren 1994). Furthermore, unforeseeable environmental changes can easily be taken into account (Hansen 2011).

In contrast to TB, ABB collects “information on activity and resource consumption rates” so that they offer more possibilities to adjust the budget (Hansen et al. 2003, p.99). Performance evaluation can also be improved by using ABB, as managers and employees can be made accountable for certain activities in an easier way and thus be rewarded (ibid.).

The much more detailed ABB not only enhances the cost control, performance evaluation and rewarding, it also supports decision-making and strategic planning. Thus, the transition of short-term and long-term is ‘smooth’ (ibid.). ABB information can be used in an activity-based model for management (strategic) planning (Cooper & Kaplan 1992). Furthermore, top-managers, lower-level managers, and employees “can more easily understand and communicate budgeting information” when they are ‘operationalized’ (Hansen et al. 2003, p.100). This results from the fact that resources and activities are related so that an understanding of changes is simplified.
Table 4: Summary of Activity-Based Budgeting

<table>
<thead>
<tr>
<th>ABB</th>
<th>Short-Term Perspective</th>
<th>Long-Term Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Operational Planning</td>
<td>Budgetary Control</td>
</tr>
<tr>
<td>Features</td>
<td>Yearly, activity-specific, take changes into account, focus on resource consumption</td>
<td>Deviation-analysis for updating budget, resource consumption monitoring</td>
</tr>
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</table>

4.2.2.3 Characteristics of the Balanced Scorecard

Based on the assumption that financial measurements are not sufficient, the BSC tries to incorporate other indicators (Kaplan & Norton 2001). As described in Section 3.3.3, other benchmarks (customers, internal business processes, learning and growth) are used. The TB may play a central role in the operational planning, but it is not as important anymore. Notwithstanding, the BSC can be used alongside with TB so that the operational planning can include TB or RB. Ekholm and Wallin (2000) say that RB are commonly used with BSC as the adaptability of a RB makes it the preferable choice. Budgetary control thereby loses its relevance as other measures such as customer satisfaction, market share are incorporated. The focus is set on the alignment of short-term objectives to the strategy (Kaplan & Norton 1996 Harvard article). The reward system of a BSC is also linked to performance measures. The BSC approach however is very distinctive in evaluating, rewarding and motivating managers and employees from a TB process. If individuals achieve a certain financial target, which will be the case when TB is used for performance evaluation, they are not automatically compensated. The advantage of a BSC is that individuals have to achieve a “minimum threshold” level on all four objectives to be rewarded (Kaplan & Norton 1996b, p.82); thus the motivation is affected towards achieving a “more balanced performance across short- and long-term objectives” (Kaplan & Norton 1996b, p.82).

When targets are set, the budget is incorporated in the strategy development, as it has to be matched with the other objectives. Thus, the budget is supporting the strategy more than in a traditional strategic planning, where budgets are often seen...
as a strategy implementation tool (Kaplan & Norton 1996b). They further describe
the strategic role of budgeting as following:

“(…) business units can quantify and communicate their long-term strategies
to senior executives using a comprehensive set of linked financial and
nonfinancial measures” (Kaplan & Norton 1996, p.86).

BSCs are further used for open communication and sharing information, aside from
the other perspectives. A broad-based communication is applied to reach out all
employees and inform them about strategic changes and future targets. This detailed
information helps to understand the scope of the strategy with its four dimensions.

Table 5: Summary of Balanced Scorecard

<table>
<thead>
<tr>
<th>BSC</th>
<th>Short-Term Perspective</th>
<th>Long-Term Perspective</th>
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<tbody>
<tr>
<td></td>
<td>Operational Planning</td>
<td>Budgetary Control</td>
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<td></td>
<td>Performance Evaluation</td>
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<tr>
<td></td>
<td>Function</td>
<td>Information</td>
</tr>
<tr>
<td></td>
<td>Features</td>
<td>Strategy Implementation</td>
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<td></td>
<td>Budget preparation</td>
<td>Open communication,</td>
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<tr>
<td></td>
<td>yearly,</td>
<td>based on all dimensions,</td>
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<td></td>
<td>Including three other</td>
<td>weak budget control</td>
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<td></td>
<td>perspectives</td>
<td>based on ‘minimum</td>
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<td></td>
<td></td>
<td>threshold’ idea</td>
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<td></td>
<td></td>
<td>budget has minor role</td>
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<td></td>
<td></td>
<td>Execution of strategy</td>
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<td></td>
<td>into action</td>
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<td></td>
<td></td>
<td>including four</td>
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<td></td>
<td>dimension</td>
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5. Empirics of the ‘Handelsbanken Way’

In this section, a brief background of SH will be presented. The chapter contains secondary findings of SH and their way of operating without any budgets.

5.1 Background of Svenska Handelsbanken

SH is a large national Swedish bank that is found in 1871. It is one of the most profitable and cost-effective banks in the Northern Region (SH 2015a). The bank is strongly decentralized with its 15 regional banks, 834 local branches whereas 463 are located in Sweden (ibid.). The bank’s basic idea is to devolve the responsibility for customers to the branch levels, rather than on the central level (SH 2015b). The main objective is to have the most satisfied customers and be the most profitable bank (Cäker & Siverbo 2014). Ever since Wallander started as the executive director at SH in 1970, the bank has been operating without any budgets (Wallander 1999). Wallander introduced new policies and principles in order to increase the banks profitability due to the fact that the company was struggling under its own ‘stiff bureaucracy’ (Lindsay & Libby 2007b).

