



UNIVERSITY OF  
NORDLAND

BODØ GRADUATE SCHOOL OF BUSINESS

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# MASTER THESIS

**“Culture-based” vs. “Administrative”  
model:**

A study of Beyond Budgeting MCS in Miles AS  
and Posten AS

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## **SAMMENDRAG**

Grunnlaget for denne oppgaven er å utforske, samt sammenligne de ulike formene av økonomistyringssystemer basert på Beyond Budgeting filosofien. For å gjennomføre denne forskningen ble to norske selskaper som opererer i ulike bransjer dvs. Miles AS og Posten AS valgt. Problemstillingen og forskningsspørsmålene er knyttet til likheter og forskjeller i økonomistyringssystemene som brukes i disse organisasjonene, og variablene som påvirker de anvendte konfigurasjonene, mekanismene og løsningene. Funnene er basert på innsamling av data gjennom intervjuer, samt sekundærkilder.

Analysen av økonomistyringssystemene i de ovennevnte selskapene, som hovedsakelig var basert på betingelsesteorien, resulterte i noen interessante funn. Først og fremst ble det identifisert to ulike typer av Beyond Budgeting modeller nemlig; “Culture-based” økonomistyringssystemet som ble observert i Miles AS og “Administrative” økonomistyringssystemet som ble funnet i Posten AS. Den førstnevnte fokuserer på uformelle kontrollmekanismer inspirert av den underliggende kulturen og verdiene. Sistnevnte fokuserer på regnskapsbaserte verktøy og formelle kontrollmekanismer basert på den hierarkiske, kontrollorienterte rapporteringen. Derfor bestemmer de elementene som brukes i hvert økonomistyringssystem. Dernest, disse designene kan forklares med påvirkning av de ulike betingede variablene, for eksempel selskapsstørrelse eller strategi. Til slutt, det ble hevdet at Beyond Budgeting MCS ble gjennomført for å gi de undersøkte bedriftene mer fleksibilitet og dynamikk, samt å låse opp selskapenes resultater. De observerte funnene viser at de beskrevne designene er signifikant forskjellig mellom hverandre.

**Nøkkelord:** økonomistyring, økonomistyringssystemer, Beyond Budgeting, betingelsesteorien

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## **PREFACE**

This master thesis concludes my studies at the University of Nordland in Bodø. It has been a splendid time for me and I will never forget that period in my life. I have learned and experienced a great many unforgettable and inspiring things here and I am sure that I made a good decision coming here to Bodø, to study MSc in Business.

I would like to express my deepest and sincere gratitude towards my supervisor Professor Anatoli Bourmistrov for his support, constructive criticism, help, patience and inspiring ideas while writing my master thesis. You are amazing! Also, I would like to thank my course coordinator Tor Korneliussen for his assistance concerning various issues connected with my studies.

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Finally, I would love to express my heartfelt thanks to my mother Anna for everything she did for me, for her constant love and support. Without you, I would not have been the same person that I am now.

I take the full responsibility for the mistakes as the author of this master thesis.

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## **ABSTRACT**

The purpose of this research is to explore as well as compare the management control systems (MCS) designs based on the Beyond Budgeting philosophy. The subject of the study is two Norwegian companies operating in various industries i.e. Miles AS and Posten AS. The problem statement and the research questions are concerned with the similarities and differences of the used controls systems in these organizations and the variables that influence the applied configurations, mechanisms and solutions. The findings are based on the collection of the data through interviews as well as secondary sources.

The analysis of the MCS designs in the above mentioned companies, which was mainly based on the contingency theory, resulted in obtaining interesting findings. First of all, two types of the Beyond Budgeting models were identified, namely the “Culture-based” control system observed in Miles AS and the “Administrative” control system found in Posten AS. The former focuses on the informal controls inspired by the underlying culture and values and the latter on accounting-based, formal controls founded on the hierarchical, control-oriented reporting. Thus, they determine the elements that are used in each MCS. Secondly, these designs can be explain by the influence of the various contingent variables such as organizational size or strategy. Finally, it was argued that the Beyond Budgeting MCS were implemented in order to provide the examined firms with more flexibility and dynamics as well as to unlock their performance abilities. The observed findings show that the described designs differ significantly between each other.

**Keywords:** management control, management control systems, Beyond Budgeting, contingency theory

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## **LIST OF ACRONYMS**

**ABC-** ACTIVITY-BASED COSTING

**ABM-** ACTIVITY-BASED MANAGEMENT

**AS-** AKSJESELSKAP (JOINT-STOCK COMPANY)

**BB-** BEYOND BUDGETING

**BBES-** BEYOND BUDGETING ENTRY SCAN

**BE-** BEST ESTIMATE

**BR-** BUSINESS REVIEW

**BSC-** BALANCED SCORECARD

**CEO-** CHIEF EXECUTIVE OFFICER

**CFO-** CHIEF FINANCIAL OFFICER

**EBIT-** EARNINGS BEFORE INTERESTS AND TAXES

**EVA-** ECONOMIC VALUE ADDED

**FO-** FINANCIAL OFFICER

**HSE-** HEALTH, SAFETY AND ENVIRONMENT

**JIT-** JUST IN TIME

**KPI-** KEY PERFORMANCE INDICATORS

**LTP-** LONG-TERM PLANNING

**MCS-** MANAGEMENT CONTROL SYSTEMS

**NHH-** NORGES HANDELSHØYSKOLE

**NOK-** NORSKE KRONER

**ROE-** RETURN ON EQUITY

**SME-** SMALL AND MEDIUM ENTERPRISES

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**SR- STRATEGIC REVIEW**

**TQM- TOTAL QUALITY MANAGEMENT**

**VBM- VALUE-BASED MANAGEMENT**

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# 1. INTRODUCTION

## 1.1 MASTER THESIS BACKGROUND

Global economy in the 21<sup>st</sup> century is usually characterized as unpredictable, turbulent, constantly changing. Contemporary companies and societies live in the world of accelerating changes, in fast paced, dynamic environments where the values, features and challenges are completely different than those that one could have observed even a few decades ago. Furthermore, modern organizations can be defined as complex entities which need to deal with a great many stakeholders such as suppliers, customers, the government or employees. The interests of these groups are usually contradictory and the successful approach to the issue of management requires a great deal of effort, knowledge and competences.

The mentioned changes also influenced, to a certain degree, the management control systems and the way that managers plan, budget and forecast, requiring considerable adjustments in the management control systems. Moreover, the need for more accurate management tools and solutions, which could improve companies' performance in such complicated and multidimensional conditions, has led to a great many developments in the above described area. Since the beginning of 1980s there has been a number of significant management accounting innovations such as Activity Based Costing (ABC), Balanced Scorecard (BSC) or Value Based Management (VBM), which have gained a widespread diffusion among companies (Becker et al., 2010) as well as have gotten a great deal of attention among academic researchers (e.g. Østergren and Stensaker, 2010; Otley, 1999; Anderson and Young, 1999; Gosselin, 1997; Kaplan and Norton, 1992; Nørreklit, 2003). The main purpose of these innovations has been, thus, to improve control and provide the necessary information for management (Hammer, 2010) as well as to assist managers when they make decisions in the turbulent environment (Chenhall, 2003).

While the previously mentioned innovations have spread among a great many users around the world in the previous decades, the other, more radical solutions regarding the transformation of the management control system have not achieved so widespread popularity. These changes have been concerned with the implementation of alternative steering mechanisms to the traditional management control system that predominantly uses annual budgets as an important control system. The main goal of it is to support the decision

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makers in implementing the company's strategies and help them in planning as well as in setting targets (Hansen and Van der Stede, 2004; Rickards, 2006).

This alternative model called Beyond Budgeting, was developed in the late 1990s and introduced by J. Hope and R. Fraser in 2003, in their famous book *"Beyond budgeting: how managers can break free from the annual performance trap"*. Hope and Fraser advise companies to abandon the budgeting practices altogether in order to increase the profitability of a company as well as to make a company more responsive to the challenges it faces in its environment.

The authors and other scholars supporting this concept criticize the traditional budgeting, saying that it is based on the traditional "Command and Control" model that was created at the beginning of the 20<sup>th</sup> century (by DuPont and GM) and which is connected with the centralized decision making, functional organization, linking salaries to performance, etc. (Hope and Fraser, 2000). They point out that the budgeting process is time consuming and ineffective, it is quickly outdated, promote dysfunctional behavior as well as that it is not coordinated with the strategy of an enterprise (Horváth and Sauter, 2004). It is also emphasized that budgets set fixed targets, connect incentive with the targets, etc. (Player, 2003).

The purpose of the Beyond Budgeting is to adjust the management processes and attitudes within an organization to the changing environment that can be characterized as having fickle customers, turbulent and unforeseeable changes in the economy as well as unpredictable competitors' behavior (Hope and Fraser, 2000). It can be done by using a combination of different management accounting tools aimed at turning a centralized, bureaucratic company into a flexible and adaptive organization.

Such a transformation requires a lot of effort from the both sides- from the people on the top of the organizational structure (management) as well as from the middle managers and ordinary employees. The change of the management style constitutes the biggest challenge and obstacle to implementing Beyond Budgeting as a model.

The above mentioned concept have been spreading among countries and continents mainly due to the engagement and support from the Beyond Budgeting Institute that established a global network of participants that share their experiences associated with the implementation of this concept. It facilitates the dissemination of Beyond Budgeting across various

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environments as well as provides a number of successful cases (which work as the examples for the others) that might contribute to popularization of this way of managing a company's performance. Currently there are more than 50 members of the Beyond Budgeting Round Table (BBRT, 2013).

Although a great many companies in the world experiences difficulties and dissatisfaction with the traditional budgeting, only a small percentage of which has decided to implement some aspects that lead to the improvement or abandonment of the budgeting process altogether. The majority of them comes from Scandinavian as well as Anglo-Saxon and German speaking countries (Hammer, 2010). Even though there are some cases from other countries, Beyond Budgeting is still perceived as too radical or in some countries (e.g. in Poland) as just an academic discussion (PwC, 2009).

It seems that not only the previously mentioned rationales behind the decision to abandon budgets or radically change the budgeting process might be decisive for a company when it comes to the adjustment of its management control systems. Such an action can be influenced by the other observed external strategic changes or by the internal ones emerging from the company itself. Nevertheless, the implementation of a new management control system cause a number of difficulties for any organization on account of the challenges associated with the institutional change process.

In consequence of the environmental and organizational context (e.g. size, strategy, industry, environment, etc.), which is inseparable in the case of the implementation of the Beyond Budgeting concept, one may observe a great many different models that are used in various companies that decided to follow the scrutinized philosophy. Hence, it can be argued that the presence of multiple influencing variables result in the lack of universality of the concept of management control systems. In other words, despite the existence of the twelve principles of Beyond Budgeting (they will be discussed in the second chapter of this thesis) that are considered as universal one may notice peculiar designs/configurations of MCS in firms. Furthermore, the above mentioned issues have also impact on the ease of the implementation of the examined approach. Thus, the research aimed at exploration and deeper understanding of such matters in different organizations can be perceived as an interesting one.

In my master thesis I compare two Norwegian companies, namely Miles AS and Posten Norge AS that differ from each other in a great many areas. The most significant differences are concerned with the various industries in which they operate, with the size of each firm,

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age, products and services, challenges faced on their respective market, etc. The former one is a relatively small, young and private company operating in the IT industry. It employs around 100 employees who work in three branches located in Oslo, Bergen and Stavanger. The latter one, in turn, is a big, wholly owned by the state and is one of the oldest firm in Norway, employing more than 20 000 workers in almost every corner of Norway. Despite the above mentioned differences there is undoubtedly a significant aspect that links these organizations together- it is the use of the Beyond Budgeting philosophy as a management system.

The main focus of this master thesis is therefore to present how the management control systems based on the Beyond Budgeting philosophy look like in the two above described Norwegian firms as well as to find the rationales behind the differences and common elements in these two models. In order to analyze these issues I use the theoretical framework of reference that is built up on the comprehensive description of management control systems and their relation to the important from this master thesis perspective contingency theory, the thorough explanation of traditional budget based management control system as well as on the presentation of the Beyond Budgeting philosophy, its elements and practical examples on the basis of the published literature.

## **1.2 PROBLEM STATEMENT**

**T**aking into consideration the above discussed consideration the problem statement in this master thesis was formulated as follows:

*What are the differences and similarities in the design of management control systems in Miles AS and Posten AS?*

In order to answer the problem statement it is essential to formulate several more specific research questions, i.e.:

1. What are the MCS designs based on the twelve Beyond Budgeting principles in the examined companies?
2. Why did the examined Norwegian companies decide to implement the management control systems based on the Beyond Budgeting philosophy?
3. What factors explain the differences and similarities between the Beyond Budgeting MCS used by the two Norwegian companies?

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All of the above presented research questions help me to address the problem statement of this master thesis. The first research question allow the author to identify how the implemented Beyond Budgeting models look like in each of the examined firm, why they possess certain elements. Furthermore, it allows determining the type of the applied management control system approach. The second one helps me to find out why such models were implemented and how well the models fit the needs of the examined companies. Hence, it enables the comparison of the experiences of the scrutinized Norwegian companies with the ones of the other examined in the literature enterprises. The last question facilitates the recognition of rationales that underlie the differences between the models as well as determine the factors which lead to the common features in these two organizations.

### **1.3 PURPOSE OF THE MASTER THESIS**

The purpose of this master thesis is to provide a valuable insight into the issue of how the management control systems based on the Beyond Budgeting philosophy look like in the two completely different companies, why they possess certain characteristics as well as what factors contribute to the observed differences and similarities in the above mentioned firms.

In general the literature is still scarce with respect to exploratory studies focused on the thorough description of the Beyond Budgeting models in different organizations as well as of how enterprises deal with the challenges associated with the transition from traditional management control system based mainly on budget into the new management control system inspired by the Beyond Budgeting principles and values. Moreover, there is very few research regarding the comparison of the organizations that have implemented or used the Beyond Budgeting concept within one country, and they are mainly concerned with the most famous cases of such big and recognized companies as with Statoil or Telenor. They focus neither on the internal (e.g. the structure, the size of the firm) nor on the external (e.g. influence of the industry) causes of the differences between Beyond Budgeting models, based on the same philosophy and the country culture.

Therefore in this master thesis I would like to present that the implementation of the same Beyond Budgeting concept in the same country (Norway) leads to the different forms, solutions and tools used in this new model of management depending on the internal and external characteristics of a firm and the environment in which it operates. Such an approach is in line the contingency theory of management accounting which argues that there is no

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universal concept of management control systems. In other words, the contextual contingencies influence the way in which the MCS are designed in a particular organization, thus resulting in unique solutions.

The purpose of this master thesis is also to present another exploratory case studies which reveal a lot of different (and as it was mentioned above- to a certain degree unique) configurations which result from the process of the implementation of the Beyond Budgeting principles. Moreover, it gives the possibility to learn more about problems concerned with the transition from traditional MCS to the new system.

#### **1.4 STRUCTURE OF THE MASTER THESIS**

**T**he master thesis has been structured in five parts. The first part is the introduction where I explain why my research is relevant for the management control field. The second chapter presents the theoretical basis of this master thesis which will be used in the following analytical chapters. The main purpose of this part is to place the conducted research into the existing literature as well as to identify the gaps in it regarding the Beyond Budgeting concept and management control systems. Chapter three is associated with the matter of the methodology and research design. This section raise such issues as the philosophical concepts that form the foundations of every research, the units of observation, data collection and analysis methods and techniques, the rationale behind the choice of qualitative studies and linked with it the questions regarding the validity and reliability of the conducted research in this master thesis. The fourth chapter comprises the presentation of the collected empirical data. The subsequent part of the thesis is concerned with the analysis of the implemented management control systems and finally the sixth chapter consists of the thesis' conclusions and suggestions for the further research.

#### **2. THEORETICAL FRAME OF REFERENCE**

**I**n this chapter I will present the theoretical basis for conducting my research. The section starts with the thorough description of the notion of management control systems. In order to understand the importance of the appropriate management control system for a company one needs to be familiar with the above mentioned concept. Subsequently, the importance of the contingency theory and its impact on the features of MCS will be discussed. This will lay the foundations for the discussion concerning the application of various solutions and tools in the MCS observed in the examined organizations.



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The final subsections of this chapter are associated with the core issue of this thesis, namely with the comprehensive description of the model based on the traditional annual budgeting and the one inspired by the Beyond Budgeting philosophy. These parts will explain why the former approach is not good enough from the point of view of a contemporary firm and why the companies should introduce the innovative management control system based on the Beyond Budgeting ideas.

## **2.1 MANAGEMENT CONTROL SYSTEMS AND THE CONTINGENCY THEORY**

The concept of management control systems underlies the theory regarding different models of management as well as the notion of budget and Beyond Budgeting. It is salient with respect to the analysis of the MCS practices in the two Norwegian companies that were mentioned at the beginning of this master thesis. The contingency theory, in turn, indicates that the application of the management control systems based on the same concept usually leads to unique design, configurations owing to various contingent variables derived from the context in which a company operates.

Therefore, in order to how and why certain MCS can be observed in organizations and what their functions are, one needs to comprehend the two above mentioned notion i.e. MCS and the contingency theory.

### **2.1.1 THE DEFINITION OF MANAGEMENT CONTROL SYSTEMS**

The notion of management control systems (MCS) does not possess a clear and unified definition in the literature. Various scholars emphasize different features and functions of this concept in their articles and books. Nonetheless, MCS play very important roles in every organization.

Chenhall (2003) highlights in his article that the definition of management control systems developed over time from the initial approach which focused on the provision of information that is financially quantifiable (more formal approach) aimed at helping the managers to make decisions into the one which adopts relatively broad scope of data. The latter embraces customers, non-financial measures associated with production processes, predictive as well as external information connected with markets, decision support mechanisms and various types of controls (e.g. personal or social).

One of the first definitions of the above mentioned notion was proposed by Anthony (1965) in his famous book written in 1960s. He argues that management control can be considered as

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the process that facilitates managers achieving their company's goals by making sure that obtained resources are used efficiently as well as effectively. Such a perspective on MCS has been criticized by a great many scholars mainly due to its accounting-based orientation with respect to monitoring, measuring and planning of activities as well as on account of the fact it separated the management control systems from strategic and operational controls (Langfield-Smith, 1997). Otley (2003), however, emphasizes in his article that Anthony also paid his attention to behavioral sciences (he discerned the importance of social psychology) and argued that it is important to understand how control systems influenced the managers' actions within their companies (nevertheless this type of approach to control systems did not obtain enough attention in the literature of that time).

Flamholtz et al. (1985) defined this concept as process that can influence behavior. Other researchers, in turn, claim that MCS employ certain measures which enable cooperation among organizational units or collectives of individuals. Furthermore, they allow them to channel the efforts of the previously mentioned groups towards a definite bunch of organizational goals, despite the fact that they might share merely partially congruent objectives (Langfield-Smith, 1997).

Kallunki et al. (2011) in their definition of MCS highlight that they should mainly be aimed at monitoring decisions across the firm as well as to lead workers behavior in desirable directions so as to increase the probability that a company will achieve its objectives. They also argue that management control systems can be perceived as a tool that comprises formal as well as informal types of control which facilitates the managers decision-making process. Ouchi (1979) describes the former as a group that includes formal organizational mechanisms plus contractual obligations. They, in turn, might be further divided into the control mechanisms that are associated with outcome of the undertaken activities and into those that are connected with the behavior. The latter, however, are linked to informal systems as well as cultures which have impact on members. They relates to mechanisms that cause self-regulation.

Langfield-Smith (1997) also emphasizes that controls can be categorized in a number of ways. Apart from the above mentioned distinction (i.e. formal vs. informal controls) one may find such divisions as e.g. output and behavior controls, social and administrative controls, clan, market and bureaucracy controls as well as personnel, action and results controls.