5.2 Secondary Findings

In a previous study by Lindsay and Libby (2007b), SH was investigated. Their study aimed to investigate whether it is possible to operate without any budgets beyond SH and Scandinavia. Moreover, in another study conducted by Cäker and Siverbo (2014), some empirics useful for the study were identified. These findings, are presented, described and used as secondary data in the present paper:
‘Beating the competition’ is part of SH and integrated in the management process. This is measured through return on equity and benchmarked against competitors (Lindsay & Libby 2007b). Not only is the return on equity benchmarked, but almost everything else’s as well (e.g. market shares, volumes etc.). The head office is involved in the benchmarking part; meaning that they are actually controlled by the head office (Cäker & Siverbo 2014). SH’s employees are not rewarded on an individual basis. All employees including the CEO receive the same profit sharing (when the banks performance is greater than their competitors) yet in some cases managers who show great performances are expected to get a promotion (Lindsay & Libby 2007b). SH use rolling cash forecasts as indicators to plan both, investments and capital requirements. The forecasts are updated and prepared quarterly in order to see their cash flows improvements. Only the CEO, CFO and CCC have access to these forecasts (Lindsay & Libby 2007b). In Cäker and Siverbos (2014) study it has been identified that SHs recruitment part is not decentralized;
meaning that the personnel manager who is working at the regional level makes the employment decisions. The operational planning in SH is devolved to branch managers since they intended to run their own branches. The staff in the branch is entirely involved in the planning process (Lindsay & Libby 2007b).

SH has further a handicapping system; which is about the allocation of capital. The ones who have the highest performance results get the highest part of the capital, whereas the ones who have the lowest performance results are given a lower part of the capital. This system intends to motivate their employees in working harder and improving their performances for the upcoming year (Lindsay & Libby 2007b). KPIs are used in SH for performance purpose. In order to improve the bank’s performance, they are able to see immediately whether negative is taking place. The branch managers are also able to access other branch managers’ KPIs; which means that they can help each other to improve their performances (Cräker & Siverbo 2014). The information shared within SH is open and fast, so that all employees and managers can access information when needed. The controllers of the bank are able to provide balance sheets to their managers each day if necessary (Lindsay & Libby 2007b)
6. Discussion and Analysis

In this section, the discussion and analysis will be carried out. In the first part, the principles are compared with the different budgeting approaches presented in the conceptual framework. In the second part of this section, the ‘Handelsbanken Way’ will be compared with the BB principles and the conceptual framework.

6.1 Classifying the Beyond Budgeting Principles

As Hope and Fraser (2003b) argue, it is not enough to use better budgeting. Consequently, the principles must be free of any budgeting approach. When the principles are discussed, possible shortcomings of those will be briefly addressed without the goal to go too much into detail.

Beating the Competitors

The ‘beating the competition’ principle (Principle 1 or #1) guides the manager to focus on beating its’ competitors instead of their budget (Hope & Fraser 2003c), in order to see where the company stands in comparison to its’ competitors. Thus, benchmarking based on external information does the basis for the operational planning. TB on the other hand might incorporate external information in the forecasting which is the basis for the annual budget. However, the importance of the external information is smaller. BB uses external information for short-term planning and gives the opportunity to change the operational planning if necessary. The “best possible outcome” does the basis and goals and can be stretched at any time (Hope & Fraser 2003c, p.71). The other budgeting approaches may have changing goals (such as RB), yet this principle has an external focus in addition and incorporates front-line employees in the decision making process. It is thereby liberated from the other presented budgeting approaches.

When no fixed targets for operational planning are set, the performance evaluation on fixed goals is also dropped. This addresses the problem of dysfunctional and short-term thinking for managers (e.g. Hartmann 2000; Soobaroyen 2007; Otley 1978). Performance targets are set by operating teams rather than determined by the higher management. By considering the principal in a critical way, the question rises about what happens if a financial crisis hits the company (Østergren & Stensaker 2011). When costs reduction is needed, a company cannot only focus on beating the competitors but rather look into internal processes. The principle however does not deal with this issue. Overall however this principle (#1) is different from any other budgeting approach.
Team-based Rewarding Systems

Unlike all the other budgeting approaches, team rewarding and performance evaluation instead of individual assessment comes into focus in order to go ‘beyond’ (Principle 2 or #2) (Hope & Fraser 2003c). While budgeting may or may not be used for evaluation purpose, the basis for rewarding is whether an individual has met the pre-set targets. Due to the risk of short-term thinking and possible dysfunctional consequences, the second principle can prevent it.

Companies using RB, also use changing performance targets on regular basis. Environmental changes are incorporated in the next stake of the budget so that the evaluation and rewarding is fair. The prevention of external factors hindering’s a fair assessment of the evaluated employee and this is what ABB, RB and this principle have in common.

Nevertheless, the assessment in BB is based on relative success on team level. By using KPI's based on the teams’ performance, the comparison between the different teams has many advantages. Even when targets are variable and take changes into account in RB and ABB, managers still have a performance target. This principle on the one hand, makes sure that teams do not know “how well they have performed” so that short-term budget gaming is prevented (Hope & Fraser 2003c, p.71). In case of a relatively bad performance of the company, well-performing teams or departments can still be rewarded based on the comparison. Recapitulatory it can be said that this BB principle is also entirely different from the other budgeting approaches and thereby is ‘beyond’ budgeting.

Strategy – A continuous and inclusive Process

Making a strategy a continuous and inclusive process (Principle 3 or #3) Hope and Fraser (2003c) distinguish long- (up to 10 years) and medium-term planning. The principle suggests that strategies continue a bottom-up process where front line employees have an input in the strategy process. As defined by the conceptual framework, planning which exceeds a period of one year is considered to be strategic. Hence, this principle is considered as a strategy implementation and formation principle. The strategic planning includes financial goals as well as other operational changes (Hope & Fraser 2003c) and suggests the application of an activity-based management model for strategic resource planning (comparable with capital budgeting). By definition, activity-based management models can be traced back to ABB and are thereby a better budgeting approach. The named difference by Hope and Fraser (2003c) is the application of this approach by teams and not by senior management. Going down the hierarchy for strategic planning does not automatically mean that the principle is free of budgeting. It only means the
translocation without changing the process. Due to the risk of self-serving teams, senior management still has set “values, boundaries, direction, and guidelines for strategy development” (Hope & Fraser 2003c, p.78).

The long-term planning is further monitored each year by comparing the actual strategy implementation progress with KPI’s and RF. As discussed earlier, RF and RB are the same (Uyar 2009) so that the third principle incorporates a better budgeting approach for the short term observation of the strategy implementation. The medium-term planning on the one hand, suggest the application of a BSC for resource planning up to four years in order to integrate the customer’s focus. Apart from that, the quarterly reviewed performance is also based on KPI’s and RB. Once again, a radical decentralization is a requirement to apply the BB principles. Thus, it would be one-sided to claim that this principle broke free from budgeting only by moving the strategy formation downwards. As long as RB, activity-based management and a BSC are suggested, the principle cannot be considered as being “beyond” budgeting.

**Resources and Resource Allocation**

While the previous principle focuses on the implementation of a long- and medium-term strategy, the fourth principle addresses the operational (up to twelve months) planning (Principle 4 or #4) (Hope & Fraser 2003c). The aim is to serve the customers and react to changing demands. This principle is mainly about allocating the resources to the one who has the greatest need for them. Moreover, units make their own investment plans. RF are used when recourses for projects when needed (ibid.).

Budgeting in general is demanded and induced to allocate scarce resources (Wildavsky 1986) and a trade-off is needed. Therefore, the BBM has to deal with the resource allocation problem. One could say that as soon as resources are allocated beforehand, especially for a period up to one year, the basic definition of budgeting is met. However, this principle suggests that operational managers rather than the senior management decides which resources are needed for a year with the opportunity that further resources can be granted later. This is the case for smaller investments but when major projects demand resources, an application process has to be passed through. The described application process is however very similar to the application process for capital budgets. Hope and Fraser (2003c) stress they can be approved at any time of a year when needed. Thus, on the one hand the application process for capital expenditures are very similar to TB but on the other hand the granting process is shortened. To break entirely free from budgeting, the principle would have to suggest that resources are granted without a capital
application process, yet this is questioned based on whether modern companies would go so far. Furthermore, one can doubt that the standard resource allocation process is feasible in case of a cost cut. Besides the necessity to allocate resources, a control system is observing the effectiveness of the resource input by applying KPI’s (Hope & Fraser 2003c). When resources are not value adding deployed, the higher management will challenge the project to unbind the resources. This principle is similar to ABB. The value-adding contribution of resources is monitored so that free and ‘wasted’ resourced can be either saved or used for other purposes. In summary, the fourth principle has to deal with the basic idea of budgeting, namely resource allocation. A certain similarity is thereby available automatically. It is thus hardly surprising that the principle overlaps with all budgeting approaches in this sense.

Cross-Company Interactions

Unlike TB, where allocation of resources and information provision is executed only in a top-down way, the next principle (Principle 5 or #5) of the BBM also suggests a cross-company interaction (Hope & Fraser 2003c). When a team cannot meet customer demands, in-house communication takes place in order to move unutilized resources to the place where they are needed. This interactive role of the BBM is very much distinct from all the other budgeting approaches as an intercompany exchange on the same hierarchically level can take place. Thereby, budgetary gambling is prevented because units are supposed to help each other rather than being in a resource allocation competition. It is however questionable whether this principle can cause another game: the performance game. A team could demand resources from another one to push their own project forward to out-perform other teams. Thus, by granting resources to another team can imply to work against their own performance. The budgetary-gambling is thereby broken down to smaller but omnipresent resource games. This problem was already addressed by Østergren and Stensaker (2011). Further research could investigate whether this new resource game has influence on ones company’s performance.

It can be concluded that this principle is addressing shortcomings, namely the inflexibility of budgeting and thereby detached from it. New problems, which may arise from it, should to be investigated in the future.

Fast and open Information System

The last principle (Principle 6 or #6) by Hope and Fraser (2003c) addresses the information sharing and communication dimension. Information should be open,
accessible, and provided in a rather fast way (ibid.). Information overload can be the consequence, when all information is provided. The information sharing and communication role is what all budgeting approaches have in common (aside from RB, which has a short-term communication role). The BSC is nevertheless quite similar to the BBM as four dimensions are communicated. However, BBM offers even more information and the option to receive all necessary information when required.