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Mundy (2010) argues in her article that MCS possess two roles that are interdependent as well as complementary. They can be employed to allow workers to look for opportunities and solve problems plus to exert control over the achievement of the objectives of an organization.

The above mentioned roles ought to be perceived as the competing ones. As a result, it is necessary to strike a balance between performing the activities that lead to the achievement of a company's goals and providing sufficient autonomy to employees who are supposed to take the most appropriate decisions. Such a balance is achieved by matching challenges faced by a firm and problem-solving abilities that can be obtained. The effective combination of the two above mentioned functions lead to dynamic tensions which contribute to competitive advantages as well as to the achievement of unique organizational capabilities (Mundy, 2010).

Nevertheless, a great many companies face difficulties associated with balancing different roles of management control systems. There are a number of rationales behind such a situation e.g. managers might not be able to determine the optimal balance owing to the fact that they need to make many complex decisions or the balance may depend on distinct organizational as well as institutional features such as professionalism, trust, autonomy, etc. It is also highlighted that managers tend to employ management control systems in a coercive way instead of giving their employees autonomy while making decisions. If such a situation occurs the ability to innovate and seek novelty is weakened. In consequence, the long-run performance improvements might be considerably limited. The opposite situation, namely too broad autonomy can be undesirable in such firms which operate in environments that can be characterized as relatively stable (they need established as well as more effective ways of operating). Last but not the least, if a company is not able to strike a balance between the two roles of MCS it may experience inappropriate allocation of resources, deteriorated performance slower decision-making, etc. (Mundy, 2010).

Chenhall (2003) raise also the issue of contingency-based research with respect to MCS. The author argues that such research is basically aimed at various aspects of management control systems. This approach is perceived as a more conventional one to this matter i.e. the control systems are a passive tool which ought to help managers to make decisions. It is claimed that contingency-based research focuses at different dimensions of the budgeting process e.g. the significance of meeting budgets, links of budgets to the reward systems, variance analysis, budget slack, etc.

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The above mentioned author also highlights the importance of contemporary innovations in management control systems such as ABC/ABM, economic value analysis, non-financial performance measures, balanced scorecards as well as target costing (Chenhall, 2003).

Thus, in spite of the multitude of the definitions that have been formulated mainly due to the changes in the perceptions and functions of the MCS throughout all these years, it can be argued that the concept described in this subsection possesses certain common features and roles that can be observed in every organization. Therefore, it might be claimed that management control links and coordinates two salient roles in a firm i.e. setting targets of a company plus their achievement as well as the controlling functions in the form of various measures carried out with respect to different tasks performed in an enterprise. Hence, it may be concluded that MCS are used in order to monitor, coordinate, give feedback and facilitate planning in every organization. Moreover, the mentioned authors highlight that the above listed functions are conducted using both accounting, formal as well as non-accounting, informal measures.

Finally, Otley (1995) emphasizes that one may find three substantial issues associated with the concept of MCS, which have always intrigued scholars who examined this phenomenon, namely what are the most appropriate performance measures, performance standards and the ways in which the rewards (and/or punishments) ought to be linked with the performance. In accordance with his view- there is no one correct answer. The reason for such a situation is the lack of universality of the MCS concept, which is in fact expressed by the contingency theory that will be described in the following subsection of this chapter (and was briefly mentioned above in Chenhall's definition).

### **2.1.2 THE RELATIONSHIP BETWEEN MANAGEMENT CONTROL SYSTEMS AND THE CONTINGENCY THEORY**

The contingency theory constitutes a vital concept from this master thesis perspective. The way in which it perceives the management control systems explains why certain changes might be observed among the companies that use the same philosophy, in this case the Beyond Budgeting philosophy.

#### **2.1.2.1 THE CONTINGENCY THEORY- BASIC ASSUMPTIONS**

This approach claims that owing to various experiences and surrounding circumstances companies develop different, specifically tailored solutions regarding their MCS which fit their needs in the best possible manner. The unique configurations are also aimed at solving

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the three problems associated with this concept mentioned in the previous subsection. It is argued in accordance with this theory that the notion of management control is not universal and one may not find solely the single most appropriate structure that fits in every environment (Otley, 1995).

The main task of the contingency theory of management accounting is to provide the most appropriate MCS considering the given context (Otley, 1995). As Chenhall (2003) claims, such a management control system will be influenced by a given set of circumstances in which it operates. This approach is defined in the literature as the functionalist perspective. The observed in practice adaptation to the peculiar conditions is caused by a few contingencies. Various authors determine different variables that have an impact on the design of MCS. The most important ones are, however, Otley (1995) and Chenhall (2003).

Otley (1995) introduces the list of five contingencies that influences the design of control systems i.e. environment, technology, size, strategy and effectiveness. Chenhall (2003), in turn, mentions six variables that influence the MCS. Some of them are the same as those presented above, the others differ. They are as follows: the external environment, technology, organizational structure, organizational size, organizational strategy and national culture. In the subsequent sub subsections I will try to describe briefly each of the listed contingent variable in order to show how they influence the control systems in organizations on the basis of the conducted in the literature research. In addition, I will give more attention to one particular issue i.e. the impact of the strategy on the MCS and conversely. So as to describe the relationship between the both mentioned aspects I will scrutinize various sources from the literature. Their number is considerably higher than the ones that are concerned with the other contingencies.

Hence, it can be stated that I decided to particularly emphasize this contingent variable because it appears to be essential from this master thesis perspective as well as owing to the fact that a lot of research that were conducted with respect to this matter.

#### **2.1.2.2 ENVIRONMENT**

I will start the examination of the contingencies from the issue of the impact of the environment (including external environment) on the MCS. Otley (1995) argues that the objective of a MCS is to enable a company to adapt to the surrounding environment that it needs to handle. The influence of the environment on the design of the control system can be exerted by such variables as the intensity of competition on the market, rate of change, the

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number of various product-markets on which a firm operates, structural complexity of an organization or the degree of the environmental turbulence. Each of them has a definite impact on the level of sophistication of the accounting control systems. Furthermore, the author claims that environmental stress, aggressiveness as well as restrictiveness also have a certain influence on the control systems in companies.

Chenhall (2003), in turn, focuses more on the issue of external environment. He claims that the more uncertain the surrounding circumstances are the more externally oriented as well as open the management control systems are. Moreover, in the turbulent and hostile conditions one may observe more formal control mechanisms typically associated with budgets. Finally, the author argues that even if one may observe considerable extent of financial controls in uncertain external conditions, certain emphasis on the interpersonal relations plus flexibility will be put.

### **2.1.2.3 TECHNOLOGY**

Technology is the second contingent variable described by both of the mentioned authors. Otley (1995) rise an issue of the relationship between the production process and the MCS (e.g. the influence of the degree of automation on the formality of the employed budget systems). Chenhall (2003), however perceives technology as hardware, software, materials, knowledge as well as people. On the basis of the studies scrutinized in his article the author distinguishes the three following variables connected with MCS i.e. complexity, task uncertainty plus interdependence. The first factor is basically associated with the matter of the complexity of the production and its impact on the design of control systems. It is claimed that more complexity results in organic and less traditional management control systems. Task uncertainty is concerned with various departments that one might find in the organizations (e.g. production departments, marketing departments, etc.). The more task uncertainty a department possesses the more information inclusive, thus more sophisticated systems are required (MCS are in that case less formal). Finally, interdependence among the functional areas is thought to influence the MCS designs (more interdependency leads to less formal as well as traditional control systems). Chenhall (2003) pays also some attention to some modern technological advances in the management control literature (e.g. JIT or TQM). It is argued that such innovations work in the most desirable manner in the MCS that are less formal and relatively externally focused.

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#### **2.1.2.4 ORGANIZATIONAL SIZE**

The third issue raised by both authors is the size of an organization and its relation to the MCS. Otley (1995) claims that this contingency is a salient variable because it affects the structure and other control functions in a firm. According to the author the gradual growth of a company (particularly the initial phase of the growth) results in organizing it on a functional basis. Further development leads to the organization in semi-autonomous divisions with the dominant role of the accounting measures in the MCS.

Chenhall (2003) emphasizes in his article that the role of size has not been thoroughly examined in the literature. The vast majority of studies were concerned with the large organizations. It is highlighted that the growth of a company leads to more formal MCS. Hence, one may observe in such enterprises mainly administrative rules as well as procedures. The small ones prefer systems that are focused on interpersonal controls. Chenhall (2003) also provides certain indicators of size of an organization. These are for example the number of employees, sales volume, profits or assets. To sum up, it is argued that in large firms, which are more diversified, one might find more formal MCS, more divisional organizational structure and more sophisticated controls.

#### **2.1.2.5 ORGANIZATIONAL STRUCTURE**

The following contingency variable i.e. organizational structure was only explicitly discussed by Chenhall (2003). The author defines this notion in a following way: it is concerned with providing the formal specification of various functions for tasks for groups or for different members in an organization so as to make sure that a company's activities are performed. On the basis of scrutinized papers the author proposes the distinction of the organizational structure into two categories i.e. mechanistic and organic. The former is perceived as having a considerable extent of formalization in the form of certain procedures, rules, decision processes as well as openness of communications. The latter is more flexible, responsive, possessing a few rules and standards. It is also highlighted that some studies discern decentralized and centralized structures or those that can be described as functionally integrated or differentiated. The relationship between MCS and this contingent variable can be summarized in a following manner- large organizations possessing relatively sophisticated technologies that are substantially diversified and decentralized tend to have more formal, traditional management control systems (such as budgets, formal communications). Furthermore, the above mentioned issue of task uncertainty also influences the form of organizational structure. The departments that have higher level of such an uncertainty as well



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as a significant degree of external environment uncertainty (e.g. marketing departments) are associated with relatively open and informal control systems. In addition, such issues as leadership style and team-based structures have also a definite impact on MCS (the latter e.g. leads to comprehensive performance measures as well as participation). Finally, the organizational structures that can be defined as organic are connected with future oriented MCS.

#### **2.1.2.6 STRATEGY**

Another variable described by both authors is strategy. As I mentioned before this contingency is of the essence in this master thesis. In the literature it is emphasized that MCS are influenced by strategy and have an impact on it. Therefore, apart from collecting and using information that are crucial for planning, decision-making as well as evaluation, they assess the performance of various organizational resources i.e. financial, physical, human plus evaluate an organization as a whole taking into account strategies of a company (Kallunki et al., 2011). MCS should support the achievement of strategic goals of a firm by enabling it to compete in the current conditions as well as preparing for the future (Nixon and Burns, 2005).

Chenhall and Langfield-Smith (2003) emphasize that management control systems play a significant role in gathering and using information that helps managers to formulate and implement the desired strategies. According to the authors, the above mentioned systems can be assigned to two groups, namely to those operating within hierarchical structures that might be characterized as formal, rule-based, possessing standardized procedures and to those based on informal relationships where one might observe cooperative personal interactions, which may be described as flexible.

The latter are more suitable for the firms that experience urgent requirements for high degrees of strategic change. Basing their article as well as research on the significance of trust during such a change the above mentioned authors argue that the MCS must be designed in accordance with the latter approach where trust is of the essence (Chenhall and Langfield-Smith, 2003). It seems that this type of change might be assigned to the transformation in a company from the traditional management control system based on annual budgeting into the one inspired by the Beyond Budgeting philosophy.

O'Connor et al. (2011) claim in their article that a company can successfully implement a strategy only if it possesses an appropriately designed management control systems. MCS are suitable if they embrace certain formal, information-based regulations, routines as well as



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protocols that can be employed to align the decisions and behaviors of a firm's workers with the strategic objectives of a company. Such a situation allows employees to take decisions or to fulfill their duties. At the same time it helps to avoid the loss of control that is caused by insufficient monitoring.

Langfield-Smith (1997) in her article highlights that MCS have recently become perceived in the literature as more significant in terms of their role in formation as well as implementation of a company's strategy. Furthermore, increasing number of research within the management control field highlights the importance of examining the experiences of lower level employees regarding strategy of an organization and its changes.

Henri (2006) argues that the literature concerning the relationship between strategy and MCS can be divided into two groups i.e. the line of research that examine the effects of strategy on management control systems and the one that scrutinize the effects of management control systems on strategy. The former perceives strategy as a given, described from a content perspective where the concept of strategy is limited to intended strategy. MCS in that type of research play, in the majority of cases, the role of strategy implementation systems as well as the final stage during the strategic management process. Management control systems are in such situations based on static perspective where the focus is mainly on technical properties and/or design.

The latter approach is relatively less frequently used in the literature and has been scrutinized at different levels. Nonetheless, it is associated with the process perspective method of analysis which broaden the scope of the concept of strategy including emergent strategy. In such research MCS participate in the formulation of strategy plus the continuous influence of management control systems in the strategic management process is recognized as well. Such approach is therefore dynamic, aimed at dialogue and interaction connected with the employment of management control systems (Henri, 2006).

What is more, Otley (1995) argues that majority of the conducted research regarding the relationship between strategy and MCS design focuses on various typologies e.g. cost leadership, differentiation, focus as well as harvest, build, hold, etc. With respect to the issue of strategy he highlights the importance of ensuring the achievements of an organization's goals through the most appropriate control system.

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Chenhall (2003), in turn, focuses mainly on build and harvest as well as prospector strategies. The relationship between MCS and strategy can be described in a following ways. First of all, conservative strategies lead to more formal MCS. Secondly, those that are competitor oriented are connected with broad scope of control system. Furthermore, strategies that can be characterized as entrepreneurial links both formal and informal systems of management control. Eventually, both harvest as well as defender approaches tend to use formal performance measures. Prospector strategies, however, apply rather open and informal MCS.

#### **2.1.2.7 THE ISSUE OF EFFECTIVENESS**

The last contingent variable discussed by Otley (1995) in his work is the issue of effectiveness. It is associated with the matter of the measurement of effectiveness in terms of the most appropriate relation between the MCS design and contextual factors faced in the internal and external environment of a firm. The best measure of the above mentioned relationship between these two is according to the author the objectives of the company. Moreover, he argues that one of the biggest challenges with respect to such an approach is the fact that the effectiveness can also be perceived as a contingent variable. If one assumes that the above stated claim is true then it might be stated that MCS depends highly on the problem of how successful an organization is. Otley (1995) suggests that the firms that are highly successful do not need strict formal controls (mainly because of the surplus in terms of resources) and conversely. Thus, the author claims that also the performance can be perceived as a contingent variable.

#### **2.1.2.8 NATIONAL CULTURE**

The final contingent variable described by Chenhall (2003) was national culture. He emphasizes in his articles that majority of studies focuses on the framework proposed by Hofstede (1984) in his famous article. Nevertheless, Hofstede's approach in itself has been severely criticized by many scholars and may have little relevance from the contingency theory perspective. Despite the discussed disadvantages of this cultural classification, it is argued that national culture can have a certain impact on the design of MCS. Nonetheless, this issue will not be scrutinized in this thesis due to the fact that both examined companies operates in the same country.

#### **2.1.2.9 RECENT EXAMPLES OF STUDIES BASED ON THE CONTINGENCY THEORY**

In the recent years several studies that apply the contingency theory of management accounting were conducted. They were associated with various areas of interest e.g. risk

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management control systems in public sector (Woods, 2008), with performance measurement systems in SMEs and large companies (Taylor and Taylor, 2013) or even with environmental management accounting (Christ and Burritt, 2012). It shows that this theory is still used and provides meaningful findings with respect to a great many aspects of management control.

#### **2.1.2.10 SUMMARY OF THE CONTINGENCY THEORY CONCEPT**

It can be concluded that the contingency theory provides a valuable insight into the explanation of why various tools, solutions and measures might be observed in management control systems based on the same philosophy. Different contingency variables, above all, environment, size, strategy and organizational structure might be perceived as having decisive impact on the design of the MCS in organizations. The examination of their influence appears to be an interesting issue to analyze in the case of the scrutinized control systems in the two Norwegian companies that are the subject of the research in this master thesis.

### **2.2 TRADITIONAL BUDGET BASED MANAGEMENT CONTROL SYSTEM**

**T**raditional model of managing a company's performance is, as it was mentioned in the introduction, based on the annually prepared budgets, which combines in itself three important roles of management accounting models, namely target setting, resource allocation and forecasting. Budgets are still the most important tools for the majority of organizations in the world, despite the reservations that both the academia as well as those who prepare them on an annual basis i.e. practitioners have about this method of a company's management. In this part of the master thesis I will present mainly the concept of the annual budgeting process and the crucial issue of the criticism of budgets which constitute the basis for the discussion about the relevance and usefulness of the Beyond Budgeting philosophy.

#### **2.2.1 BUDGET**

Budgeting is the most important management accounting system in the majority of organizations all over the world. There are a lot of definitions describing what actually the budget is. A great many practitioners, scholars and researchers have perceived it as an essential tool that helps managers to manage their companies properly (Jensen, 2003). Blumentritt (2006) argues that this process comprises the allocation of the financial resources of a company to its units and activities as well as to investments. Horngren et al. (2006) in turn, claims that budget can be viewed indeed as the quantitative expression of a suggested, by management, action plan that is valid for a certain period of time plus as a tool that helps in coordinating what should be done to implement the above mentioned plan. As one can see

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both definitions of this notion claim that the budget can undoubtedly be perceived as a significant and quite comprehensive tool that has a lot of functions in an organization.

Traditional budgeting has, as it was mentioned in the introduction, its roots in 1920s and is based on the multidivisional management control system. In the same period a large number of contemporary used management accounting techniques were developed in order to satisfy the needs of the enterprises (especially those that operated in the manufacturing industry) functioning in the industrialization times (Johnson and Kaplan, 1987). Since then they have been developed and refined plus there have been a great many significant innovations during the last 30 years, such as mentioned at the beginning of this master thesis ABC, BSC or VBM (also Economic value added- EVA). Increased turbulence on the markets as well as complexities of organizations caused considerable difficulties in applying most of the oldest tools to needs of the modern companies. That raised a lot of questions concerning the relevance of the traditional theory, undermining the prevailing paradigm in management accounting (Jones, 2008).

Budgets are constructed mainly to control and plan a company's operational measures as well as set targets for the annual period. They can be characterized as requiring a great deal of effort from the managers and as bureaucratic. On account of their complexity resulting from the fact that budgeting is a highly structured process, it demands a great many multidimensional, planned actions inside a company, giving a financial value to them as well as comparing these actions simultaneously. Budget also entitles the consumption of resources within defined limits. The set amounts should contribute to the appropriate execution of action plans. During the year managers are obliged to compare the actual and "*set in the budget*" results so as to explain reasons why such variances occurred, refine their planning and forecasting methods as well as to adjust operational procedures both inside their own business unit and across the other units. As it is emphasized in the literature this traditional budget contract serves as a major overall coordination and control tool that facilitates the execution of budget plans at the central and the company's major division level (Rickards, 2006). It is also emphasized that it presents only the costs of functions and departments rather than the costs of these kinds of activities that are carried out by people (Johnson, 2005).

Exploratory studies concerning the budgeting practices reveal that traditional model still seems to be essential and that it retains its dominant position as a planning and control tool for different types of organizations (e.g. Abdel-Kader and Luther, 2006; Uyar, 2009, Ekholm and

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Wallin, 2000, Libby and Lindsay 2010, Haldma and Laats 2002, Ahmad et al. 2003, Szychta 2002). Some researchers also emphasize that budgeting practices appear to change at a slow pace (Granlund, 2001), however the others observe some gradual changes (Henttu-Aho and Järvinen, 2013).

In the literature it is highlighted that organizations use budgets in order to conduct a number of activities. They apply them to forecast the future, as an useful instrument that enable companies to maximize their profit, efficient communication tool for the management, as providing performance evaluation, to compute the amount of bonuses, thus to motivate employees. Moreover, they are employed to control their performance by analyzing variances. Budgets are also used as a supportive mechanism for pricing decisions and control (Uyar and Bilgin, 2011).

To sum up, budgets are still widespread used in various organizations across the whole world. They constitute dominant and the most important tool in the management accounting systems. Although the majority of organizations that employs budgeting process perceive significant flaws of it, these companies do not plan to abandon budgets altogether. Conversely, they argue that this management model is valuable for them and is essential concerning mainly the control issues. Instead of radically changing their practice they just want to refine their current model through a number of management accounting innovations. Such an attitude decrease the number of potential Beyond Budgeting cases as well as is opposite to the opinion of the proponents of this concept that suggest abandoning the traditional model altogether.

### **2.2.2 CRITICISM OF BUDGET**

Budgeting issues have probably been the most important matters within the management accounting field for researchers since the second half on the 20<sup>th</sup> century. Various problems with the traditional model of management were observed relatively early by such authors as e.g. Argyris (1952) who found out that budgets may lead to dysfunctional behavior as well as to negative attitudes of different members of an organization if they are not applied properly or by Widavsky (1964) and Harvey and Mills (1970) who perceived the procedures of the allocation of scarce resources as prone to conflict among different parties within a company plus as a political process.

Since then there have been a great many articles and publications regarding the problems with the traditional budget contract. The most radical criticism of budgeting systems emerged in the late 1990s and comes from the proponents of Beyond Budgeting, who perceive these

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systems as fundamentally flawed (Hope and Fraser, 2003) and as “*an unnecessary evil*” (Wallander, 1999). Similar opinions one may also notice among practitioners e.g. Jack Welsh, the former CEO of General Electric once said that “*the budget is the bane of corporate America*”. Bob Lutz, from Chrysler, added in turn that “*the budget is a tool of repression*” (Daum, 2002, p. 33).

#### **2.2.2.1 THE CRITICAL APPROACH TO BUDGETS PRESENTED BY HOPE AND FRASER**

Hope and Fraser as it was mentioned in the introduction suggest that organizations should abandon traditional budgets altogether. They support their claims with rather a comprehensive list of the traditional model flaws. They compare the traditional budgeting mechanisms to the budget contract in which one may observe a peculiar commitment of a subordinate or a team to achieve the mutually agreed target and afterwards enable a supervisor to control and compare the actual results with the previously set outcome. The contract terms might, however, be changed if necessary plus the supervisor has the right to interfere when the situation requires it (Hope and Fraser, 2001).

In one of their early publications they argued that budgets are too internally oriented, not flexible enough, they also pointed out that these systems decrease the level of creativity and innovation within the organization as well as that budgeting practice limits the required, in the new information age, dynamics of companies (Hope and Fraser 1997). In the same year Hope and his brother published a book in which they claimed that it is of the essence to use the so called “*network N-form model*” as a new organizational model which would fit better to the challenges of the previously mentioned new information age (also known as the “*third wave*”) instead of the traditional management control system based on budgets and “*Multidivisional M-form model*” typical of the industrial period (Hope and Hope, 1997).

Nevertheless, it was their (Hope and Fraser) book published in 2003 (mentioned in the introduction) that might be perceived as a main source of budgeting systems criticism. They argue that the whole process associated with the preparation of budgets is very time consuming, very expensive for organizations (hidden costs from the process and organization perspective) and what is equally important adds little value for those who use it. They also claim that budgets are not linked to the surrounding environment and economic information as well as that the traditional budget contract encourages unethical and dysfunctional behavior among employees (Hope and Fraser, 2003). The authors also say that budgets provide poor

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value as well as give the illusion that everything, including external factors can be predicted (Hope and Fraser, 2003).

Budgeting process is indeed time consuming. As different surveys show, it takes on average 4 or 5 months to prepare the budget (Hope and Fraser, 2001). Similar conclusions are drawn with respect to this issue and are presented by Hansen et al. (2003); Ekholm and Wallin (2000); Neely et al. (2003) or Player (2003).

However, the previously mentioned Libby and Lindsay (2010) in their research argue, in turn, that the annual formalized budgeting process takes on average 6 weeks in Canada and 10 weeks in the USA, which is considerably less than the both authors suggests in their publications (Libby and Lindsay measured median in their article). One may claim that the conclusions drawn from their research might not be fully representative on account of the relatively small response rate and sample size. Nonetheless, the results of their survey can undermine to some extent the inferences drawn from articles of the biggest proponents of Beyond Budgeting concerning the time consumption of the budgeting processes.

The budgeting process is also very expensive regarding mainly the opportunity costs (hidden, from a process perspective, costs) and measurable hidden costs from an organization perspective. The former are connected with the above presented discussion regarding the time sacrificed for planning and budgeting process, which according to Player (2003) in 2000 absorbed as much as 20 to 30% of the time of those responsible for preparing this tool. The Beyond Budgeting proponents argue that managers and executives could spend their time on more important and useful, from their company strategy, activities. This time is undoubtedly very costly for these organizations. The latter perspective is associated with the cost efficiency issues. As an example one might give Svenska Handelsbanken, which cost-to-income ratio from 1970s up to 2000s was considerably better than for its competitors that were using budgets (Hope and Fraser, 2001).

Hope and Fraser (2001) also present in their publication six fallacies of the budget contract. The first one is connected with the assumption that fixed financial targets build the profit maximization situation. The authors claim that these targets are totally meaningless, because they try to predict and control irrelevant factors and do not contribute to the ability of an organization to respond quickly enough to new profitable opportunities or situations (Hope and Fraser, 2001).



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As the second fallacy they present the belief that financial incentives build motivation and commitment. As Bogsnes (2009) claims in his book that they are an example of extrinsic motivation, which in turn is artificial and decreases intrinsic motivation which should be the most important driver for those who work in a company. Bonuses, according to the author, change the focus of employees from the job or the task itself to the question what you additionally get for it. He argues that they reduce the value of the job and of the task that is the subject of these financial incentives. Bonuses also reduce the workers interest in their job.

The third and fourth fallacies introduced by the authors are concerned with the assumption that annual budgets and central distribution of resources maximize the market opportunities for a company and cause the optimal efficiency of this process. They argue that because of the budget constraint firms do not follow their strategies, but the annual budget. Furthermore, on account of this budget constraint the front line managers do not seize the opportunities on the market (as Bogsnes (2009) emphasizes- managers need to encourage their employees to seek “*good costs*” that will probably bring additional benefits for a company in the future, and avoid “*bad costs*” that contribute to the decrease in a company’s profit). They just follow the plan agreed in the autumn, last year, ignoring the surrounding events (Hope and Fraser, 2001).

The fifth fallacy is connected with the statement that central coordination brings coherence that can link one budget with another. This assumption is according to the authors fundamentally flawed because it perceives the organization as a machine ignoring the great complexity of human relationships within it (Hope and Fraser, 2001).

Finally, the last fallacy is associated with the belief that financial reports are the only relevant source of information for strategic decision making. The authors argue that such reports contain merely lagging indicators that are only connected with the financial activities of a company. They also point out that such a system assumes mechanical organization as well as linear, one-to-one, relationships (Hope and Fraser, 2001).

#### **2.2.2.2 THE BUDGET CRITICISM: THE ARGUMENTS OF OTHER AUTHORS**

Criticism of budgets is also present in the publications of the other Beyond Budgeting proponents. Neely et al. (2003) divide it into three categories concerning respectively: competitive strategy, business process and organizational capacity. With respect to the first one the authors argue that budgets do not follow the strategy of a company (rather focus on short-term gains), do not create value (they are rather focused on cost reduction) also that they are inflexible, bureaucratic and that constrain creativity of employees. With regard to the



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second category Neely et al. (2003) also notice the same issues as Hope and Fraser, namely that budgets are time consuming and costly to combine that they are usually annual and therefore are not updated frequently enough plus the authors claim that traditional budgeting process cause gaming behavior as well as that it is based on unrealistic assumptions. The final criticism is connected with the fact that budgets are the tools enforcing vertical command and control (lack of trust) and that they do not illustrate the emerging network structures adopted by companies. The authors also emphasize that the traditional management system discourage knowledge sharing as well as cause people to feel undervalued.

Rickards (2006) in turn, focuses mainly on the fact that budgets are not sufficiently strategic oriented, do not take into consideration the turbulence of markets and similarly to the above mentioned authors points out the problem with the dysfunctional behavior of managers in traditional management control system. Johnson (2005) notices additionally that budget contrary to its original purpose, namely to be a financial control mechanism, is also used to set objectives and be the basis of the continuous improvement of the whole organization.

Jensen (2003) however, provides more comprehensive criticism of certain aspects of budgeting process and focuses, in his articles, on the inappropriate application of budgets or targets in compensation as well as performance measurement systems of an organization. He argues that connecting the assessment of employees' performance to a budget or target results in internal gaming regarding the realization of the budgets and targets that cause the decrease in value for companies. Furthermore, it leads to dysfunctional behavior of both superiors and subordinates that lie in the process of budgets' formulation. This, in turn, undermines the required coordination of different activities performed by various parts of the organization based on the budgeting process that consists in obtaining the critical unbiased information. The author claims that budget gaming causes the significant costs for the whole company, which cannot be ignored by managers. However, he does not want to abandon the budget systems. Conversely, Jensen wants to change the way firms pay people for their job, namely to separate the promotion rules as well as compensation formulas from budgets and targets, both for employees and managers.

Finally, it is worth mentioning that some authors perceive the above mentioned drawbacks of traditional budgeting, however they are rather skeptical with respect to Beyond Budgeting as a solution to these problems. Frezatti (2004), one of those skeptics, argues that the biggest issue associated with budgets is not this instrument itself, but the way in which it is used.

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Moreover, he claims that Beyond Budgeting is not the cure for the challenges that a great many companies face in the contemporary world and says that this concept may even cause more disadvantages for an organization (on account of e.g. “excessive flexibility”) than benefits.

To sum up, in the literature one may observe a great deal of criticism of the budgeting process. Various researchers and practitioners emphasize different negative aspects of the traditional model based on budgets which hinder the effective and efficient management of organizations. Both the authors who are the proponents of Beyond Budgeting and those that perceive definite drawbacks of budgets, but do not want to abandon this management accounting tool altogether, undoubtedly agree that certain adjustments in the above mentioned process must be made. Such changes are necessary to improve the performance management as well as to help companies deal with challenges of the contemporary world. The traditional budget contract is definitely not the appropriate tool to use in such turbulent circumstances that one may observe in surrounding environments of firms in almost every industry.

## **2.3 BEYOND BUDGETING**

**B**eyond Budgeting is perceived as the solution to the problems with the traditional model of management based on the annual budgeting process. Some researchers consider this concept as a revolutionary philosophy based on a set of principles that allow organizations to overcome issues associated with the turbulence, a great deal of uncertainty and fast changing environments on various markets. In this part of the second chapter I will present the concept of Beyond Budgeting, management control tools and approaches used in Beyond Budgeting, the process of implementation of Beyond Budgeting as well as Beyond Budgeting cases in the literature.

### **2.3.1 THE CONCEPT OF BEYOND BUDGETING**

The notion of Beyond Budgeting was formulated at the turn of the twenty-first century by the two above mentioned Englishmen, namely Jeremy Hope and Robin Fraser, who combined the inferences drawn from a few significant practical cases into a comprehensive and potentially universal concept known currently as Beyond Budgeting. The alternative model of management, according to their conceptual framework, comprises a number of tools and principals that allow an organization to manage, forecast as well as control its operations without using the annual, fixed budget, typical of the traditional model discussed above.

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### **2.3.1.1 THE FEATURES OF THE BEYOND BUDGETING CONCEPT**

The authors in one of their article (2001) regarding Beyond Budgeting describe this concept as a model that let companies release their employees from the chains of what they call “*the top-down performance contract*” (Hope and Fraser, 2001, p. 5), which in turn restricts their freedom of actions as well as space for their judgment while taking decisions, and enable them to employ the knowledge resources of their company to meet their customers’ needs in a profitable way plus regularly beat their competitors. Furthermore, they argue that the employees are the most important and valuable asset for every organization and that their skills and experience are irreplaceable as well as essential for the future growth of a company. Hence, management ought to use their talents to the highest possible extent by employing the most suitable for such reasons model, which is exactly Beyond Budgeting. Hope and Fraser claim that with the annual budgeting process, employees’ energy and inventiveness is utilized for negotiating the budget contract rather than for creating value for an organization’s stakeholders, mainly for customers and shareholders (Hope and Fraser, 2001).

Hope and Fraser (2000) argue that this model is able to overcome the previously mentioned problems with the traditional management control system and contribute to the creation of a flexible as well as adaptive organization. Beyond Budgeting requires, as it was mentioned before, abandoning the annual budgeting process altogether. However, such a change is not sufficient enough to improve the performance of an organization and to adapt it to the challenges of the contemporary world.

Certain adjustments are also needed with respect to the attitude of the managers towards their employees. In other words, this concept forces the change of the management style in a company from the one based on a assumption that people have to be controlled strictly, because in the absence of such measures they will abuse the funds and be irresponsible while taking decision (lack of trust situation) to the model where the workers are treated as responsible, ambitious and trustworthy individuals (trustful situation). It is claimed the latter attitude can be described as the one that the majority of people have, and should be utilized to the highest possible degree (Hope and Fraser, 2000). Thus, one may say that Beyond Budgeting requires a great many changes in an organization before and during the implementation of this approach.

In order to make such significant changes the top managers in a company need to be convinced that the majority of their employees can be characterized as belonging to the group

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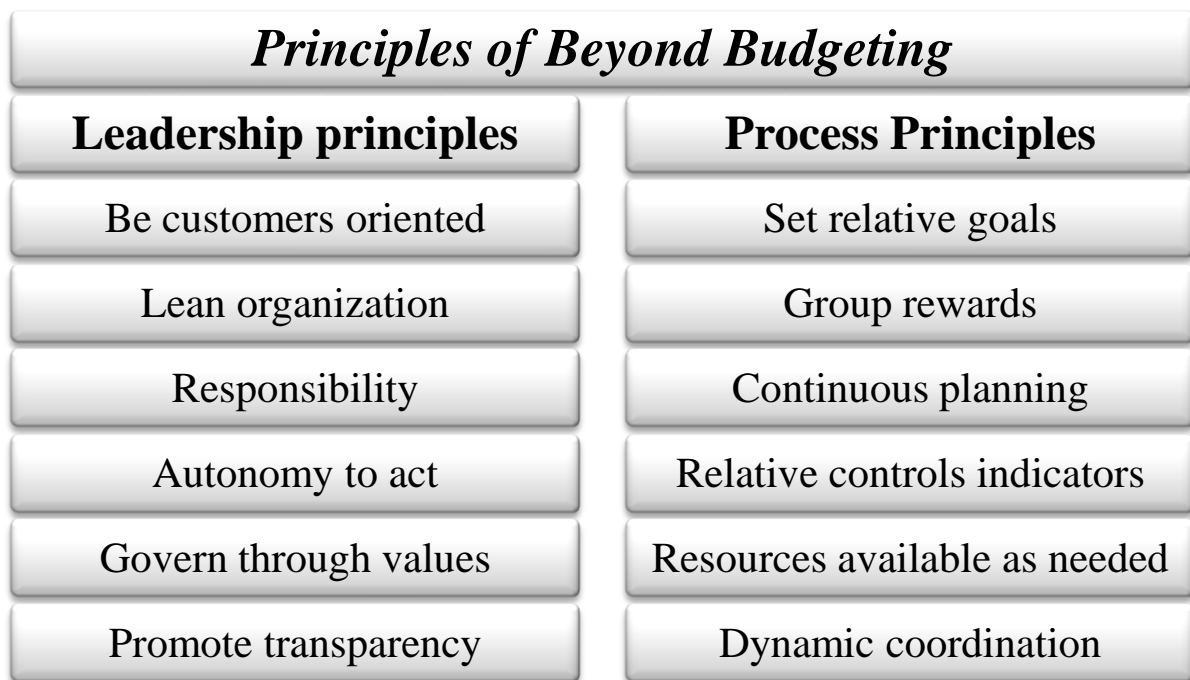
that fits the “*Theory Y*” description. This concept was introduced and developed by D. McGregor in the 1960s. The author divided the attitudes of people into the two groups: the previously mentioned “*Theory Y*” and “*Theory X*”. “*Theory X*” claims that people generally do not like working, taking responsibilities, they have low ambitions. As a result they need to be tightly supervised and controlled. “*Theory Y*” in turn argues that people are ambitious, want to take responsibility, make a positive difference, develop themselves, get involved in what they do etc. (McGregor, 1987). Bogsnes (2009) in his book states that the traditional model based on the annual budget is built on the assumption that people in their majority belong to “*Theory X*”, however Beyond Budgeting classifies people, as it was previously mentioned, to the “*Theory Y*” camp (Bogsnes, 2009).

This step appears to be the most important and critical one from the implementation process point of view, because without the considerable decentralization based on the trust in its employees the organization cannot introduce Beyond Budgeting fully as a model of management.

### **2.3.1.2 THE TWELVE PRINCIPLES OF BEYOND BUDGETING**

A company, which wants to introduce Beyond Budgeting, needs to implement and adhere to the twelve principles that are essential for the successful application of this model of management. In the literature it is emphasized that these principle constitutes a holistic model plus that they are inseparable as well as that they support each other (Bogsnes, 2009). Moreover, merely the full implementation of the twelve principles guarantee that this model will be functioning properly and that it will contribute to the improvement of the organization’s performance. These principles are presented in two equally sized group, namely six of which are concerned with the leadership issue and the other six are associated with the process side of the company’s management. They are presented in the Figure 1.

The twelve principles presented in the Figure 1 seems to provide the holistic model of management that should replace the traditional budget based approach entirely. The proponents of this concept divided themselves in two camps with respect to this issue. For mainly Hope and Fraser the implementation of all this principles is regarded as of the essence, while for the others (e.g. A. de Waal) the complete adherence to all the principles is not that important so as to improve the profitability of a company. Nonetheless, from the theoretical point of view all the twelve principles are perceived as significant and that is the approach that will be used in this master thesis.



**FIGURE 1. TWELVE PRINCIPLES OF BEYOND BUDGETING (BOGSNES, 2009)**

In order to understand how revolutionary and comprehensive this concept is, all of the principles will be briefly described. The six principles on the leadership side are concerned with the change of behavior of managers, employees, decision procedures and organizational hierarchy. The six process principles are aimed at improving the way of managing an organization, both in terms of profitability and control.

The first principle on the leadership side requires a company to **be more customer oriented**. Everyone in the enterprise ought to be focused on improving the customer value as well as satisfaction. In the traditional management control system, however, hierarchical relationships tend to be in the center of interest of all employees. The second principle is connected with the issue of **organizational decision making process**. Beyond Budgeting promotes a lean organization of interrelated, accountable teams whose main purpose is to satisfy the company's clients and attract those who are the most profitable. The key matter here is that they cannot be organized around centralized functions of the organization. The third principle is associated with the problem of **responsibility**. This concept assumes that every employee in the firm should be able to act and think as if he/she was a leader. A company that implemented this concept should not require their workers only to follow the centrally agreed plan. As a result they ought to be more creative and use their skills and experience to the

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highest possible extent. The fourth principle is concerned with the issue of **autonomy**. In this model teams of employees are given the capability as well as freedom to act. The company's management, therefore, should avoid micromanaging these teams, according to this principle. The fifth one requires the organization to employ **a few clear goals, values plus boundaries** so as to govern its actions. Detailed budgets and rules are not desirable, in accordance with the literature. Finally the sixth leadership principle is associated with **transparency** of the firm. Self-management through open information, founded on sound ethical guidelines and considerations, ought to be promoted by the managers. This is an alternative for hierarchical restriction used in the traditional budget based model (Bogsnes, 2009).