Hence, the BBM covers the information and communication dimension as well but on an unprecedented scale. The information system is the core function of the BBM, as information must be transmitted promptly. The flexibility of the BBM is built up on a fast information system. It is moreover used for both, operational and strategic information. It is unlike the other budgeting approaches that are predominantly used for communicating operational information. The information and communication function moves towards the short-term perspective and thereby exceeds the traditional communication functions. Apart from that it is certainly used for the communication of “values, boundaries, direction, and guidelines for strategy development” (Hope & Fraser 2003c, p.78). This multi-purpose usage of the information and communication system ensures the uniqueness of this particular principle.

Even though the principle suggests to communicate RF to have a “fast, high-level view of future performance” (Hope & Fraser 2003, p.87), the principle is still beyond any budget approach. The principle is about the information and communication system itself with suggestions about what kind of information has to be delivered quickly. Thus it does not matter whether RF data is provided.

In compact, this principle does not fall within any of the five dimensions but rather covers a whole range of functions.

Termination of the six BB Principles

The discussion of the sixth principles has shown that the model incorporates TB as well as better budgeting approach to a certain extent. The conceptual framework has suggested two time horizons as well as five dimensions, which could possibly be covered by budgeting approaches. These dimensions are all covered by the six principles. The ‘beating the competitors’ (#1), ‘team-based rewarding systems’ (#2), ‘cross-company interactions’ (#5), and ‘fast and open information’ (#6) principles outside the scope of any budgeting approach are thereby considered to be ‘beyond’. Yet, the ‘strategy is a continuous and inclusive process’ (#3) principle still suggests the application of a better budgeting approach for quarterly and yearly monitoring. Thus, the budgetary control still exists to some extent. Even though, other measures
such as KPI’s are in use, RB is a key control system of the third principle. Furthermore, the characteristic of ABB, to monitor the deviations from the strategic plan is consistent. The key difference is the hierarchical level of the strategic and operative planning; instead of having a top-down approach, the decision-making is moved downwards. Therefore, one could say that budgeting approaches are in use in a modified way to result in another new budgeting approach, which is not ‘beyond’.

Another similarity is seen in overlapping of the resource allocation in the ‘recourses’ principle (#4). Even in the BBM, resources must be allocated to satisfy the demand of companies for planning security. The key difference is the same again, namely that teams and departments decide about resources needed for operational purposes. Granting of resources for strategic reasons and projects still follow some kind of capital budgeting process, even though Hope and Fraser (2003c) claim that the temporal dimension is the crucial difference.

All in all, though the six principals are very much trying to go BB, intersections remain. Even if lower employees are empowered, some kind of control and control capabilities must be persevered by the upper management. Hope and Fraser (2003c) stress the necessity to overcome budgeting and better budgeting is to go ‘beyond’. This is not possible when companies follow their six principles. Hence, it can be doubted whether it is reasonable to go BB and risk that the steering of a decentralized company is impossible, especially when crisis hit the company.

Notwithstanding, the six principles are able to cover all possible functions occupied by traditional and better budgeting. Especially the fifth and sixth principle that go beyond the traditional function by extending the management control system with a very efficient communication and interaction tool. The following figure (Figure 6) shows the overlapping parts of the BB principles with the other better budgeting approaches. It clarifies that principle #3 overlaps with RF, ABB and the BSC. It also illustrates the overlapping of TB and ABB with principle #4. Table 7 in the appendix shows this overlapping in a more detailed form.
<table>
<thead>
<tr>
<th>Intersections (partly) of the BB Model and other Budgeting Approaches</th>
<th>Budgeting Approach</th>
<th>Traditional Budget</th>
<th>Rolling Forecast</th>
<th>Activity-Based Budgeting</th>
<th>Balanced Scorecard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational resources allocated on yearly basis</td>
<td>Strategy implementation monitored with Rolling Forecasts</td>
<td>Activity-Based Management for long-term planning</td>
<td>BSC for medium-term planning of resources</td>
<td></td>
<td></td>
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<tr>
<td>Capital allocation process</td>
<td></td>
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</tbody>
</table>

| Beyond budget Principles that are covering existing budgeting functions | Beat the competition (BB principle #1) and team-based rewarding (BB principle #2) are beyond budgeting but covering existing budgeting functions |

| Beyond budget principles that are outside the scope of existing budgeting functions | Cross-company interactions (BB principle #5) and fast & open information (BB principle #6) are going ‘beyond’ the existing budgeting functions |

Figure 6: Summary of the Intersections of the BBM with other Budgeting Approaches
6.2 Discussion of the Handelsbanken Way

The principles of BB rely on SH as it is referred to be “the exemplar case in Beyond Budgeting” (Libby & Lindsay 2010, p.68). Thus, some authors conclude that SH is BB (Ekholm & Wallin 2000; Hope & Fraser 2003c; Waal 2005). It is however still questioned whether the SH way is beyond budgeting. To test this, the BB principles and the conceptual framework are compared with the business practice of SH. Therefore, besides looking at the ‘big picture’ of SH and how the company can steer and control by not employing budgets, we look whether the BB principles overlap with the Handelsbanken Way.