The first principle on the process side is connected with procedure of **setting goals** in the company. Beyond Budgeting model requires the firm to set relative based goals and indicators (high-level KPIs e.g. return-on-capital, cost to income ratios, etc.) in order to seek for continuous improvement. The organization should not use fixed performance contracts that are negotiated on the annual basis. The second principle is concerned with the introduction of **rewards** that are based on the shared success of a team in comparison to others or competitors (relative performance). Bonuses in this system are not related to meeting fixed targets that were set in the annual budget. Such an approach reduces the gaming behavior described above. The third process principle is associated with the problem of **planning**. According to the literature it should be continuous and inclusive approach, mainly performed by front-line teams or business units, instead of doing such an activity once a year in a top-down manner. The fourth principle on that side bases **controls** on various relative trends, ratios and indicators. Comparing the planned and actual performance (variances against plan) is not used in this model at all. The fifth principle requires the company's management to use **resources** available when necessary. This is an alternative to the method applied in the traditional model, which assign resources on the basis of annual budget allocations. Last, but not the least, the sixth principle is connected with the issue of **coordination**. It ought to be done dynamically in contrast with the annual planning cycles observed in the budget based model (Bogsnes, 2009).

It can be concluded that the model based on the twelve principles offers the comprehensive and holistic conceptual framework with respect to the new philosophy of managing the organization. It seems to be obvious that the full implementation of Beyond Budgeting is not an easy and standardized task and requires a great deal of effort as well as understanding both from the top management and the employees' side. Undoubtedly, such a process looks

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different in every company mainly with regard to the introduction of the six principles on the leadership side, which the opinion of the author of this master thesis, are heavily dependent on the culture of a company as well as the culture of the industry and country in which the firm operates.

Hope and Fraser (2003) in their famous book argue that abandoning budgets gives the organization two opportunities. They are concerned with the twelve principles described above. The six process principles enable the company to use management processes are more adaptive, the other six contribute to radical decentralization of the firm. The authors emphasize that it is possible to achieve the benefits that come from the introduction of the first set of principles without embracing the latter six, however such a situation is not achievable in the opposite case.

The authors also highlights that all the twelve principles need to be implemented in a coherent manner so as to fully grasp those two previously mentioned opportunities. The fusion of these opportunities results in the emergence of a new model of performance management. Beyond Budgeting allows using information systems as well as tools to the highest possible degree. Full potential might therefore be attained by facilitating the flow of knowledge to those employees that are located in the front-line of the enterprise. In consequence of the radical decentralization and increased responsibility of the ordinary workers a definite attitude from the top of the company is required to make this system work, namely stronger and more determined leadership is of the essence. Hope and Fraser also emphasize that this alternative model is beneficial for stakeholders, especially for the investors and that it strengthens corporate governance. The latter is achieved by providing greater transparency as well as combating the gaming practices which one may observe in a great many contemporary organizations. Furthermore, this model leads to a considerable decrease in costs (Hope and Fraser, 2003).

To sum up, Beyond Budgeting, as the alternative model to the one that is based on the annual budgeting process, seems to be a good solution to the problems associated with the traditional approach to management control systems. It may be perceived as something more than merely the new management control system. It requires the complete change in the way that an organization performs its actions, different attitude of the whole staff plus innovative tools and information systems. Such an innovation may result in a number of challenges for



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everyone inside the company, however one may say that it appears to be necessary in the contemporary world.

### **2.3.2 MANAGEMENT CONTROL TOOLS AND APPROACHES USED IN BEYOND BUDGETING**

Beyond Budgeting is the alternative management control system based on the set of principles that requires certain changes in the way an organization performs its management control activities plus in the attitude of the employees and managers. It uses a number of instruments that one may observe in different models that are associated with the traditional budgeting e.g. Better or Advanced Budgeting, however only applying the above mentioned concept allows the company to use the full power of those tools and link them together in such a way that leads to improvements in profitability as well as it unlocks the performance potential of the firm (Player, 2003). It is worth mentioning that the description presented below is not a complete one and may differ in various organizations. It merely discusses the most important concepts connected with Beyond Budgeting in the opinion of the author of this master thesis.

The most important supportive tools and approaches used in Beyond Budgeting are respectively: Balanced Scorecard, Benchmarking, Activity-Based Costing as well as the Rolling Forecasts. Each of these instruments will be described briefly below.

#### **2.3.2.1 BALANCED SCORECARD**

**Balanced Scorecard (BSC)** was developed and described by Kaplan and Norton in their book written in 1996, titled *“The Balanced Scorecard”*. The main function of this strategic control tool was to solve the issue associated with the application of merely financial measures in accounting systems (Nørreklit, 2003). BSC can even be perceived as a strategic management system which is supposed to clarify and translate strategy into action. As it is highlighted in the literature a company may gain as much as possible from the implementation of this concept only if it align its Balanced Scorecard with its strategy (Braam and Nijssen, 2004). The characteristic feature of this instrument is it provides the organization three additional perspectives apart from the traditional financial one. The other three are as follows: customers, internal business process perspective as well as learning and growth perspective. The four presented perspectives give a holistic view of the company’s strategy as well as its implementation and reflection. Balanced Scorecard, therefore, represents the most important stakeholders for every firm, namely shareholders, customers and eventually employees (Mooraj et al., 1999).



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On account of its characteristics it helps the organization to pay more attention to the various requirements of business processes, customers as well as it contributes to the increased focus on the issue of long term sustainability (Otley, 1999). For each perspective certain Key Performance Indicators need to be identified (e.g. cost-to-income ratio, ROC or free cash flows in the financial perspective, customer complaint handling in the customer perspective etc.) and they are both financial and nonfinancial measures (Chytas et al., 2011).

More thorough discussion regarding the Balance Scorecard and its importance for the Beyond Budgeting is presented in Appendix 5.

### **2.3.2.2 BENCHMARKING**

**Benchmarking** is a method that allows a company to compare its performance with the results of its competitors (Rickards, 2006). This approach constitutes a basis of the concept of relative targets and evaluation problem in Beyond Budgeting. As Bogsnes (2009) notices this idea is not new in the world of business. Nonetheless, it has been used for different purposes (mainly to find the leaders in an industry and “copy” their solutions to the various problems as well as to learn and improve). The author points out that this method should be used to measure and drive the performance, instead of the absolute targets. Furthermore, he claims that companies ought to combine the two above mentioned purposes, because they bring certain synergies and reinforce each other.

The author also highlights that benchmarks are to the high degree a self-regulating system, which use positive peer pressure in order to improve performance. He thinks that benchmarking (basically in the form of league standings) might even remove the presence of targets in an organization. Such a claim is a consequence of competition among teams inside the company that gets the employees to stretch their performance relatively to their peers. However, it is not a “rat race”. Through the introduction of collective bonuses, benchmarking leads to the sharing of knowledge and learning from each other, which in turn contributes to the improved performance of the whole company (Bogsnes, 2009).

Hansen et al. (2003) emphasizes that one may distinguish between internal and external benchmarks. The former are connected with the competition between units inside the company, however the latter are associated with the comparing the performance of the organization with its competitors. As the author notices, this system is transparent for everyone, it increases accuracy, the feeling of fairness in terms of performance evaluations. As a result, motivational issues as well as gaming behaviors are significantly reduced. What is

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more, it is important to evaluate the performance of various teams in the company against targets with hindsight.

One may conclude that benchmarking as a method is essential in Beyond Budgeting, because it contributes to the implementation of one of the process principles of this concept, namely the requirement to set relative objectives. In this context, the league standing approach seems to be the most appropriate one with reference to the requirements of this model.

### **2.3.2.3 ACTIVITY-BASED COSTING**

**Activity-based costing (ABC)** is a method developed and described by Kaplan and Cooper towards the end of the twentieth century (Eden and Ronen, 2002). ABC systems estimate the cost of resources that were used to produce outputs in various organizational processes. The notion of unused capacity (the difference between the cost of resources used and available) is critical in this management accounting tool and basically it contributes to the distinction between traditional as well as ABC systems. Cost information that ABC systems produce allow managers to monitor and predict the trends in future changes in demands for various activities, which are dependent e.g. on changes in output volume as well as its mix, etc. (Cooper and Kaplan, 1992).

ABC systems were used in Borealis, the company which, as one of the first in the world, abandoned traditional annual budgets. In consequence of the implementation of this systems they achieved clearer understanding of the characteristics of their business including considerations concerned with product and customer profitability. It also improved the communication between employees and management (Boesen, 2000).

Thus, on the basis of this practical example one may say that Activity-based costing systems are also an important tool that might be used in the company that implemented Beyond Budgeting to increase the understanding of the way that costs were incurred as well as to contribute to the appropriate management of an organization's resources.

Last but not the least, more detailed description of the functioning of the ABC system is presented in Appendix 5.

### **2.3.2.4 ROLLING FORECASTS**

**Rolling forecasts** are generally speaking a type of modern information systems that generate prognoses on the basis of future oriented data and hence help managers to take forward-looking decisions (Rickards, 2006). According to Bogsnes (2009) all forecasts should be as

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realistic as possible, present our best guess regarding the foreseeable future, the result that we expect regardless of the fact if we like it or not. They ought to predict problems early enough to enable managers to take the appropriate corrective actions. When the author worked in the company mentioned in one of the previous paragraphs, namely Borealis, five-quarter horizon rolling forecasts were used to predict the future course of events. As Bogsnes emphasizes in his book this horizon is considered by many proponents of Beyond Budgeting as a standard in this way of managing the company's performance and argues that forecasting can be perceived as "*accounting on the future*" rather than on past as well as that it is more important for creating value for an organization than accounting (Bogsnes, 2009, p. 135).

The mechanism of the rolling forecasts allows managers to look five quarters ahead. It means that the focus is on the following year plus additionally one quarter. It is a dynamic tool and can be continually updated in contrast with forecasts derived from annual budgets. The mechanism of this system can be illustrated with the following example: on June 30 managers look at the remaining two quarters of the current year and then at the three following quarters of the next year (Horváth and Sauter, 2004).

The biggest benefits of the rolling forecasts are that they allow organizations to take advantage of unpredicted opportunities on the market (Horváth and Sauter, 2004), they are less detailed and therefore may be easily updated, the planning process lasts throughout the whole year, instead of being performed only near the end of the year (usually in autumn), they help managers to maintain their focus on long-term goals and horizon, which reduces the concentration on short-term issues. Finally the rolling forecasts facilitate making fast changes into the plan (Hansen, 2011).

The drawbacks of the rolling forecasts are associated with the costs that they require to prepare the prediction of the future course of events (mainly in terms of increased effort as well as time needed) plus they can lead to a feeling of uncertainty amongst managers owing to the fact that one observes changes constantly as well as they hinder the company from designing a fair compensation system (Hansen, 2011).

Hence, the most important task for any organization is to separate target setting from forecasting and convince employees that forecasts should be as precise as possible, based on objective data and, what is of the essence, that forecasts are not linked to their remuneration or rewards. All of these considerations are addressed in Beyond Budgeting and as one may say the rolling forecasts are one of the key notions in this concept. Furthermore, they

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contribute to the full implementation of this model as well as to the improved adherence of the firm to some of the principles listed above (mainly on the process side).

To sum up, it can be concluded that all of the discussed tools and approaches are undoubtedly relevant for the correct introduction of Beyond Budgeting in any organization. As it was mentioned before, one should not claim that the company has implemented this concept only on the basis of the fact that it uses some or even all of the above mentioned concepts. The crucial thing in this case is the way in which they are employed and their adherence to the whole Beyond Budgeting philosophy, which is guided by the twelve principles presented in the previous subsection.

### **2.3.3 THE PROCESS OF IMPLEMENTATION OF BEYOND BUDGETING**

It has been shown so far that the process of implementation of Beyond Budgeting in the organization is quite challenging and requires a great many changes in various aspects of a company's management. In the literature one may find certain guidelines how one ought to introduce this concept in a firm, however as it was mentioned before, every enterprise may face different problems which make it difficult to suggest that there exists the only one way that is appropriate for everyone and is therefore universal. Basically, there has been some attempts to somehow formalized the implementation process of this concept on the basis of the practical cases, but they should not be perceived as a recipe.

Hope and Fraser (2001) argue that one may basically observe three factors that lead to the implementation of Beyond Budgeting. The "*visionary leader*" constitutes the first driver of the change. There are two types of such a leader. In the first case he/she becomes a member of the firm and brings with him/her a philosophy of change. In the latter case he/she needs to be certain (must be persuaded that Beyond Budgeting is required) that the new model is essential in his/her company that this concept is necessary for their organization to bring about the vision.

The second factor is the "*high-level*" sponsor. These individuals must be convinced that Beyond Budgeting will contribute to a more effective way in which their company can be managed. These sponsors are usually the CEO or can be performed by the cooperation between the CFO and the CEO (the CFO leads the program in this situation). On account of their power in every company they are able to persuade the employees that such changes are necessary and that certain resources and people need to be mobilized to accomplish this journey (Hope and Fraser, 2001).

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The third driver of change, according to the authors, is the “*change advocate*” who has the ability to successfully persuade and influence the most important members in the organization (mainly the CEO and CFO), who in turn have enough legitimacy to convince the employees that the new system is essential and desirable. All the above mentioned factors will not be sufficient enough to implement Beyond Budgeting if “*key influencers*” (functional directors of e.g. finance, sales, IT as well as business unit teams) will not be sure that the new model is of the essence (Hope and Fraser, 2001).

The process of implementation should proceed with three phases, namely in **phase 1** the vision ought to be set out (i.e. prepare a case for the introduction process by deploying sufficient resources, identifying the aims and principles that the model design will be based on as well as the initial level of detail concerned with the twelve principles mentioned above). In **the second phase** the new systems need to be designed and implemented (the CFO is perceived as the leader of the process). **The third phase** can be characterized as the one where one may observe progressive devolution and rollout (during this phase capacity building is achieved through training plus switching people, which might be necessary to make this system work) (Hope and Fraser, 2001).

Hope and Fraser (2003) in their book presents “*The Twin Peaks of Beyond Budgeting*” approach to the implementation of this concept. On the basis of the experience of the firms that implemented this concept they concluded that this process can be divided into the two types of changes that are connected with the implementation of the twelve principles of Beyond Budgeting (first they implemented the six on the process side, then the six associated with the leadership issue).

Thus, it can be concluded that according to this two authors the implementation process is undoubtedly a complicated and challenging issue, which require a great many factors to work together in order to fully adopt Beyond Budgeting in an organization.

De Waal (2005) suggests in his article that the company is advised to check if its employees express the need to change their current traditional model of management into an alternative model before the managers decide to implement Beyond Budgeting in their organization. The author argues that if such a change is needed the firm should estimate amount of effort that is required in order to implement this concept. As the response to this requirement he recommends the Beyond-Budgeting Entry Scan (BBES) as an appropriate, supportive tool to assess the effort needed to introduce Beyond Budgeting in a company.

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It is emphasized that BBES does not constitute a sophisticated analysis tool, however it contributes to the increased discussion regarding the desirability as well as feasibility of the implementation process of this concept. The scan mainly raises three questions concerning the characteristics of a particular company that wants to implement Beyond Budgeting. The first question is associated with the issue of current budgeting practice (if it is not satisfactory, to what extent the firm is prepared for changes). The second one is concerned with the degree to which the company currently works in accordance with the twelve Beyond Budgeting principles. The last question, however, is related to the problem of the necessary preconditions that lead to successful implementation of this concept in the organization (de Waal, 2005).

When it is identified that the company needs changes in terms of the budgeting process the BBES may examine the current situation in the company by raising questions developed for all twelve above mentioned principles. The results of the BBES (in the form of color scheme) give an advice about whether the firm should or should not implement Beyond Budgeting. The author claims that in case of the latter the organization is recommended to improve its traditional annual budgeting process by using one of such methods as Better or Advanced Budgeting (de Waal, 2005).

Hence, it can be concluded that such tools as BBES appear to be helpful concerning the implementation of Beyond Budgeting in every company, nevertheless they cannot replace the managers' own judgment regarding the necessity of changes as well as the matter of individual, diversified challenges and issues that are observed only in a particular organization.

#### **2.3.4 BEYOND BUDGETING CASES IN THE LITERATURE**

In the last subsection of this chapter a few practical cases will be briefly described. As it was mentioned several times in this master thesis the number of companies that have implemented this concept is relatively small in comparison with those which still use annual budgets. Moreover, there are not so many examples presented in the literature regarding the implementation of Beyond Budgeting. Most of them are concerned with the famous cases such as Statoil or Svenska Handelsbanken.

Henttu-Aho and Järvinen (2013) conducted a qualitative study of three companies operating in the paper industry and two firms that represent the steel industry (all five examples come from Finland). The authors did not reveal the names of these companies (they gave them only

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letters from A to E). The common feature of all of those enterprises was that they lately either abandoned traditional annual budgeting process or introduced radical changes into it (they simplified their budgets). They found out, in their article, two approaches to Beyond Budgeting practices as they claim. Companies in the first approach distinguish between forecasting and target setting. The firms that decided to separate these two activities and operate without budgets (the differentiation as a driver for abandoning budgets). In the latter approach one still may observe forecasting and target setting interrelated. The organizations that employ this approach have not abandoned budgets altogether yet, however they are prepared in a simplified form (perhaps these companies are more an example of Better or Advanced Budgeting concepts).

The authors discovered that two companies from the paper industry (A and B) and one from the steel industry (D) separated the rolling forecasts from target setting activities. Nevertheless, even in those organizations some methods typical of traditional model were found e.g. in A costs were controlled using fixed-cost budgeting plus at times the initial version of the rolling forecasts prepared for the upcoming year was treated as a frozen forecast, in B in turn target setting was perceived as a top-down process that contained conversations at some organizational levels. Hence it can be concluded that although the firms implemented Beyond Budgeting tools they have not implemented the entire philosophy of this concept yet (Henttu-Aho and Järvinen, 2013).

Rickards (2006) in his article describes briefly several famous cases of companies that have implemented Beyond Budgeting. The solutions used by majority of these companies regarding the problems with traditional budgeting model constituted the basis for the formulation of this concept by Hope and Fraser. This especially applies to Svenska Handelsbanken which is perceived as the birthplace of Beyond Budgeting. Their model was explained and presented many times by different proponents of this form of managing a company's performance (e.g. Bogsnes, 2009). The basic features of their system comprises flat as well as lean organizational structure, direct communication between employees and top managers, simple controlling system formulated on the basis of some market-oriented KPIs, group bonuses etc.

The other cases showed by the author are as follows: the previously mentioned Borealis (mentioned also by Bogsnes, 2009 in his book) which a few years ago came back to some aspects typical of the traditional budgeting model (Bogsnes, 2009), Unilever which gradually



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implemented Beyond Budgeting a few years ago in its headquarters with an aim to roll out this concept to all of its branches, Rhodia which started using Balanced Scorecard and the rolling forecasts instead of the annual budgets, UBS AG which uses inter alia BSC and benchmarks and finally BASF-IT Services and Deutsche Bahn that among others use the rolling forecasts, monthly updated values in their plan as well as process-based budgeting (Rickards, 2006).

Becker et al. (2010) in their article describe two cases “*PriBa*” (probably the above mentioned UBS AG) a large, global Swiss bank, which abandoned budgets in 2002. This bank after the change of their CEO decided to get rid of the traditional inefficient model based on annual budgeting process and replace it with Beyond Budgeting. Such tools and attitudes as Balanced Scorecard, benchmarking, greater freedom to act for front-line employees, leadership behavior among managers, etc. were introduced. Unfortunately, on account of the losses caused by the last financial crisis the CEO had to resign and, as a result, budgets and actual versus planned comparisons were reintroduced.