For a better understanding, the core statement of each principle and the conceptual framework in general are compared with SH. The scope of this thesis is very limited so that the total complexity of SH cannot be considered. Thus the discussion will be restricted to the scope of the conceptual framework and the BB principles.

As the first part of the discussion has shown that especially the third and fourth principle of BB relies on budgeting or better budgeting, it will be crucial to see whether SH has found a way to handle these functions without budgeting.

The next part of the discussion will heavily be based on information gathered from previous works by Wallander (1999), Hope and Fraser (2003c), Cäker and Siverbo (2014), and Lindsay and Libby (2007b) presented in the last chapter.

As Wallander (1999) emphasis, decentralization is the key requirement to abandon budgets. SH employs only three hierarchical layers; the branch level, regional level and the chief executive level (Hope & Fraser 2003c). The decentralization is further supported by not having an organization chart (ibid.). Thus it is assumed that the requirement to go BB, namely to be radical decentralized is given.

According to Hope and Fraser (2003c), the key statement of the first BB principle is to beat the competition rather than setting fixed performance targets. This principle states exactly what SH employs. Beating the competition is one of the most crucial parts of SH’s performance measurement system (Lindsay & Libby 2007b). Instead of using fixed performance targets, SH measures return on equity, markets shares, and volumes as KPIs for comparative purposes. By using this relative approaches, SH incorporates the advantage of having a realistic performance measurement. On the one hand SH has a close to the market view for operational planning and on the other hand, the performance is judged in light of the market circumstances. Thus the core operational planning of the first BB principle is to use relative targets that are highly integrated in the operating process of SH. The other component, that external information (information about the competitors) is taken into account rather than looking at internal process is exactly what SH does. Thus there is no
doubt that the first BB principle is heavily based on SH. As discussed before, the first principle does not overlap with any budgeting approach, and this leads to the conclusion that the basis operational target setting is relative rather than static at SH.

The rewarding system at SH is separated from target setting (Hope & Fraser 2003c). SH does not have an individual rewarding system. By rather having a relative performance evaluation, SH can cope with the possible role conflict caused by budgeting, and particularly the role conflict of motivation and evaluation. SH applies a league system to compare the regions and the branches with each other (Hope & Fraser 2003c). Relative performance indicators are used to have a fair judgment. This system is very similar to what SH does for the overall performance evaluation of the company. However, the reward process is not based on the so-called “performance league” (Hope & Fraser 2003, p.114). Every year, SH publishes a relative ranking to show how well each branch and region has performed, compared to the others (ibid.). While the relative performance evaluation is motivating the branches and regions to reach a good position in the 'league’, and the profit is shared equally regardless of the team performance. Thus, the rewarding and (team) performance evaluation suggested in the second BB principle is distinct from SH practices. Separating performance evaluation and rewarding by sharing the profit ensures that SH goes even further than what the second principle suggests. Consequently, SH has a rewarding and performance evaluation, which is BB although it is not conform to the principle #2.

The strategy of SH is to have satisfied customers rather than setting focus on growth (Hope & Fraser 2003c). Furthermore, the goal is to keep the cost-to-income ratio beneath 40%. Thus, SH employs a relative strategy. Relative goals rather than a fixed strategy that is geared for growth opens the opportunity to give the freedom of action to the branches (Lindsay & Libby 2007b). Thus, as suggested by the third BB principle, SH employs a relative and continuous strategy with boundaries and set regulations by higher authorities. This boundary system is relatively close related to the boundary system used for strategy renewal by Simons (1995). As banks in general are highly regulated, SH has to ensure that the branches, when coming to decisions, are working within the pre-set boundaries (Cäker & Siverbo 2014). Thus, the higher management ensures the strategy alignment.

Formal action control is further employed. As anticipated, SH must have a cash flow planning. A rolling cash forecast, updated every three months ensures the action control (Hope & Fraser 2003c). These rolling cash forecast are only accessible to the chief executives and the group chief controller (CCC). Thus, SH keeps the control of cash flows very close to the business management.
While the third BB principle suggests that RB are used to monitor the strategy implementation, SH applies a rolling (cash) budget for operational action control. According to Wallander (1999, p.409), it is important to have the “same weather” principle. This means that the company operates, as if there is no foreseeable change in future operations. As a result, the rolling cash forecast is used to meet banking standards and ensure that enough cash is available (Hope & Fraser 2003c) to meet future obligations as well as keeping the business running. Even though, the reason for using a RF differs from the third BB principle, SH uses a better budgeting approach according to the conceptual framework. In order to reiterate, RB or RF falls within the better budgeting approaches. Hence, just like the third BB principle, SH applies a budgeting approach.

For strategy alignment, namely to monitor the profitability and the customer satisfaction, the front line employees play a major role (Cäker & Siverbo 2014). They can make autonomous decisions, which of course have to be in line with SH’s guidelines. This is why, SH goes its own way to monitor the strategy implementation. With a strategy that focuses only on two aspects, strategy alignment can easily be monitored.

While Hope and Fraser (2003c) emphasis that branch managers at SH decide about the resources needed for their unit, Lindsay and Libby (2007b) found out that financial resources are allocated to the regions on a yearly basis. The so-called “system of handicapping” uses performance data from the regions of the past three years to allocate financial resources (Lindsay & Libby 2007b, p.634). The worst performing region receives the lowest capital allocation so that it becomes easier for the respective region to reach a higher position in the upcoming performance ranking. The lending-to-capital ratio is the crucial employed measurement (ibid.). Thus, the regions are, by definition of the conceptual framework, budgeted every year without the possibility to influence the allocated resources.