The second case described by authors is concerned with an Austrian-based petrochemicals firm named as “*SpecChem*” (probably Borealis). This company implemented Balanced Scorecard, benchmarking, the rolling forecasts and as it was mentioned before Activity-Based Costing. This company came back to budgets at the beginning of 2000s (Becker et al., 2010).

In the literature one may find some articles and books regarding the famous Statoil’s “*Ambition to action*”- new management control process and Telenor’s “*Going Dynamic*” management control system which is based on the concept of Beyond Budgeting.

Østergren and Stensaker (2011) examine in their article how the Beyond Budgeting concept works in practice. This qualitative study describes a company named “*Oilco*” (obviously Statoil) and analyzes the mentioned concept on the basis of agency theory. “*Oilco*” uses “*Ambition to action*” system which supported by “*Oilco*” booklet and set of regulations as well as sound business judgment constitutes the foundation for employees and managers to make appropriate decisions. The model adopted by this company separates resource allocation, target setting and planning. All the actions performed and tools used by the firm are very close to the description of Beyond Budgeting presented in the previous subsections of this master thesis. Therefore, one may conclude on the basis of this article and Bogsnes (2009) that the company basically has implemented the Beyond Budgeting entirely.



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Bourmistrov and Kaarbøe (2013) in their article describe the main characteristics of management control systems based on the Beyond Budgeting philosophy, used in “*OilCo*” (Statoil) and in “*TelCo*” (Telenor). Both companies decided to change models of management on account of *inter alia* the need for more visible as well as dynamic information. The new system enabled e.g. “*TelCo*” to react faster to the requirements of their competitors, facilitate taking necessary action when it is demanded as well as to be more responsive in terms of strategy formulation and implementation.

The authors apart from describing the features of MCS in each company argues that systems based on Beyond Budgeting principles allow companies to move from “*comfort*” zones that are typical of budgets towards “*stretch*” zones and thus improve their management process and as a result companies’ performance. Furthermore, they claim that “*discomfort*” associated with the “*comfort*” zones caused the experimentation process by the organizations with the new management control systems (Bourmistrov and Kaarbøe 2013).

To sum up, one may conclude that in the literature there are not enough case studies concerning Beyond Budgeting as well as the characteristics of its implementation. The cases described are mainly connected with the well known companies that implemented this concept, however with some exceptions (e.g. the article written by Henttu-aho and Jarvinen). It seems that especially practical aspects (various systems in different companies, implementation processes, etc.) of Beyond Budgeting should be examined more thoroughly in the literature in the future.

## **2.4 SUMMARY OF THE CHAPTER**

**I**n the second chapter the most important theoretical concepts, issues, definitions and cases, concerning the notion of management control systems as well as the different methods of performance management that are presented in the literature, were examined. The review is grouped into three categories: the first one is concerned with the management control systems and the contingency theory, the second category describes the dominant management control system based on budgets and its criticism. The last one, in turn, is connected with the concept of Beyond Budgeting and its characteristics and practical implications. The discussed aspects will lay the foundation for the way in which the collected data will be presented and analyzed as well as will enable the author to place the conducted research in the literature regarding the management control systems and performance management models.

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In the next chapter I will discuss the methodology, methods and techniques that were used to collect, analyze and present the research findings.

### **3. METHODOLOGY, METHODS AND TECHNIQUES**

In this chapter of my master thesis I will raise the issues associated with the choice of the data collecting methods as well as how the used methodology, methods and techniques assisted me in analyzing and finding the answers for the previously formulated research questions. Furthermore, the consideration regarding the notions of validity, reliability and generalizability will be brought up.

#### **3.1 THE UNDERLYING PHILOSOPHICAL CONCEPTS OF THE RESEARCH DESIGN**

One of the initial steps of every researcher, who wants to write his/her article, dissertation, report, etc., is to decide upon the methods through which data will be collected and subsequently analyzed. Usually it means that one needs to make a decision whether qualitative or quantitative approach will be applied in a research project. Nonetheless, it is also possible to combine the two above mentioned methodologies. Such an approach may on the one hand compensate the weak sides of one perspective with the strengths of the other, however it also might result in a great many problems regarding the analysis and the efficiency of the usage of both types of studies, mainly due to paradigm incommensurability (Easterby-Smith et al., 2012). Each of the previously presented method possess certain advantages and disadvantages which are exhaustively described in the literature.

Nevertheless, in some cases qualitative methods are more appropriate than the quantitative ones and conversely. Qualitative analysis draws on the assumptions and research designs based on relativism and nominalism (in terms of used ontologies) as well as on social constructionism (in terms of epistemology). Quantitative analysis, in turn, is inspired by the realist ontologies (both realism and internal realism) and by positivism (with reference to the epistemological approach) (Easterby-Smith et al., 2012). The application of each determines, to a significant degree, the information that the research will convey and the way in which it will look like. Owing to the various underlying paradigms such issues as validity, generalizability or authenticity are given different meaning and importance when it comes to the results of the undertaken studies. Moreover, the used methods of data collection and

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analysis and their depth vary significantly in both of the above mentioned approaches. Hence, the choice of the research path is of the essence for every researcher.

In my master thesis I decided to employ qualitative studies which better fit the needs of my research for a number of reasons. First of all, I firmly believe that social constructionism fits better to the requirements of social science. It *inter alia* assumes that “reality”, regardless of how we define it, is not objective and exterior. Conversely, it is argued that “reality” is socially constructed by the people who give it the meaning. Such an attitude leads to the claim that there are many truths (if any) and that the scholars ought to appreciate the existence of different meanings and constructions that are placed by the society upon its experience (Easterby-Smith et al., 2012).

Thus, I think that the research designs based on the above described epistemology provide more accurate and useful insights into the examined reality. Nonetheless, in my research I could not have fully used social constructionist epistemology (e.g. requirement that researcher is a part of what is being observed) mainly due to the limited time of my studies as well as resources. Therefore, one may say that this thesis is placed somewhere between the positivism and constructionism with the aim to be applied as close to the constructionist approach as possible.

Secondly, in my master thesis I decided to use the comparative case studies approach (which I will describe in the subsequent subsections of this chapter) so as to present and analyze my findings. Such a method draws on both of the previously mentioned epistemological perspectives (i.e. positivism and social constructionism), however the application of certain elements and approaches leads to either rather a constructionist or positivist position (Easterby-Smith et al., 2012). In my research I employ such features and instruments that place my findings closer to the constructionist end on the epistemological continuum.

Thirdly, my studies are exploratory and descriptive in nature. It means that usage of such tools as surveys or questionnaires would limit the scope and depth of information that I could obtain and would not lead to deeper understanding of the meanings and constructs that the employees and managers give to certain behaviors as well as practices in the scrutinized companies. Quantitative studies allow the researcher only to “scratch the surface” of the examined issues (Easterby-Smith et al., 2012). Taking into consideration the problem statement and the research questions raised in the first chapter one may say that merely thorough and exhaustive data might result in a comprehensive description of management

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control systems inspired by the Beyond Budgeting philosophy. It also enables the respondents to emphasize or mention the things that they consider as of the essence with respect to the conducted research project. Furthermore, qualitative studies in this case facilitate comparing the Beyond Budgeting solutions in the above mentioned Norwegian firms, find certain links and relations plus perceive the factors that underlie the differences and similarities between the models. Finally, it allows the author to assess the applied systems from the budgeting literature point of view.

In consequence of the discussed consideration I decided to use the data collection and analysis tools that are basically drawn on the constructionist epistemology and help the researcher to gather all the required information, namely semi-structured in-depth interviews (I will come back to them in the subsequent part of this chapter).

Eventually, on account of the fact that generalizability (in the positivist meaning) is not particularly important from this research perspective (I want to get a deeper understanding of the models and management processes and styles as well as meanings that people give to different tools and situations in these two particular companies which are unique to a certain extent in every company) any research design based on the positivist epistemology, which highlights the importance of external validity-generalization of the findings beyond the conducted research project, I find inappropriate in my master thesis. I will explain this issue more thoroughly in the last sub subsection of the third chapter.

Thus, this master thesis is based on the qualitative methods based mainly on the constructionist epistemology and research designs. I decided to apply that kind of approach in order to collect, analyze and present the results of my project in the best possible manner. Any other research design that fits with the purely positivist epistemology and realist ontologies I consider as inappropriate in the context of this thesis.

### **3.2 RESEARCH DESIGN- CASE STUDIES**

**A**s it was emphasized in the previous subsection of this chapter the particular type of constructionist research designs will be used i.e. comparative case studies. In the literature one may find the claims that case studies can be designed both from the positivist and constructionist perspective. It is argued that they may include only a few (including a single case study) or multiple case studies. The former is typical of the research based on the

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social constructionism, the latter, in turn, is drawn on the positivist approach (Easterby-Smith et al., 2012).

In my master thesis I decided to employ the type of case studies that is inspired by the constructionist point of view on case studies. Therefore, I will apply the approach that was proposed by Robert Stake to this type of research design. He argues that sample using this method should not include more than a few cases. Moreover, design of the research ought to be emergent. Such an attitude causes that a rich picture of a company's life as well as behavior is of the essence, however the issue of validity is less important. In addition, this master thesis can be perceived as expressive studies because it is associated with scrutinizing the cases owing to their unique characteristics. They might be (or may not be) generalized to other contexts (Easterby-Smith et al., 2012).

Stake (1995) highlights in his book that the case study constitutes a poor basis for generalization. It however leads to deeper or new understanding of certain features. Furthermore, he argues that the main objective of the case study is particularization as well as the emphasis on uniqueness and interpretation. In general Stake is also a proponent of "within case analysis", however in my research I use both "the cross-case" and "the within case analysis".

### **3.3 UNIT OF ANALYSIS**

**T**he unit of analysis, which constitutes the foundation of any sample, is in this master thesis a management control system. The examined objects (*de facto* sample) comprise two Norwegian firms mentioned in the first chapter i.e. Posten AS and Miles AS. They were chosen on account of several reasons. First of all, they have used/have implemented management control systems based on the Beyond Budgeting concept. The group of firms that have applied this philosophy of management in Norway was the main point of my interest (in accordance with the constructionist approach to the research- "*human interests are the main drivers of science*" (Easterby-Smith et al., 2012, p. 24)). Out of these firms five most interesting cases were selected (with the help of Bjarte Bogsnes opinion). All of them were contacted and asked for the permission to conduct the research.

Secondly, the two above mentioned companies agreed to help me with the research which allowed me to collect all the necessary information (the issue of gaining the access to a company). Thirdly, these enterprises differ significantly between each other in many aspects

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e.g. industry, size, offered products and services, years of the presence on the market, etc. and it, in turn, makes them an interesting subject to examine. Moreover, Posten AS is an organization that have implemented the management control system based on the Beyond Budgeting philosophy relatively recently and still, despite a great many adjustments and efforts, face a lot of challenges regarding its new system. On the contrary Miles AS has never used any budgets or models based on the traditional budgeting practices. Posten AS also has had to handle with a large number of problems and challenges that result from the change from the system based on budgets into the one based on the Beyond Budgeting concept. The transformation process in this firm has not finished yet.

Owing to a great many differences between these two cases one may say that they constitute a splendid source of comparative case studies concerning management control systems inspired by the Beyond Budgeting philosophy.

### **3.4 DATA COLLECTION PROCESS**

**A**s it was mentioned before I decided that in my master thesis qualitative methods of data collection and analysis will be used. In order to gather all the required information, techniques of collecting data through language were mainly applied. Out of all the tools that embrace the above mentioned category one particular method was used, namely semi-structured in-depth interviews. Additionally, the analysis of the firms' documents and presentations was performed. Therefore, one may say that the research was based both on the primary (interviews) as well as secondary data sources (companies' documents and presentations).

#### **3.4.1 SEMI-STRUCTURED, IN-DEPTH INTERVIEWS**

Semi-structured in-depth interviews give a researcher more flexibility, more autonomy in deciding which line of questioning ought to be explored further and which should be abandoned. It is also beneficial to the respondent because he/she might emphasize the aspects that are more important with respect to the examined phenomenon. Such interviews also enable the interviewees to provide more detailed information, be more personal in their replies. Furthermore, they allow the researcher to identify non-verbal clues that can be observed during the interview, scrutinize uncovered new clues, discover new dimensions of an issue, help to understand the meanings and interpretation of the examined subject taking into account the respondent's worldview. The interviewer must possess sufficient skills not

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merely to understand the interviewees but also so as to assist them to explore their individual beliefs (Easterby-Smith et al., 2012).

During the conducted interviews such techniques as laddering and laddering down (the former enables the respondent to gradually reveal value base of the individual, the latter provides the interviewer with the examples and illustrations of the examined phenomenon) as well as probes were used (it aims at improving or sharpening up the responses of the interviewee) (Easterby-Smith et al., 2012). An example of laddering in my research might be the following inquiry: “Do you have any other performance criteria in evaluations apart from that what you have already said?”.

So as to avoid confusion of the interviewee and increase quality of the interview design I decided to formulate the questions in a neutral, understandable, singular manner as well as tried not to use leading questions, jargon, colloquialisms and “yes or no questions”. Such an approach helps the researcher to minimize the possibility to experience mutual misunderstanding, ambiguity and increase the probability of gathering all the required data. The important issue was also to obtain trust of the interviewees, have appropriate social interactions between the two parties (i.e. the interviewee and interviewer) and use suitable language (Easterby-Smith et al., 2012).

In order to collect the necessary data two face-to-face semi-structured in-depth interviews were conducted, one in each examined company. One interview took place in the headquarters of Posten AS in Oslo, the other one was carried out through Skype with the contact person in Miles AS. Both lasted around one hour, were recorded and subsequently transcribed. The interviews were preceded and followed by a number of informal telephone interviews with the contact persons in the firms, whose duration varied from 2-15 minutes (additionally email conversations were performed). In Posten AS the respondent was a group controller who supervises divisions and business units in the organization and reports upwards and downwards. Thus, in the company his position can be characterized as a middle manager. In Miles AS, in turn, mainly due to the size and characteristics of the company the interview was conducted with the CEO of one of the branches- i.e. the CEO of Miles Bergen, who is in fact also the founder and the CEO of the whole enterprise. All the interviews (both formal and informal) were conducted in English, however the email conversations were made both in English and Norwegian.

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Due to the discrepancies in the way in which the examined companies began to use the management control systems based on Beyond Budgeting philosophy different interview questions were asked. Posten AS introduced the above mentioned model a few years ago after it had worked with the systems based on the traditional annual budgeting. Hence, one may say that this corporation still experiences the attitudes and behaviors of the managers and employees that are the result of the previous management control methods and therefore is somewhere at the end of the transformation period. In consequence of it I decided that apart from the core theme of this study, namely to explore, compare and describe the Beyond Budgeting models of the two enterprises I would to get to know how Posten's journey towards the new MCS began and have looked like throughout the last five years (what caused the change, what challenges they have faced, how they dealt with them, etc.). Miles AS, in turn, has never used budgets as the tools to manage the performance. Thus, there I could have focused barely on the model itself and all the additional factors, forces that influence the model and the company's results. Furthermore, in both companies I scrutinized the influence of the environment (e.g. industry, competitors) on their decision regarding the usage of the Beyond Budgeting philosophy of management as well as the history and development of each of the firm.

It is worth mentioning that both interviews provided a great deal of information and covered almost all of the research areas that were subject to the examination in this master thesis (i.e. the characteristics of the Beyond Budgeting models and how they correspond with the ones described in the literature, their elements, the factors that influence the observed differences as well as similarities between the analyzed companies plus the goodness of fit of the models to the needs of the firms). Therefore, it was decided that any additional face-to-face in-depth interviews that requires a lot of time were not essential. As soon as the interviews were transcribed they were sent to the interviewees and they were asked to provide more information regarding certain issues, clarify definite matters as well as to approve the transcribed documents. Both respondents validated the interviews and made some comments, remarks as well as provided the required, additional data. The vast majority of the gather primary data through interviews were used to describe and analyze the examined Beyond Budgeting models. Finally, the subsequent chapters contain the quotation from the conducted interviews.

Hence, one might say that this method of data collection was the most adequate and effective in order to provide the answer for the raised problem statement and the research questions.



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### **3.4.2 DATA COLLECTION THROUGH THE INTERNAL AND EXTERNAL DOCUMENTS**

In addition to the collected through interviews primary data regarding the research topic, also secondary data were used. They comprise companies' internal documents describing the model, presentations as well as the information available on the websites of the examined organizations.

The main purpose of the secondary data usage was to complement the information obtained from the conducted interviews. Such data provided additional perspective of the companies on the phenomenon that is the subject of research. That, in turn, allowed me to use, to a certain degree, the concept of triangulation, which objective is to give a researcher a multiple insights into the examined Norwegian companies.

### **3.5 DATA ANALYSIS**

**T**aking into account the previously mentioned statements concerning the philosophical and methodological choices that form the basis of this research I decided that the data collection process and their subsequent analysis need to be performed in accordance with the constructionist epistemology as well as research design. Therefore, in this and the following chapters I will try to convince the readers that the distinction between the phase of information gathering and its analysis is artificial and in fact should not be drawn. In order to do so, I will employ such a method of data analysis that allows me to make such claims. Furthermore, the purpose of the applied analytical tools is to fully convince all the interested parties that such an analysis method is the most appropriate in this case, provide a clear explanation of used data examination approach plus that this way of transformation of the gathered information leads to meaningful conclusions (Easterby-Smith et al., 2012). In the following paragraphs I will describe how the collected data in this master thesis were analyzed and what method of natural language analysis was employed.

After the initial step of the research, which consisted in the data collection process, the gathered information had been transcribed into written documents and subsequently were sent to the interviewee in order to be validated. Each interview contained a great deal of data. In the following stage I grouped and systematized the transcribed interview texts into different categories. This phase might be perceived as categorizing of information. So as to facilitate the analysis I decided to use a research software called NVivo. At first I set a few headings in which the gathered information can be placed. Nevertheless, the majority of nodes “emerged” from the text while reading.

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I basically applied some categories to every part of the conducted interviews. Some of them were selected once, the other were given several labels. Subsequently, out of the chosen excerpts the appropriate quotations were used. During the selection 25 themes were chosen. They were connected with the elements of management control system typical of Beyond Budgeting concept plus with the 12 principles on the leadership and process sides described in the literature. The categories also included industrial and environmental factors. All of them were relevant from the problem statement and research questions perspectives. The applied software facilitated the categorization process. It also helped to obtain more transparency and order required to perform thorough analysis of the transcribed interviews.

The way in which the data were analyzed corresponds to the approach proposed by the hermeneutics analysis. Hermeneutics is a theory of interpretation and it is used by the scholars who conduct qualitative studies in a constructionist manner. At the beginning of my research I collected the data, then I categorized and analyzed it. While performing the last two phases some issues were raised that required clarification of additional information from the contact persons from the examined companies and it was provided either through phone or email conversations. As it is known from the literature hermeneutics is about finding a common understanding between the researcher, interviewee, the analyzed text and the context of it. Obtaining shared comprehension (through the means of language) one constructs the knowledge. It leads to the situation when it is possible to break out of the hermeneutic circle. The circle allows the scholar to understand the whole by comprehending its parts as well as to grasp the meaning of the parts by analyzing the whole. Therefore, it requires the constant interpretation of the text. It can be thus said that by creating concepts one constructs reality (Patterson and Higgs, 2005).