This suggests that the operational financial planning is very similar to TB on this hierarchical level. While the principle proposes the allocation is based on demands, SH seems to employ a more traditional way of allocation resources. Unlike in TB, the branches, which are subordinates to the regions, demands the resources when needed. Unfortunately, no source could be found about the problem, where the branches could demand too many financial resources so that the region would have to make a trade-off. Nevertheless, the rolling cash forecast may overcome this problem, as the company’s headquarter can allocate further resources to the region. Apart from that, SH has a central department at the highest hierarchical level (headquarter) for “treasure, control and accounting (with risk control)” among other functions (Cäker & Siverbo 2014, p.156). This is another example how SH keeps a
central control function at a high level in order not to lose the steering even though this is not considered to be part of budgetary control.

Hope and Fraser (2003c) attribute the staffing authority to the branch managers, as they are closer to the customers. Therefore, the branch manager is in the best position to come to a decision. A more recent research completed by Cäker and Siverbo (2014, p.155) stresses that SH “does not conform to its idea about decentralization in recruitment”. They have another point of view on the decision about hiring new employees and how staff managers on regional level should do it. Thus, it can further be argued for the application of a more traditional way of staff planning at SH. The BB model then again suggests the recruitment of employees on a lower hierarchical level. To sum it up, SH differentiates from the fourth BB principle. Both, financial planning as well as staff planning is done on a higher hierarchical level. Financial resources are allocated from a higher authority and ‘pushed’ to the regions while the same goes for staff planning and where the regions grant new employees to the branches.

On branch level, one could say that SH operates beyond budgeting. Not only are resources allocated to the branches on demand, but also interactions among the branches take place (Lindsay & Libby 2007b). When resources are scarce or branches weaken slightly (Cäker & Siverbo 2014), one branch can inform another one to receive further resources or other support. To prevent the risk of competing branches for customers, SH employs a policies to ensure the cooperation and information sharing among the branches (Hope & Fraser 2003c). Every customer is attached to a certain branch, so that other branches cannot compete for the favor of a particular customer (ibid.). Customers’ come first in addition to SH’s customer policy, the fifth BB principle very much overlaps with SH of handling cross-company interactions.

A good information structure at SH ensures the fast exchange of information. The information system is very open; information is provided in real time when necessary (Lindsay & Libby 2007b). One can say, that this is very much congruent to the sixth BB principle. Nonetheless, SH goes even further to ensure that reports are provided with key indicators about the return on investment, customer satisfaction and patterns of loans and investments. Every branch provides the responsible region with monthly performance reports (ibid.) instead of RF every quarter as suggested by the BB model. Therefore, strategy alignment as well as everyday routine is monitored with “fast actuals”, to reveal possible deviations from the “same weather” principle (Wallander 1999). The information system is the most
crucial instrument for SH to be able to operate in its unique way. Besides providing information, the information system has a clear task to support the communication between the branches among themselves as well as the hierarchical top-down and bottom-up communication.

To sum up the information and communication system at SH, you can say that it is very similar to the sixth BB principle. It makes the suspicion plausible that the principle is heavily based on the way SH is dealing with the information role. Nevertheless, SH is using the information system rather for operational information sharing than informative, top-down strategy communication. Their system is very much distinct in its role and scope, compared to all other considered budgeting approaches.

The following figure (Figure 7) clarifies that there are intersections between SH and three principles of the BBM. Moreover, it is possible to see a partly intersection between the Handelsbanken Way and two other budgeting approaches, TB and RF. The red dotted box expresses the scope of possible budgeting functions. The blue box expresses the Handelsbanken Way. The overlapping part shows that SH is able to cover the entire scope of budgeting functions.

The BB principle #1 (“beat the competition”) is the principle that covers the budgeting functions. However, the Handelsbanken Way even goes further by ‘applying’ BB principle #5 (“cross company interaction”) and #6 (“open and fast information”).

The intersection between SH and the other budgeting approaches are:

1. SH allocates resources to the regions by higher authorities in a traditional budgeting way (TB) and

2. SHs strategy implementation where rolling forecasts are used for cash planning.

As mentioned earlier, BB principle #1 is covering budgeting functions even though it is different to any other budgeting approach. This principle is very much what SH does. Besides, the information and communication structure at SH, as well as intercompany resource trading among others is similar to principle #5 (“cross company interaction”) and #6 (“open and fast information”). This is not surprising since the principles of the BBM are basically based on the case of SH. The analysis of SH is also summarized in Table 8 in the appendix.
The Scope of Budgeting

Intersections of the Handelsbanken Way with other budgeting approaches:
- resource allocation, staff planning with traditional budgeting

Beat the competition (BB principle #1) is within the scope of budgeting functions and used by SH

Cross-company interaction (BB principle #5)

Open & fast information (BB principle #6)

The Handelsbanken Way

Budgeting approaches that are not overlapping with the ‘Handelsbanken Way’

Coverage of budgeting functions by the ‘Handelsbanken Way’ management control system

Further management control functions outside the scope of budgeting

Figure 7: The Handelsbanken Way and the Scope of Budgeting
7. Conclusions and Future Research

Better budgeting is not the answer. This statement by Hope and Fraser (2003b) initiated the present investigation. For this reason, literature on budgeting and better budgeting was examined due to be able to have a comparative study. Definitions and explanations of this management control system differentiate extensively. Thus, a conceptual framework was developed to be able to have a model, which was used for the comparison with the BB principles. The conceptual framework included the most important budgeting functions to be able to cover the range of what budgets can be used for. Two time dimensions were used, as budgets are often distinct by it.

7.1 The Principles which are ‘Beyond’

The discussion of the BB principles was the first part of the investigation. By examining each BB principle individually it made it possible to get a clear picture about the scope of each principle as well as whether it lies within any other budgeting approach. This study has shown that some of the principles cover more than one budgeting function at a time. However, all (traditional) budgeting functions are covered in total while the fifth and sixth principle go even further than the scope of budgeting. The information system, suggested by the BB principles, is open and information is exchanged and accessible immediately. This function of a management control system is something that was added by the principles and was not part of any other budgeting approach before. Furthermore, the use of information systems moves towards operational planning and control rather than strategy communication as it was in the other budgeting approaches. Apart form that rewarding is no longer a process were fixed performance targets are set. By having team rewarding, dysfunctional behaviour is addressed.

7.2 The Partly Overlapping Principles

Due to the necessity to steer a company, the BB principles incorporate budgeting and better budgeting approaches for operational control (RF to monitor deviations) as well as resource allocation. Even though resources are granted for a year with the option to receive further resources when needed, as soon as a yearly resource allocation process takes place, it is considered, that the basic definition of budgeting is met. Capital investments planning and the use of activity-based management fall within the other budgeting approaches.

To put it in a nutshell, the BB principles really try to go ‘beyond’. However, due to the need to steer a company, the BB principles still incorporate some parts of the other approaches.
For now, better budgeting seems to be the answer for the current situation while the principles must be updated to break free from budgeting.

7.3 The ‘Handelsbanken Way’

The case study on SH has revealed that the ‘Handelsbanken Way’ also incorporates some kind of budgeting. It was surprising that authors have claimed that SH is free of budgeting, when resources are still allocated to the regions on yearly basis. Aside, staff planning and rolling cash forecasts are in use. As rolling cash forecasts are necessary to meet banking standards, it seems impossible to operate without any budget approach. However, the case study has shown the possibilities to abandon budgets and budget pressures to a huge extent. SH works hard on addressing the shortcomings of budgeting. Thus, it is understandable that SH is used as the role model for BB. It is thereby not surprising that the BB principles are very much based on SH.