It should also be emphasized that interpretation (both of the interviewees' words, their own interpretation of the models and the contexts- the issue of double hermeneutics) and understanding play a significant role in hermeneutics. It is argued that the above mentioned process should be active in its nature. Moreover, according to Gadamer the examined text needs to be analyzed in the context (as it was done in this research). It plays a substantial role in the hermeneutic analysis. In addition, the readers have to be aware that there is no one correct interpretation of the examined phenomenon and that the researchers might only find the one that is the closest to the data that were collected, taking into account different concerns, situations, people, etc. that the researcher experience. Finally, the work with the text

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can influence and transform the reader and it enable him/her to become aware of and to test the prejudgments as well as change them if it is required (Packer, 2011).

During and before the analysis I had some prejudgments, preconceptions, pre-understanding and prior knowledge (based e.g. on the literature review that had been made before the data collection began) that constituted inseparable and essential part of this research. Gadamer (1979) highlights that one can never get rid of the preconceptions and one should not do that. Lack of the objective neutrality ought to be therefore appreciated.

Taking into consideration the above discussion one may say that the whole text was thoroughly examined both considering particular parts of the interviews and the whole contexts. Moreover, individual meanings and interpretations given by the interviewees in their statements were also scrutinized.

Finally, the project was conducted at one point of time, mainly due to limited resources and time that were assigned to complete this master thesis. Therefore, any longitudinal research was impossible to be done.

### **3.6. RELIABILITY AND VALIDITY**

The concept of validity in qualitative studies is of a different nature than the one described in the quantitative research. The former is concerned with the notion of truthfulness and certainty of the results of the conducted studies. In other words, the research findings should represent the accurate reflection of the examined phenomenon and such claims ought to be supported by some credible evidences (Guion et al., 2011). Furthermore, the issue of triangulation is also of the essence from the qualitative studies perspective. In addition some scholars emphasize the importance of the following three criteria, namely authenticity, plausibility and criticality which can be perceived as the concepts that embrace the validity as such. Authenticity aims at convincing the reader that a deep comprehension of the examined phenomenon in the organization is possessed by the researcher, plausibility is associated with the requirement to connect the examined subject of the research with the ones discussed by the others in the literature. Eventually, criticality is about encouraging readers to challenge their assumptions regarding the examined phenomenon, hence presenting something novel (Easterby-Smith et al., 2012). Such an approach is typical of constructionist designs.

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The latter, in turn, requires from the researcher to ensure both internal and external validity. The concept of internal validity is connected with the requirement to eliminate any plausible alternative explanations that are associated with the discrepancies observed between the examined groups (control and experimental ones). The external validity is concerned with the issue of generalization of the results from the sample to the population (Easterby-Smith et al., 2012). This type of validity is characteristic of positivist research designs.

Owing to the fact that in this research constructionist designs are used one needs to refer to the definition presented at the beginning of this subsection. Thus, considering the above mentioned I might say that my research is to a certain extent valid. It is based on the credible evidences (interviews and documents from the examined companies). However, the triangulation is not particularly extensive (I collected merely internal documents and interviewed only one contact person in each firm). One might present several rationales that justify such an attitude.

First of all, I did not interview the other people due to limits in terms of the access. That was above all visible in Posten AS. It is a big corporation and any interview must be agreed in advance (e.g. the issue of entry pass to the headquarters). What is more, it is difficult to contact the appropriate, knowledgeable person in the company who is at the same time available, has enough time to be interviewed (e.g. CFO or CEO). In Miles AS on the other hand I conducted the interview with the CEO himself. I could not have carried out an interview with e.g. the employees because they do not know the details of the management control system in their company (they are IT consultants). Secondly, I found that the collected data from the face-to-face and phone interviews was completely sufficient in terms of the requirements raised during the problem statement and the research questions formulation. I gathered a great deal of information which I believe describe the used MCS exhaustively. Finally, as I mentioned before in this chapter, I did not perform longitudinal studies due to time and resources limitations. Furthermore, as it was said before the transcription of interviews had been sent to the interviewees and subsequently approved in terms of the content and form. Hence, one may say that it also increased the validity of my research (true and a fair view of my project). Therefore, I believe that the presented findings are of the sufficient validity as defined above.

Taking into account the three concepts mentioned in the first paragraph of this subsection i.e. authenticity, plausibility and criticality I believe that the previous as well as subsequent

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chapters prove that I possess a deep understanding of the examined phenomenon (authenticity). Moreover, I hope that my research is presented in a convincing manner for the readers and that it is connected with the literature as described in the previous chapter (plausibility) plus that this master thesis introduce something which is genuinely novel (criticality).

With respect to reliability, it can be defined differently depending on the type of studies. In the qualitative, constructionist studies (as this one) it can be defined as stability of findings (Whittemore et al., 2001) or as the similarity of observations that can be obtained by other researchers plus transparency of data collection and interpretation methods (Easterby-Smith et al., 2012). I believe that this research is reliable because of the appropriate choice in terms of information gathering as well as that the data analysis approaches are in accordance with what has been said and presented in this chapter. The author of this thesis argues that the results of these studies should be perceived as stabile and that the other researchers ought to obtain similar findings using similar methods.

The issue of generalizability (external validity) is not of the essence in the constructionist research, however it can be claimed that the description of the models as well as inferences from the studies might have certain relevance to other settings despite the distinctive features of every Beyond Budgeting model and thus form theoretical as well as analytical generalizability of the qualitative studies.

### **3.7 SUMMARY**

**I**n this chapter I described the methodology, methods and techniques that I used in my master thesis. As it was emphasized at the beginning of the section I decided to apply research designs, data collection and analysis methods as well as techniques based on the social constructionist epistemology. It is worth mentioning that I could not have employed the complete, strong constructionist approach due to a number of the above mention limitations. Both usage of case studies, semi-structured in-depth interviews, internal companies' documents and definite data analysis methods and techniques i.e. hermeneutic analysis plus categorizing with the help of NVivo allowed me to obtain sufficient in my opinion validity and reliability of the research.

The subsequent chapter will present the results of my studies.

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## **4. EMPIRICAL FINDINGS**

In this chapter of my master thesis I will present the empirical results of my research. The chapter begins with the comprehensive description of the examined companies and their MCS (I will scrutinize respectively Miles AS and Posten AS). Hence, such issues as history of the firms, the industry and offered products and services, size, the elements that comprise each system as well as parts of their models that are salient in these organizations will be raised. The purpose of it is to give the readers a thorough as well as necessary from this thesis perspective understanding of the scrutinized organizations and their management control systems based on the Beyond Budgeting philosophy. The fourth chapter concludes with the tables that presents the comparison of the examined management control systems.

### **4.1 MANAGEMENT CONTROL SYSTEM IN MILES AS**

The first subsection provides a comprehensive description of the management control systems in Miles AS. Initially, the history, features and contexts of the scrutinized company will be discussed. Subsequently various tools, solutions and mechanisms that have been applied will be described.

#### **4.1.1 HISTORY, FEATURES AND THE CONTEXTS OF THE EXAMINED COMPANY**

Miles AS traces its roots back to the meeting of some experienced consultants in spring 2005 who asked themselves the following question- “Is it possible to build up a new and unique company based on the uncompromised combination of professional skills and warm people?” the answer was “Yes, let’s try”. This meeting was crucial for the company not merely because it led to the establishment of this firm, but it also emphasized what kind of features and desirable values this organization will have. Miles AS started its activities in summer of 2005 in Bergen, second biggest city in Norway. On November 1<sup>st</sup> 2005 a daughter company called Miles Oslo was founded as well (Miles 1, 2014).

Until April 12<sup>th</sup> 2007 the firm’s official name was Miles IT AS, but since then the following names have been used for the two above mentioned companies i.e. Miles AS for the main branch and Miles Oslo AS for the daughter company. It is worth mentioning that for all the practical purposes one common name is used, namely Miles (Miles 1, 2014).

The local branches of Miles one might find in Bergen, Oslo and Stavanger. The first two are the biggest, each of which employs around 40 employees. The last one hires around 10 employees. The vast majority of them works as IT consultants (Miles 1, 2014).

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The company's services are mainly connected with the development of software for the selected customers (both internally and externally). It includes associated services such as project and test management as well (Miles 1, 2014). Among the offered services one might find also system architecture, system development services and consulting services in large companies (they are mainly concerned with the development of larger projects that are based on .Net as well as Java technology) plus other types of consultancy services (preferably long-term), etc. Miles deliver complete projects of systems that are tailor-made to the requirements of the customers. Its clients, in turn, consist of the enterprises operating in such industries as insurance, finance, energy or telecommunication (Miles 2, 2014).

Miles unique features and values have been also noticed by the external observers and institutions. For example, Miles was awarded "Norway's best Workplace 2010"<sup>1</sup> by the Great Place to Work Institute in the category "up to 50 employees". This success was subsequently repeated in 2012 when the firm was awarded the same prize, this time in the category "50 to 250 employees". Then Miles was announced European second best workplace in 2012 (Miles 1, 2014). Thus, one may say that in spite of the fact that this organization is relatively young it has already achieved a huge success and has a very good reputation mainly due to its values as well as excellent knowledge and skills in the IT area.

Furthermore, Miles has enjoyed consistent good financial performance throughout all the years since it was established in 2005. It has additionally built up a solid equity capital in the mentioned period (Miles 3, 2014).

Miles' turnover has increased every year from 4 MNOK in 2005 to 95,5 MNOK in 2011. Similarly operating income (EBIT) has risen from 0,5 MNOK to 18,1 MNOK between 2005 and 2011 (Miles 2, 2014). In 2009 the company fulfilled the requirements to be called a "gasellebedrift"<sup>2</sup> - a prize awarded by Dagens Næringsliv<sup>3</sup> in cooperation with Dun & Bradstreet. Finally, Miles has AAA-rating given by Dun & Bradstreet. It is the highest credit rating that can be achieved (Miles 3, 2014).

Hence, one can see that this firm is a unique case of constantly growing company which is in the same time profitable. It is even more impressive if we take into account that between

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<sup>1</sup> In Norwegian "Norges Beste Arbeidsplass 2010"

<sup>2</sup> A prize awarded to Norwegian companies which have stable financial situation and steady revenue growth over a few years (usually last 4 years)

<sup>3</sup> The biggest Norwegian daily business newspaper

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2008-2010 the peak of the financial crisis was observed both in Europe and in Norway. Miles found itself immune (to a considerable degree) to the surrounding events in the environment.

Miles is owned in 85% by employees and in 15% by one external investor Villamar AS (Miles 2, 2014). Such an ownership structure also makes this firm special in comparison with a great many other organizations. It emphasizes the role and importance of the workers in this company.

Another interesting feature of this organization is that it has not got the traditional hierarchal and controlling management (Miles claims that it is not needed). It is believed that employees in Miles are mature, independent and responsible. Therefore, any hierarchy or strict control is not required. Moreover, the role of the CEO is to be more like a “general servant<sup>4</sup>” instead of the boss (as the word is popularly understood) or to be a manager that helps his colleagues (Miles 4, 2014).

Taking into consideration all what was said above one may argue that Miles is an unique and exceptionally well managed organization. Since it was established in 2005 it has obtained magnificent financial results and growth. Despite the constant growth, the philosophy of management has not changed and still remains as it used to be during its foundation in 2005. It applies also to its management control system- Miles AS has always been using the one based on the Beyond Budgeting philosophy.

#### **4.1.2 THE PRESENCE OF THE TWELVE BEYOND BUDGETING PRINCIPLES IN THE MCS OF MILES AS**

This sub subsection of the empirical chapter will present how the implemented twelve principles of Beyond Budgeting look like in the MCS in Miles AS. I will start the description from the six leadership side principles in Miles AS and subsequently six process side principles in its control system will be discussed.

##### **4.1.2.1 THE PRESENCE OF THE LEADERSHIP PRINCIPLES OF BB CONCEPT IN THE MCS OF MILES AS**

The leadership principles comprise the following aspects: Improved customer outcomes, lean organization, responsibility, autonomy, a few governing values and transparency. The features of each of them in Miles AS management control system are discussed in the subsequent parts

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<sup>4</sup> In Norwegian ”daglig tjener”



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of this sub subsection. The description starts from the first mentioned principle i.e. improved customer outcomes.

#### **4.1.2.1.1 IMPROVED CUSTOMER OUTCOMES**

Miles AS as every company operating in the private sector is customer oriented. The peculiar features of the MCS in the examined company that are aimed at improving the customer outcomes come down to a few dimensions. First of all, it provides more customer oriented delivery models. Secondly, it offers a more competitive pricing through the internationalization of the company. Thirdly, in Miles AS there is the presence of the “Customer promise” and the perception of a successful company is built. Finally, one might observe there the usage of consultants evaluation mechanism performed by the customers. All of the mentioned measures are carried out in order to increase the satisfaction of Miles’ customers. In the following paragraphs I will describe briefly what are the most important characteristics of the presented approaches.

Miles AS has perceived changing trends and requirements that recently took place on the IT consulting market. The customers started requiring not merely the offer that involved the delivery of services by single consultants but also the ability to perform complete development projects tailored for their needs. Miles AS responded to the demand from its clients by introducing two new delivery models.

The first one is called “Projects”. It involves designing entire projects for the organizations from various industries. Despite having sufficient competences to do that (*inter alia* on the basis of the experience from the participation of the consultants in the other companies projects as well as owing to the excellent skills and knowledge of Miles’s employees), the scrutinized company encountered certain problems associated with such an important step—mainly lack of experience in terms of designing the complete projects (it was notwithstanding something relative new for the firm) and the ability to establish a team on a very short notice.

The second delivery model is also aimed at increasing the satisfaction of both new and current customers by offering them a broader range of the services. It is called the “Expert Services”. Hence, such an offer gives Miles the opportunity to target both of the above mentioned groups as well as enables it to provide the services that are in line with the expectation of their clients (including the tailor-made projects). It increases the flexibility and therefore profitability of the whole company and lead to the growth and success. Expert Services consists of different,

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specialized analyses. During my interview I was given the following examples of such services:

*“We can analyze for instance the code quality, the system architecture, the test regime or whatever area where the customer would like to have an external evaluation. These analyses can be done in a couple of weeks or a couple of days depending on the size of the scope”.*

Furthermore, in order to attract potential new clients (including those from other countries than Norway) the firm wants to not only to be famous from its excellent services, but also simultaneously, from the affordable prices. In other words, it would like to combine the quality with the reasonable price so as to grow and increase its revenues. Possessing solely the Norwegian consultants (who are highly paid) limits such an opportunity. Therefore, Miles AS decided to internationalize and establish a daughter company in India. The opening of it is planned in this year (i.e. 2014).

Another dimension that is critical in Miles is the significance of relationships with the customers and consultants. The company perceives it as its competitive advantage and the base of its success. With respect to this issue my interviewee claimed the following:

*“We realized that our success for many years has been based on relations, both with employees and with customers. We are often hiring people that we have known from before or people that one of our employees has been working with.”*

The importance of the customer satisfaction is also visible in other aspects in Miles. The most salient one is the “customer promise”. It is presented in Appendix 2. It aims, *inter alia*, at caring about the clients<sup>5</sup> (we care), sharing Miles’ competence with its customers, contributing to a good working environment, plus that the firm will be updated with respect to new technologies, tools and methods, etc. As the CEO said:

*“Finally, we have a “Customer promise” saying that we “we care” and we have described what it means in practice and what the customer can expect from this promise. “*

Another important aspect aimed at increasing the customer satisfaction in Miles AS is to spread the perception of the successful company among the potential customers through various channels e.g. media or academia. It is important for my interviewee because:

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*“Successful companies or people want to do business with other successful companies or people. No one wants to do business with losers. If you can build a reputation of being successful, I think some doors will open up for you”.*

It gives Miles AS also a competitive advantage in terms of certain issues:

*“We also think that it’s a competitive advantage that we know how to treat competence workers, because our customers do have the same kind of workers and I feel they are very interested in how we do it, what we do to keep these very attractive employees for so many years, what we do in practice”.*

Finally, in order to spread such a perception various methods are used. The unique features of Miles AS were described in the local newspapers in Bergen and Stavanger plus the results of the research conducted by NHH in Bergen led to two publications in local and scientific medias i.e. in Bergens Tidende and Forskning.no<sup>6</sup>.

The last aspect that proves the importance of customers for Miles AS is also expressed by the consultants’ evaluation system. Customers evaluate the consultants giving them score from 1-6. Additionally, the given customers’ feedback informs the examined firm whether a consultant performs and behaves well or not. This system will be more thoroughly described in the following parts of the thesis.

#### **4.1.2.1.2 ORGANIZATIONAL STRUCTURE IN MILES AS**

One may say that the organizational structure in Miles is unique and in order to comprehend it one needs to get to know the features of this company and the way in which Miles is organized. This issue was briefly mentioned at the beginning of this chapter when I described the structure of Miles, however I would like to immerse deeper into this matter.

Miles AS has three offices in Norway: Bergen, Oslo and Stavanger. At the moment, there are 42 people in Bergen, 40 in Oslo and 7 in Stavanger (hence, it can be claimed that Stavanger is somewhat smaller). Those three units are running their own business. These three branches have some projects and customers in common, but from day to day, they are merely three separate businesses. The main company is in Bergen and the daughter companies are in Oslo and Stavanger. Each office consists of the CEO, a sales representative and a competence manager. The rest of the people are consultants except for one common resource within administration, across all the companies, like an administrative secretary. That means that

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<sup>6</sup> Bergens Tidende article: <http://www.bt.no/nyheter/innsikt/Kast-lederne-3083612.html#.Uzvyl7E4XIU>  
Forskning.no article: <http://www.forskning.no/artikler/2014/januar/378621>

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they do not have consultant teams. My interviewee describes the issue of teams' existence in Miles in a following manner:

*“Taking the 38 consultants that I have in Bergen, I have for instance 10 placed at one customer, 4 at another, 3 at a third and so forth. And in addition to that, we have an internal team of 7-8 people that work at a project for an international telecom customer... If I should talk about team, I think the internal project team is the one that is closest to the team structure that you may ask for. The rest of our consultants works at the customer's premises participating in customer driven projects”.*

On the basis of what was discussed above it can be said that one may observe a flat and decentralized structure in Miles AS (one CEO, a few people responsible for administrative issues and sales plus a great many consultants). Furthermore, the CEO of Miles revealed that he does not like the trend towards self-management. He prefers the notion of as he calls it “co-management”.

*“There are some good things about it, but there is one thing that I don't like and that is the “self” thing. It's sounds like “I work alone”, “I am not dependent on others” or “I live my own life within the company”. I don't like that trend or that philosophy. I will rather develop a culture of co-management where everyone in the company perform management or leadership activities. They can participate and take responsibility when or if there is responsibility to be taken. I have also seen this called “strategic self-management” in some articles. Self-management sounds more egocentric in a way. I rather prefer co-management- everyone is a co-manager, everyone participating in managing the company”.*

What is of the essence is the emphasis on the cooperative aspect of management (as the opposition to self-management perspective). The co-management issue is salient for the CEO of Miles and the examples of such an approach will be mainly presented in the two following parts of this sub subsection.

#### **4.1.2.1.3 RESPONSIBILITY AND AUTONOMY IN THE MCS OF MILES AS**

This part of the sub subsection will describe how the principles of responsibility and autonomy look like in the management control system in Miles AS. I decided to combine them together due to their close interrelation and dependency.

First of all, it is worth mentioning that the quotation above raised also an issue connected with the third principle i.e. responsibility. As it was said above in Miles everyone can perform management and leadership activities due to the co-management approach. Furthermore, the CEO mentioned that *“they [employees] can participate and take responsibility if there is responsibility to be taken.* Therefore, it can be argued that one might find a great deal of

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responsibility in this firm. What is more, one may observe the equality among the employees and managers in Miles. The following quotation provides a good example of such a system:

*“Officially, some of us are leaders and some are consultants, but we are at the end just a bunch of people trying to work well together. We have different roles and none of them are more important than others”.*

In accordance with what was emphasized above one may claim that every employee is a participant in the organization (perhaps they can be called leaders as well). The importance of workers is highlighted by the CEO of Miles. They are so significant for the firm because they are the most salient resource of it. Friendly atmosphere and very lean organizational structure (as it was said in the previous part) combined with a lot of responsibility and autonomy leads to such an approach where no one is more important than the other.