The following figure (Figure 8) concludes the findings of the thesis in a very brief way to enhance the understandability of the very complex findings.

```
Overlapping exist between the BBM and other budgeting approaches
• Resources are allocated in advance
• ‘Budgetary’ control of strategy implementation (using RF)
• Capital allocation process in a traditional way

Beyond budgeting is on a good way to go beyond
• Especially the information infrastructure and procedure
• There is still room for improvements, otherwise it is considered as a better budgeting approach

Svenska Handelsbanken is rightly seen as the role model for going beyond budgeting
• However, use their own way (The ‘Handelsbanken Way’)
• Application of some traditional and better budgeting
  • Banking standards have to be fulfilled

Figure 8: Conclusion of the Findings
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7.4 Future Research

Future investigations should focus on the allocation of resources, as this is the core task of budgeting. Resources are limited, so the question rises whether a cost-sensitive corporation is able to incorporate ‘resource granting when needed’. Future research shall thereby look at the possibility to further develop the BB principles in order to break entirely free from any budgeting approach.

Moreover, manufacturing companies come into focus. Suppliers have to have a production plan for short-term as well as long-term planning. Especially when the development of new products is very expensive, R&D budgets as well as resource planning are crucial. Thus, future research shall investigate the applicability of the BBM on those kinds of companies.

A third suggestion is the implementation of a survey in Sweden, asking companies about their applied budgeting practice. As this research has revealed that even SH is not able to operate without budgets, it will be interesting to found out whether another corporations have found a way.
References


### Appendix

#### Table 6: The Analysis Model

<table>
<thead>
<tr>
<th>Time-Horizon</th>
<th>Approach</th>
<th>Short-term Functions</th>
<th>Long-term Functions</th>
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<td></td>
<td>Operational Planning</td>
<td>(Budgetary) Control</td>
<td>Information sharing, communication</td>
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<td>Reactive, detailed, strict, error-based,</td>
<td>Strategy Implementation and Formation</td>
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<td>explanation of deviations by comparing actual</td>
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<td>result with budget</td>
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<td>Traditional Budget</td>
<td>Committing staff to pre-determined fixed</td>
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<td>performance goals, rewarding base on reaching</td>
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<td>Informative use, when strategic budget is</td>
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<td>set, “strategy by number” Top-Down</td>
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<td>Rolling Budget/Forecast</td>
<td>Updated 3-12 times a year, consolidated</td>
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<td>budget results in 12 month plan</td>
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<td>Flexible by taking newest information into</td>
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<td>Activity-Based Budget</td>
<td>Breakdown of activities and processes,</td>
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<td>environmental and market changes are taken</td>
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<td>into account when resources are allocated</td>
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<td>Balanced Scorecard</td>
<td>Comparison of deviations from a certain</td>
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<td>planned activity, easy to trace back the</td>
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<td>cause of deviation, collecting information</td>
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<td>Evaluation and rewarding based on performance</td>
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<td>managers are responsible for, changes are</td>
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<td>Information are given by detailed resource</td>
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<td>planning for new strategic decisions,</td>
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<td>simplifying the strategy by breakdown to</td>
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<td>Activity-based management model for strategic</td>
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<td>planning of new or changed activities</td>
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</table>

**Traditional Budget**
- Set for a year in advance, by higher management (centralized) and resources are allocated.
- Reactive, detailed, strict, error-based, explanation of deviations by comparing actual result with budget.
- Committing staff to pre-determined fixed performance goals, rewarding base on reaching targets.
- Informative use, when strategic budget is set, “strategy by number” Top-Down.
- Strategic budget (3-5 years in advance), quantifying strategic plan, determines future investments by using capital and financial budgets.

**Rolling Budget/Forecast**
- Updated 3-12 times a year, consolidated budget results in 12 month plan.
- Flexible by taking newest information into account.
- Less strict to meet budget targets, because updated.
- Comparison of a single period, with actual results.
- Changing, fair individual evaluation and rewarding by taking newest information into account.

**Activity-Based Budget**
- Breakdown of activities and processes, environmental and market changes are taken into account when resources are allocated.
- Comparison of deviations from a certain planned activity, easy to trace back the cause of deviation, collecting information on activity and resource consumption.
- Evaluation and rewarding based on performance measured against certain activities, managers are responsible for, changes are taken into account.
- Information are given by detailed resource planning for new strategic decisions, simplifying the strategy by breakdown to activities.
- Activity-based management model for strategic planning of new or changed activities.

**Balanced Scorecard**
- Based on four perspectives, financial customers, internal business processes, learning and growth.
- Financial can be based up on rolling or traditional budget.
- Budgetary control weak, as only part of a bigger system. Control extended by customer satisfaction or technology development for instance.
- Performance evaluation and rewarding based on reaching a balanced minimum threshold on different indicators.
- Open communicating strategy, based on all four perspectives while financial perspective has only a minor role.
- BSC transforms and quantifies strategy into action, used for testing feasibility of strategy.

Financial and non-financial.
Table 7: Beyond Budgeting in light of the Conceptual Framework

<table>
<thead>
<tr>
<th>Time-Horizon</th>
<th>Approach</th>
<th>Short-term functions</th>
<th>Long-term functions</th>
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<tbody>
<tr>
<td></td>
<td>Operational Planning</td>
<td>(Budgetary) Control Performance Evaluation, Motivation, Rewarding</td>
<td>Information sharing, communication Strategy Implementation and Formation</td>
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<tr>
<td></td>
<td>Operational resource allocation for a year, however demanded not granted (bottom-up) (#4)</td>
<td>Yearly and quarterly strategy implementation progress monitored with rolling forecasts (#3)</td>
<td>Capital application process, however shortened and granted at any time (#4)</td>
</tr>
<tr>
<td></td>
<td>Rolling Budget/ Forecast</td>
<td>Comparison of deviations from strategic plan (#3) Value-adding contribution of resources is monitored (#4)</td>
<td>Activity-based management model, but on lower hierarchical level for long-term strategic resource planning (#3)</td>
</tr>
<tr>
<td></td>
<td>Activity-Based Budget</td>
<td>Customer focus (#4) (can still be aimed by companies, applying traditional budgeting) Operational goals are not fixed (#1)</td>
<td>Including financial targets among other indicators (#3)</td>
</tr>
<tr>
<td></td>
<td>Beyond Budgeting Principles #1, #2, #3, #4</td>
<td>In-house resource-exchange when needed (#5)</td>
<td>Long- and medium-term planning, on lower hierarchical, boundaries are set by higher management (#3)</td>
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<tr>
<td></td>
<td>Principle #5</td>
<td>Open and fast information system, mainly used for operational purpose and short-term control (#6)</td>
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<td>Approach</td>
<td>TB</td>
<td>RF</td>
<td>ABB</td>
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<td>Organization</td>
<td>Centralized</td>
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<tr>
<td>Target setting</td>
<td>Fixed Performance targets (possibly updated)</td>
<td>Relative, not-fixed performance targets</td>
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<tr>
<td>Information basis for target setting</td>
<td>Internal information for target setting (including some external, market information)</td>
<td>External information for (relative) target setting</td>
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<td>Rewarding</td>
<td>Individual rewarding</td>
<td>Team rewarding</td>
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<tr>
<td>Strategy planning</td>
<td>Strategic planning (3-10 years)</td>
<td>Strategy setting on lower management (financial and others)</td>
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<tr>
<td>Application of Rolling Forecasts</td>
<td>X</td>
<td>Rolling forecast for strategy alignment</td>
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<tr>
<td>Resource allocation</td>
<td>Resources allocated yearly by higher management</td>
<td>Resources granted when needed on every hierarchical level</td>
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<td>Staff planning</td>
<td>Staff planning by higher management</td>
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<tr>
<td>Information system</td>
<td></td>
<td>Modern, fast information exchange also on the same hierarchical level for resource exchange among others</td>
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