Moreover, during the interview several times it was mentioned that autonomy and responsibility plays a substantial role in Miles. The following quotation expresses the attitude of the CEO towards the examined issue:

*“We recruit people that don’t need to be managed every day, people that we know will live our values. We have a kind of profile we are looking for”.*

It shows that people are perceived as the ones who can be trusted and that given the responsibility and autonomy to act. It can also be also supported by the subsequent quotation of the CEO of Miles:

*“Our people are different in many ways, but they still have the same values. Based on this I feel that there is no need for control systems. People actually want to do well. It is a part of our culture”.*

Furthermore, the autonomy and responsibility matter is also dependent in Miles AS on other factors such as the culture of the company.

*“I think that is the way we want our culture to influence everything. It influences how we recruit people, what sort of people we are looking for, how we manage them, if we budget or not budget, if we control them or not- it’s part of the culture that we want to work in every day. Nobody wants a boss hanging over their shoulders all the time. No one likes that”.*

Here also the importance of the appropriate recruitment process was raised. This issue will be more thoroughly examined in the subsequent parts of this subsection.

Finally to show how big the responsibility and autonomy to act is in the examined company I will use the following quotation:

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*“Another example, in our company each employee can choose when to buy a computer, which computer he/she wants to buy, when to buy a mobile, which mobile, which course to take, which seminar to attend in Norway, in the USA or where ever. They decide by themselves”.*

Thus, in Miles AS one may observe an enormous degree responsibility and autonomy, which is balanced by the transparency (see the subsection concerning this principle).

#### **4.1.2.1.4 GOVERNANCE OF THE EMPLOYEES’ BEHAVIOR IN MILES’ MCS**

Miles AS governs the behavior of its employees through a few clear values described as “professional authority and warmth<sup>7</sup>”. It basically consists of the two mentioned values which are, however, thoroughly described by the enterprise. Additionally, any other values and rules that are salient in Miles are emphasized during the peculiar recruitment process and embedded in the firm’s culture, which, in turn, will be thoroughly presented in the subsequent parts of this subsection. The following quotation shows the view of the CEO of the examined organization on that issue.

*“We have a handbook that describes our corporate DNA, for instance that our vision is to make “An outstanding workplace”. We have also described what we mean with “an outstanding workplace”. Then we have “professional authority and warmth” which are our values. We have also described what these mean in practice and how they shall influence our behavior”.*

The comprehensive description of the values of Miles AS is depicted in Figure 2. The basic values in this company are hence, as it was mentioned above, “professional authority” and “warmth”.

Furthermore, as it was mentioned in the quotation Miles AS wants to be perceived as an outstanding workplace. By this phrase they convey the message that the firm should be a place where one might find inspiring and unique culture, openness, trust and respect, considerable level of social responsibility as well as that all is seen and recognized, all take responsibility and exercise leadership and that all contribute to the community-both professionally and socially. This description can also be regarded as a set of values that clarify the desired attitude in the company.

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<sup>7</sup> In Norwegian “faglig autoritet og varme”

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## Mission Statement

### **You live the value of “professional authority” when you:**

- are proficient in your field and your role
- have professional desire and commitment
- share your expertise
- strive for continuous development
- are able to combine business and technology
- are active in professional forums internally and externally



### **You live the value of “warmth” when you :**

- care about your colleagues and customers
- have a positive attitude
- create a good relationship with everyone around you
- contribute with their best to the community

**FIGURE 2. THE BASIC VALUES OF MILES AS (MILES 5, 2014)**

#### **4.1.2.1.5 THE IMPORTANCE OF TRANSPARENCY IN MCS OF MILES AS**

In Miles AS transparency plays a vital role. As it was mentioned before- it is the control mechanism that complements responsibility and autonomy (it is “the other part of that equation”). The following quotation highlights the importance of this principle in the examined company.

*“Every time you make such a decision [e.g. buy a new computer], you also have to put it out on the wiki-based intranet so that everyone can see it. If you buy a new computer, you put the price on it, the model, when you bought it and your name. So if you buy computer every third month, I will be sure that some of your colleagues will notice. My experience is that if you give people the opportunity to take more decisions, they will feel more responsible for the company they are working for. I sometimes mention an example: Why is it so, that in every company that I worked for, I have been the last one to change my PC? Is it because I don’t have a need for a new PC? No it’s possibly because I sit close to the cost. I want that business feeling to reach out to every employee in our company”.*

Thus, one may say that transparency is the peers controlling mechanism. Owing to it any sophisticated control systems are not needed. Full transparency replaces a great many mechanisms, tools and regulations that are present in a large number of firms. It is clear, understandable, simple, efficient and not resource and time consuming. Nevertheless, the other important issue tightly associated with transparency is the notion of trust. However, as my interviewee notices there is a fine line between trust and gullibility.

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*“Yes [our model is based on trust and transparency]! Some may say that we are almost naive. Then I reply “Yes, we may lose something on this policy, but we win a lot more””.*

Hence, one may say that using trust and transparency give the company more benefits than costs.

#### **4.1.2.2 THE PRESENCE OF THE PROCESS PRINCIPLES OF BB CONCEPT IN THE MCS OF MILES AS**

The process principles comprise the following aspects: setting relative goals, rewards based on relative performance, continuous planning, relative based control mechanisms, dynamic allocation and coordination of resources. The features of each of them in Miles’ management control system are discussed in the subsequent parts of this sub subsection. The description starts from the two initially mentioned principles i.e. setting relative goals and rewards system.

##### **4.1.2.2.1 TARGET SETTING METHOD, EVALUATION AND THE REWARDS SYSTEM IN MILES AS**

Targets setting method and their evaluation in Miles AS can be characterized as a very peculiar one. First of all, the company does not use any quantitative targets. They are perceived as unnecessary and it is argued that they do not offer enough quality and efficiency for the examined firm. The question about targets was found interesting by my interviewee:

*“This is an interesting topic. We don’t have quantitative goals. Not the single one”.*

In order to comprehend why Miles AS does not use any quantitative goals and why their target setting and evaluation method is a very characteristic one, it is essential to look more thoroughly at how the remuneration and bonuses of IT consultants in this organization are set. First of all, due to the fact that the majority of the employees in Miles works at the customers’ premises where they participate in customer driven projects there are no actual control routines towards these consultants. The only thing that they report back to the firm is the number of hours worked last month and if they have been absent from work and if so why. This constitutes all the information that is required by Miles AS to invoice their customers correctly.

As a consequence nothing is said about any targets with respect to the issue of how many hours they are going to work. The basic requirement is to work 37,5 hours a week, which in the examined company is called “a standard 37,5 hours week”. Furthermore, they may attend



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conferences or courses, instead of working plus they may have sick leaves or there can be occasionally some overtime. However, Miles AS does not follow that up very much. One of the reasons why this works in a sort of unmanaged way, is that the consultants have about 50% of their salary based on provision from hours invoiced. My interviewee describes the provision mechanism using the following example:

*“If one of our consultants invoices NOK 150 000 a month to the customer, he/she may have a cut of 20%, giving a provision of NOK 30 000 in addition to his/her fixed salary. So if we had only fixed salaries independent of how many hours they invoiced/worked, then I probably would feel more eager to follow up potential “missing” hours. If a consultant is ill, say they are sending me a message like “I don’t feel well today, so I don’t work”. Then I can be certain that this is a wise decision. Because I know the consultant is going to lose some money that day due to staying home. This is the way the system works”.*

On the basis of the quotation above one may argue that this model is a very interesting one. It is very flexible and leaves a great deal of space for the decisions and action for the employees. Basically, it can be claimed that employees set their goals by themselves. It, in turn, leads them to the targets that they think are feasible, achievable, and suitable for them. Hence, the individual judgment of the employees is substantial in such a model. Finally, it is visible that there is hardly any evaluation system of the targets due to their simplicity, transparency and a great deal of autonomy that is delegated to the employees in the described model.

Thus, on the basis of what was said above one may claim that the rewards system is integrated with the targets setting and their evaluation. Furthermore, team bonuses are not used. The CEO of Miles AS explains why:

*“We do not have team bonuses. However, we could have had that on some of the projects that we are running, but coming from a situation where each consultant works on different projects at different customers, they are normally not in a team with others of our employees”.*

#### **4.1.2.2.2 ALLOCATION OF RESOURCES, PLANNING PERSPECTIVE AND COORDINATION METHODS**

In Miles AS the allocation of resources is performed dynamically, not annually. To be more precise, it is done every day, as it is required by the surrounding circumstances, the orders of the customers, etc. Annual planning cycles are thus not used at all in the examined organization. Such a system is the consequence of the requirements, features and the conditions of the industry in which it operates as well as the nature of the offered services. The CEO of Miles gives us a good example of how this process looks like in his company, by the following quotation:

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*“That [allocation of resources] is something that we deal with every day. It is kind of portfolio management. We had a situation just before our interview. We got a message from one of our customers saying that they needed a new project manager. Then we discussed- “Do we have anyone available? Is there anyone of our project managers that will be available soon?” We so discussed possible solutions and we gave our customer the answer. We had to reply to the request that we unfortunately did not have anyone with that competence profile available on short notice”.*

In terms of planning and the coordination of interactions, in Miles AS contracts period varies from six months to three years. Furthermore, the company offers also various kinds of short term services to their customers in order to satisfy their demand. They are less demanding and require less resources, skills and preparation as well as take from couple days to several weeks.

Moreover, one issue is also of the essence for Miles AS with respect to planning i.e. the assessment of costs and expenses associated with salaries of its employees, courses, seminars and other fixed costs such as rent or devices. Nonetheless, the evaluation of the above mentioned amount is done roughly and it is continuously updated.

In addition, Miles AS do not have any budgets. The company applies, however, spreadsheets, which is used for forecast purposes and for calculating the variable part of their salary model. The CEO describes how it is performed in a following manner:

*“We know most of our cost elements for the next months and so forth. We have a rent for the offices, so we know what we are going to pay. These spreadsheets says about consultants and their contracts, how much do we have in house rent, how much do we have in competence seminars and courses, etc. Just roughly, just to know some roughly, but there is no budget. It is a forecast that we update continuously, but it’s not something that we consider as a budget”.*

#### **4.1.2.2.3 THE PRESENCE OF RELATIVE BASED CONTROL MECHANISMS IN MILES’ MANAGEMENT CONTROL SYSTEM**

The CEO of Miles argues that in his company there are few control systems. However, apart from the previously mentioned transparency there are a few other tools in the examined company that are aimed at the evaluation of the employees’ behavior and their actions.

Firstly, in Miles AS a system of customer performed evaluation is applied (briefly discussed at the beginning of the chapter). The thorough explanation of it is presented in the quotation below:

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*“We do a consultant evaluation with the customer. The customer scores the consultant in different areas within a range of 1-6. Thereafter we send it to the consultant to give him/her a feedback on the work he/she performs for the customer. This is a feedback that I otherwise could not give, since my interactions with the consultant mainly are social activities, not directly related to his/her actual work. However, this is not a feedback that is used to compare the consultant with others or that influences on his/her salary”.*

Thus, the customer evaluation approach is used as feedback from the customers to the CEO and it is associated with various areas of the performance. It thus gives the leader the necessary information about the consultant, how he/she behaves, what his/her skills are, and what his /her commitment is, etc. However, such an assessment is not directly connected with the salary and other aspects (it has a certain impact on them because e.g. a very bad performance influences the provisions, which, in turn, comprises, as it was mentioned above about 50% of the salary, etc.). This model is unique to a significant degree in comparison with the other organizations, where various types of evaluation methods and tools (not only with customer) directly and significantly affect *inter alia* the salaries of the employees.

Another tool used in Miles AS that performs certain control functions is a definite form of benchmarking. The CEO of the examined company describes it in a following manner:

*“I am not sure if benchmarking is the right word, but once in a while we find out for instance how many sick leaves we have. Then we compare the number between the different offices. We have an employee satisfactory rating, which we run 3 times a year. That gives us a score. We also have a customer satisfaction rating related to each consultant. This we do once or twice a year. I think that is all we have of KPIs”.*

This form of benchmarking (the interviewee was not however certain whether it is benchmarking or not) is concerned with several issues that are essential in every company. It is important that different ratios such as the number of sick leaves, employee satisfactory ratios, economical parameters, etc. are compared among various offices. It gives the management the necessary and valuable feedback regarding the performance of the firm as well as enable it to find out the reasons why superior results, in comparison with the other offices and enterprises, were achieved and conversely what was the rationale behind e.g. the increased number of sick leaves in Miles in relation to the others, or comparison of Miles Bergen to Miles Oslo etc. Hence, it can be argued that such a tool is a definite form of control mechanisms in the examined company.

Therefore, it can be said that despite the fact that formally Miles AS does not have any (or few) control mechanisms:

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*“I will explain more what I mean about not having control mechanisms. However, we have procedures like as I mentioned previously, for instance consultant evaluation with a customer...”*

But, it uses certain tools that perform this function. It is above all transparency, consumer evaluation system and a definite form of benchmarking.

#### **4.1.3 TECHNICAL ELEMENTS AND CONTEXTUAL FACTORS OF THE MANAGEMENT CONTROL SYSTEM IN MILES AS**

In this subsection of the empirical chapter I will focus on the elements and factors that influence the management control system of Miles AS and how they relate to the tools and circumstances that are described in the Beyond Budgeting literature.

I will start with the presentation of forecasting method in Miles AS. Then such contextual issues as relationship between strategy and the management control system, the influence of the environment on the company, impact of recruitment process and management style on the company will be scrutinized.

In the following chapter I will bring up the matter of the forecasting method in the examined firm.

##### **4.1.3.1 FORECASTING METHOD AND ITS PERSPECTIVE IN MCS OF MILES AS**

In this part of the empirical chapter I will examine the method which Miles AS uses to forecast, to predict the future course of events. The issue of forecasting is closely related to one of the two principles on the process side i.e. planning and coordination, however due to the special features of that tool in Miles AS I decided to discuss it separately as the technicality of the Beyond Budgeting model in this examined organization.

Miles AS has employed a peculiar type of forecasting. It is done by my interviewee (the CEO in Bergen) and the CEOs in Oslo and Stavanger. The quotation below shows how and why it is performed:

*“That is only because we need a spreadsheet to calculate the correct provision every month for each consultant. So what do we put in? We put in expected amount of working hours per month for each consultant and his or her corresponding hourly rate. When we finish the month, we can adjust for actual worked hours and then we have a correct calculation of the provision. These operations are not connected with any targets or used for allocation of resources”.*

Hence, this type of forecasting might be perceived as a simple, understandable and transparent one. Furthermore, as it was mentioned in the previous paragraph the perspective of this

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method of forecasting is different than the one in the rolling forecast approach and in Miles AS is based on the calendar year horizon.

*“I always have forecasts until the end of the year. I look at the calendar year, but I would say it’s more important to do it correctly every month, because that actually influences the salary, each consultant. Hence the forecast is not a very important issue in our company. It’s not like because we don’t have a budget, we are very concerned about the forecast. We always have a feeling how it’s going”.*

#### **4.1.3.2 RELATIONSHIP BETWEEN STRATEGY AND THE MANAGEMENT CONTROL SYSTEM IN MILES AS**

Miles AS is again very peculiar in its approach to the strategy. The CEO of this firm argued that their model is their strategy. In his opinion these two things are so tightly related to each other that are impossible to distinguish.

*“If I say that our model is our strategy, will that put you into trouble?... It is so tightly connected that is hard to distinguish between those two. Because if I go back to our vision to be an outstanding workplace, we have to have a model that actually fulfills that vision. Then we are back to our model. If our strategy is to make sure that we are an outstanding workplace, because we think that leads to satisfied customers and satisfied employees, then we have a very, very tight link between strategy and model. Hence, our model is our strategy and if it does not according to the theory in your books, I can only say that I am used to that”.*

Thus, one may say that strategy and management control system in Miles are so tightly connected that they constitutes a unity. To be more precise, one cannot operate without the other- they complement each other perfectly.

#### **4.1.3.3 THE ENVIRONMENT OF THE COMPANY**

In this part of the third subsection I would like to examine how the environment and its transformations are perceived by Miles AS.

In terms of the industry the CEO of Miles claims that there are not that many changes in the number of competitors on the IT consulting market.

*“I think it is more or less the same if you consider the number of companies. I think it is easier for larger companies to succeed now. But I think it was easier for the smaller companies to succeed when the market was much better in 2005 when we started up. Before the financial crisis, almost everyone could make business. You could start with 3 consultants and be in business immediately because there was a lack of competence in the market. Now the market is more balanced and then it is harder to be small. We are in the middle in terms of size”.*

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With respect to the question regarding the changes in the environment my interviewee confirmed that the market is more unpredictable and turbulent than it used to be even 9 years ago, when Miles AS was established. However, he emphasized the importance of growth of his company throughout all these years. The consequence of it is that despite the increased unpredictability and dynamism of the environment he perceives the risk of his company as lower due to the bigger size that facilitate conducting the business by his firm. In his opinion Miles AS can lose a customer, not because the employees do a bad job, but because various companies decided to get rid of all their external consultants. Currently the examined organization employs around 100 people and has the contracts with 20-30 enterprises.

Finally, with reference to the further issues associated with the changes in its environment Miles AS owing to the fact that it is a consultancy company it claims that most of the changes in the market are good for them because most changes imply that one needs to do different things with the technology or to introduce new technology. The following example illustrates it quite well:

*“One of the projects that we are doing now is to assist DNB in Lithuania to make their systems able to handle the conversion from their local currency to Euro this summer. The Lithuanians has not decided yet whether they are going to do it, but they have to be ready in case they will convert this summer. That is one example of a change, in regulations if you like, that’s directly leads to IT projects, so all the changes that happens in the society normally ends up with IT companies just getting more work to do”.*

Therefore, it can be claimed that Miles AS perceives the changes on the market as the opportunities to be seized.

#### **4.1.3.4 HUMAN RESOURCES AND RECRUITMENT PROCESS IN MILES AS**

As it has been mentioned a couple of times so far recruitment system is of the essence for Miles AS. It is performed in a very thorough and sophisticated manner. Owing to such an approach the management control system that can be observed in the examined firm may work smoothly and efficiently. In order to provide a great deal of autonomy and freedom as well as transparency and trust for your employees one needs to be convinced that the appropriated people were recruited. Such workers have to be able to take responsibility, make reasonable decisions, be trusted, etc.

Thus, the suitable measures in Miles AS need to be made so as to have such people in the organization. The thorough recruitment process involves a lot of work in Miles AS. They do not leave it to the headhunter companies or anyone else. The only task they might have is to

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provide the examined company with suitable candidates. In the recruitment process the role of culture is particularly emphasized.

*“Because we are so concerned about our culture, we spend a lot of time, and talk to a number of referees, to make sure that only the right people are employed. That has perhaps been our most important success factor the first 8-9 year. We recruit people that don’t need to be managed every day, people that we know will live our values. Our people are different in many ways, but they still have the same values”.*

Based on what was said above, Miles’ CEO feels that there is no need for control systems. His employees actually want to perform well. Hence, it can be argued that it constitutes a part of the company’s culture. Moreover, their recruitment process is custom designed to find the people that can actually work in such a culture and that can be given that sort of freedom and responsibility.

Miles AS knows that its most valuable assets are its IT consultants that are skillful, experienced, reasonable, and trustful. Such a profile is the ideal of the Miles’ employee. As it was mentioned above- people are different in the firm, however they possess the same values, common for every individual in the examined company. Thus, it can be argued that the whole management control system is based on thorough recruitment system.

Furthermore, a good example of the importance of the recruitment system is associated with the various social events organized by Miles AS. The firm organizes around 20 social events a year and the CEO needs to make sure that he does not have to keep a close eye on any of his employees. Due to the recruitment of the appropriate employees there is no need of being afraid that someone can behave incorrectly. It is possible because the firm has recruited people that can handle such a freedom.

*“If we go back to the recruiting process and the reference calls that we do, I think there are very few that have been employed without at least ten referees and that’s a lot in our industry. Every referee that I have talked to had been asked several questions regarding the characteristics and the behavior of the candidate. The thorough way that we do the recruitment, is leaving us in the position that we don’t need a lot of control mechanisms. However, if shit happens we take care of it. I like to say that the recruiting process is the birthplace of the culture”.*

Hence, one may say that the recruitment process influence all the aspects in the company both the management control system and every other dimension in Miles AS (e.g. such elements as social arrangements).



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#### 4.1.3.5 LEADERSHIP STYLE IN MILES AS

The last factor of the management control system in Miles AS that will be examined in this sub subsection will be its leadership style. As it was mentioned before the leadership style of this company was a subject to several articles in the local newspapers as well as the research conducted by NHH in Bergen. The company had three researchers from NHH, who were following the managers and employees for three, four months. They interviewed many of Miles' consultants in each office, they were present in interviews with candidates, participated in social activities and interviewed the organization's managers.

According to their research Miles AS can be characterized as having "servant leadership" type of management style. Such a leadership style complies with the management control system inspired by the Beyond Budgeting philosophy. It argues that everyone should cooperate and act as a leader. In this subsection I have already presented a lot of times that this situation can be observed in Miles AS. The CEO describes these findings in a following manner:

*"They [the researchers] concluded that the leadership management philosophy that we aligned most to is something called "Servant Leadership", which actually origin from Greenleaf presented in 1970. That was quite funny because a couple years earlier, I started calling myself "daily servant" instead of "managing director"<sup>8</sup>. This I did to communicate my role in the company, being the one that makes sure that everybody can do their job well, instead of the control part or the management part of the work".*

This quotation splendidly presents the management style in this company. The CEO is not the boss, but is the servant that wants everyone to do their best. Furthermore, one can observe in Miles AS a certain relationship between various elements of the examined MCS. This discussion is partly described by the following quotation:

*"I've made a lot of speeches at seminars over the years, telling about our company, about how we work in practice to build this culture and how we build an outstanding workplace. I think this has been an advantage to us. I think this model allows us to exploit strategic opportunities, because I think that by being an attractive employer, we can attract the best people in the industry. It is my experience that many want to work in such a company, not necessarily in our company, but in a company like ourselves. A working place where they have freedom, where they can influence on major decisions and where they can participate".*

#### 4.2 MANAGEMENT CONTROL SYSTEM IN POSTEN AS

The second subsection of the fourth chapter will raise the issue of the management control system in Posten AS. In this part of my master thesis I will describe firstly the history, features and contexts of this firm. Subsequently all the tools, elements and

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<sup>8</sup> Daglig Leder in Norwegian



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characteristics of the MCS used in this scrutinized firm will be discussed. Here, similarly to the previous subsection I will examine how the twelve Beyond Budgeting principles, technical elements as well as the contextual factors look like in the management control system in the above mentioned organization.

#### **4.2.1 HISTORY, FEATURES AND THE CONTEXTS OF THE EXAMINED COMPANY**

Posten AS is the second examined company in this master thesis. It is one of the oldest Norwegian enterprises. Posten was established in 1647 as Post Service<sup>9</sup> by Hannibal Sehested, the Danish governor in Norway. It became a state owned firm in 1719. Throughout all these years until the contemporary times it has grown and changed its appearance in a great many dimensions e.g. with respect to the offered products and services or countries in which it has operated (during the last few years Posten AS has acquired a large number of companies e.g. in 2011 it bought two Swedish logistics companies, namely Ytrans as well as Intertranspedia) (Posten 1, 2014).

Currently Posten AS can be perceived as a Nordic mail and logistics group which responsibility is to develop as well as deliver comprehensive offer in the area of postal services, logistics and communications. It aims at the local, Norwegian market and broader at the Nordic one as well (Posten 2, 2014).

At present the group (which mainly comprises two brands Posten and Bring) employs more than 20.000 workers. Furthermore, in Norway it possesses more than 1.400 post offices and Post in Shops- points of sale where one may use Posten's products and services. The two above mentioned branches i.e. Posten and Bring target different markets and customers. The former aims at private customers (services through the post office network plus postal distribution that takes place every day and covers the whole Norwegian population). The latter, in turn, directs its attention to business customers (mainly via mail and logistics offer for the whole Nordic area). In order to comprehend how large this company is one may look at the size of the Posten's yearly performed activities e.g. in 2012 Posten delivered 37,3 million parcels and 2.219 million letters (Posten 2, 2014).

Among the products and services offered by Posten one might find letter services (e.g. stamps, Cash on Delivery), parcels (e.g. domestic, abroad parcels, express overnight parcels), banking services and the philatelic service (Posten 3, 2014). Posten also implements different innovations such as Digipost which allows the customers to have a digital access to the mail

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<sup>9</sup> "Postverket" in Norwegian

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box corresponding to the current physical mail box, which can be used for secure communication between private persons as well as private businesses or e-commerce division (Posten 4, 2014). Bring, in turn, is, as it was mentioned above, more directed at the Nordic business market. Apart from courier and express services as well as parcels, it also offers different freight transport solutions, postal services in the Nordic area and abroad, offshore and energy logistics (e.g. transport of special goods, over-dimensioned loads, vessel clearance, etc.), thermo transport, warehousing, e-commerce and supply chain management services (Posten 5, 2014). Thus, one may say that both brands perform enormous and comprehensive range of activities within postal and logistics areas.

The whole group has brought profits throughout the last 10 years with the exception of the year 2008, when Posten AS made a loss of 14 MNOK. The mentioned year was the one when the financial crisis began. It had a significant consequence for the company itself (since this year the government procurements has emerged) and its management control system. As it will be presented later in this chapter Posten implemented the system based on Beyond Budgeting philosophy in 2009 as a result of the environmental turbulences that were the consequence of the crisis. As for 2012 (latest available data) EBIT is equal to 632 MNOK (in comparison with 956 MNOK recorded the year before). In the same period Posten also obtained relatively stable level of operating revenues (around 22.000 MNOK in the period from 2007-2012). In 2012 they were equal to 22.925 MNOK (22.981 MNOK in 2011). It is worth mentioning that the government procurements has had a considerable share in the achieved results (e.g. in 2012 they were equal to 219 MNOK) (Posten 6, 2014).

Furthermore, Posten AS has a state guaranteed monopoly on mailing of letters that are lighter than 50 grams. Nevertheless, the monopoly services do not constitute a large share of the group's income e.g. in 2011 the earnings from the above mentioned services represented 14,5% of the Group's income (in 2012 it was 14,6%) (Posten 6, 2014). All the above discussed findings are presented in Appendix 1.

Posten AS is a state owned joint-stock company<sup>10</sup> (the Norwegian Government owns 100% of the company shares through the Ministry of Transport and Communication<sup>11</sup>). The Minister of that department (Samferdselsministeren) constitutes the general assembly for the group (Posten 7, 2014).

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<sup>10</sup> "Aksjeselskap" in Norwegian

<sup>11</sup> "Samferdselsdepartementet" in Norwegian

With respect to the capital structure of Posten AS as for December 31, 2011 equity capital of this company was equal to 5.517 MNOK. Among the sources of capital one might find such positions as funding through bonds (500 MNOK), private placements in Japan (total 878 MNOK- they have different maturity) or Nordic Investment Bank (loan agreement with five Nordic banks equal to 750 MNOK). Therefore, one may argue that the structure of capital in Posten As is relatively diversified.

The organizational structure in Posten AS is grouped into different divisions in accordance with the products and services they are responsible for. Currently there are four customer related divisions in the company- Post, which is associated with the postal products and services offered in Norway and Sweden, e-commerce, which in turn is responsible for services connected with e-commerce in all Nordic countries, Logistics Norway and Logistics Nordic- both covering the logistics services in Norway and in the Nordic states. The above discussed issue is showed in the Figure 3.



**FIGURE 3. ORGANIZATIONAL STRUCTURE IN POSTEN AS (POSTEN 1, 2013)**

**4.2.2 POSTEN’S JOURNEY TOWARDS THE MCS BASED ON BEYOND BUDGETING CONCEPT**

The company began its journey toward the Beyond Budgeting model in 2009 at the peak of the last financial crisis. The actual story was that managers responsible for preparing budgets went to the board with it in December 2008, just before Christmas and when they came back to work on the new year it did not have any relevance at all, taking into consideration the surrounding circumstances. Such a situation gave corporation the impulse to look for a new management control system that is not that rigid. Subsequently, it was decided that the system

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based on Beyond Budgeting appears to be the most appropriate one for the examined company. In terms of the initiator of the change it was the group CFO. The interviewee describes the beginning of the implementation phase in a following manner:

*“We had a long discussion whether or not we should treat it as a project to implement in the traditional project way. But we decided-“let’s go”, “let’s just do it”. And we found those people around in the organization that were pro, who really wanted this and we were very glad when we did it. Several levels were engaged, not only top management. It was very important to have operations with you. These are the people who work at the business units, geographical sites that know the market and know the local conditions”.*

It is worth mentioning that not only the above mentioned rationales were the only factor that led Posten AS to change its management control system. Interestingly, my interviewee claimed that the former model suited well the postal industry and was quite an efficient one because one could have observed a kind of fixed demand for such services. Nevertheless, that is not the case when you deal with logistics. My interviewee describes logistics as follows:

*“It shifts with the economic growth in the society, have a lot of impact on how things develop. It’s more difficult to predict how market will develop. Our logistics give service of parcels, goods, express, thermo transports, etc. Are budget and logistics contradictory? No, it can’t be proved. And additionally we have enormous portfolio of services all from express to air and sea, and everything is very sensitive or changing in our external environments”.*

Thus, due to the growth of company mainly through the establishment of the logistics section and the more turbulent environment (the issue of environment will be more thoroughly examined in the subsequent parts of this subsection) the need for the system that enables more realistic MCS in the company emerged.

However, it cannot be claimed that mainly due to the expansion into the logistics industry the examined firm was forced to implement the new model. According to my interviewee it would have happened anyway, sooner or later (also on account of such innovations as previously mentioned Digipost).

The process of the implementation of the new MCS took place in two phases. First of all, Posten AS wanted to conduct the change process through the hierarchy. In other words, they did not want to put on any side projects, they did not establish a project to do the transformation. Hence, the departments of economics around in the business units had to implement it in their own organization. Secondly, their department travelled around telling

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people what the point of this whole issue is, why they do it, how they do it. Then the CEO decided to take an action.

*“And after while the top manager came on board and in a way that the other most important ones because that is “no we don’t do this way anymore. We do it in a new fashion”. So it’s a kind of development really. You can say that then it’s on board. It takes some time. We have talked with the others- Statoil and Telenor and Sparebanken and they all confirm that this takes time. You don’t do it overnight. You have to work on it all the time”.*

Current Posten’s management control system can be described as “The Steering Wheel”. The superior element in the model is strategy, which consists of strategic intentions and ambitions as well as the derived from it, strategic goals. In order to achieve them and, in consequence, to fulfill the strategy certain facilitating and control measures need to be implemented. In Posten AS these elements comprises risk management, strategic reviews, rolling forecasting method, business review and strategy process and planning. All of these require suitable controlling measures, communication, values, systems, technology, skills and competences, etc. This model is depicted in Appendix 3.

Some of the above mentioned tools are performed throughout the year, the other are prepared during the defined time of the calendar year and these dates are, in turn, set in advance. In Appendix 4 one may see the accurate preparation dates of these measures. More comprehensive description of each of these approaches will be provided in the subsequent parts of this subsection.

Last but not the least, according to my interviewee in Posten AS at the general level no budget is used, however as he claimed that certain parts of the organization most probably use them.

*“Somewhere in our organization there surely are budgets like.. you know how it is... we are large and it takes time, but the main areas don’t use any budgeting anymore”.*

In the following sub subsection of the forth chapter I will describe the elements, mechanisms and solutions observed in the MCS in Posten AS. In doing so, I will apply the same approach as I employed in the previous subsection of this empirical chapter.

#### **4.2.3 THE PRESENCE OF THE TWELVE BEYOND BUDGETING PRINCIPLES IN THE MCS OF POSTEN AS**

This sub subsection of the empirical chapter will present how the implemented twelve principles of Beyond Budgeting look like in the MCS in Posten AS. I will start the description

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from the six leadership side principles in Posten AS and subsequently six process side principles in its control system will be discussed.

#### **4.2.3.1 THE PRESENCE OF THE LEADERSHIP PRINCIPLES OF BB CONCEPT IN POSTEN'S MCS**

In this part of the empirical chapter I will examine the presence of the six Beyond Budgeting leadership principles in the management control system of Posten AS. It will be performed in the similar manner to the sub subsection regarding the same issue in Miles' management control system.

##### **4.2.3.1.1 IMPROVED CUSTOMER OUTCOMES**

Posten AS is now more market oriented and therefore customer oriented than it used to be before when it managed its performance using budgets. In order to improve the customer outcomes it expanded its offer to the whole Nordic market (to fulfill the requirements of their customers):

*“For instance e-commerce, goods that you trade using the Internet, it's much more complicated to predict, pricing is on the pressure and very many customers wants a total Nordic offer. They just don't want Norwegian or Swedish or Danish or Finnish. They want a supplier that gives them service all over the Nordic area”.*

Offering e-commerce services, Digipost, having the Nordic perspective, etc. enable customers to be more satisfied with the products and services provided by Posten AS. It is a substantial change to the situation that was observed when the budget was used in the company. Moreover, due to changes in the market and the decreasing importance of the revenues from the monopoly on the letters up to 50 gram, such a turn was necessary.

*“What happened was we were a monopoly and our main business was post, mail deliveries. But as you know this decreases heavily year by year. The volume is on a downturn because of the ways of communication, electronic solutions and mails systems”.*

Thus the focus on the customer satisfaction became essential for the examined company in order to perform well and achieve decent profits. Furthermore, the market orientation is also visible in the current model in Posten AS. In comparison with the previous approach the importance of the signals from the market is incomparably higher than it used to be in the past. Such a focus is very clear in the following quotations of my interviewee:

*“But it's very important that the structure is focusing on business. We are focusing on market and business unit. I think it's much more exactly that we make all decisions based on what's sensible in the business way, not in the budget way”.*

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#### **4.2.3.1.2 ORGANIZATIONAL STRUCTURE IN POSTEN AS**

Posten AS possess rather a decentralized, divisional organizational structure where one may find a network of teams. Partly, it was discussed at the beginning of this subsection. In general the scrutinized company has various business units at the bottom of their hierarchy. They consist of a great many different kind of companies or departments that deal with the various kinds of operations in the different geographical locations. Then one may find various divisions (e.g. Post, Logistics Norway, etc.). They are depicted on Figure 3. At the top of the hierarchy there is the CEO of the whole group. Moreover, it is worth mentioning, according to my interviewee that:

*“All the business decisions are down in the different departments. So people down in the hierarchy take the decisions”.*

Thus, on the basis of what was said above it can be claimed that this company has a divisional structure. Furthermore, during the transformation period the organizational structure has been changed several times. My interviewee claimed that:

*“We have changed the structures several times. And one of the reason is to get more focus on the business. Now you have to focus on business unit, you can't have this kind of complicated model e.g. matrixes. You have to have a structure where it's very clear who is deciding”.*

The recent structure is supposed to be the one that should be in effect through a longer period of time.

#### **4.2.3.1.3 RESPONSIBILITY AND AUTONOMY IN THE MCS IN POSTEN AS**

Analogous to the description made during the examination of the presence of these two leadership principles in the management control system in Miles AS in this part of the fourth chapter I will scrutinize the features of responsibility and autonomy together.

In Posten AS one may observe a moderate degree of autonomy and responsibility. It is especially visible with respect to the freedom to act and think as a leader. My interviewee claimed the following thing:

*“You know our new model gets much better way of getting good leaders, because everyone that knows that it's me really. So we have seen a lot of changes and leadership. People that really want to do different things are much more pleased with this way of doing things because they feel they can contribute”.*

Feeling of contribution is thus a key driver of the improved commitment and in consequence performance of the employees. Owing to the visible leadership people at the bottom of the



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hierarchy can act more independently and make more appropriate decisions because they have better feeling of their business than those at the top. As the interviewed middle manager said :

*“Now, this model helps to put your head out as an employee- say “look here there is an opportunity that we should look into or we should use some resources to get it”. Then, they take the decision. In the old system everyone gathered their budget you know, so yeah...”*

However, the autonomy and responsibility in Posten AS is not as extensive as it could be thought. Still a lot of issues is decided on the top level and cascaded down to the lowest levels in the hierarchy. The examples of these are mergers and acquisitions and decision regarding the entrance to a new market. The contact person in Posten AS summed up this matter in a following way:

*“We have our own department that do all these mergers and acquisitions, a department that looks really into it other things as well. But you could say that when a possibility appears there is a process and then looking into the whether or not it fits into the strategy. The model is more flexible. The old system was a very rigid one. You know. It was the budget and it was all the discussion”*

#### **4.2.3.1.4 GOVERNANCE OF THE EMPLOYEES’ BEHAVIOR IN THE MCS OF POSTEN AS**

Posten AS has certain governing documents that regulate every aspect of how the company is managed and this is divided into four levels. My interviewee described them in the following manner:

*“In Posten we do not have a book a la Statoil, but we have something like governing documents, which are divided into four levels of importance. The goal of them is to regulate all the elements concerning the problem of how Posten is managed. These have an impact on the way in which employees should behave”*

First level is connected with the principle documents. This level describes the general guiding principles relating to management, control and code of conduct in the group. In other words, what behavior is desired in Posten and how you should manage and perform control. The second level is concerned with the policies of the group. Here, one has a very general description of how different disciplines should be managed and controlled by the Group. The third level, i.e. corporate action rules, discusses the procedures for how the principle documents and policies of the group should be implemented in Posten AS as well as what requirements for control and monitoring should apply. There could be several guidelines for each policy. Finally, the last level, which is called “the others” indicates requirements in policies, guidelines, regulations, etc. that are not defined as governing documentation.



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Nevertheless, despite the above presented documents Posten AS governs the behavior of its employees mainly by detailed reporting procedures and regulations. They will be described more thoroughly in the subsequent parts of this master thesis (more precisely in the subsection regarding the examination of Beyond Budgeting process side principles in the management control system of Posten AS).

#### **4.2.3.1.5 THE ISSUE OF TRANSPARENCY IN POSTEN AS**

In Posten's management control system the concept of transparency is not of the essence. The company does not promote open information culture and self-management, mainly due to two reasons.

Firstly, the examined firm is not in favor of bottom-up approach as it was mentioned before. Therefore, targets setting process, for instance, is performed in a centralized and hierarchical manner (it partly applies to forecasting as well- these issues will be examined in the subsequent part of this subsection).

*"We are not that in favor of bottom-up things. What I mean by that? In my opinion, bottom-up solutions mean that a lot of resources are used, people at the bottom are detail oriented and there is sandbagging".*

Secondly, Posten AS is rather skeptical toward internal benchmarking and comparison. The position of this organization towards the internal benchmarking was expressed by my interviewee in the following manner:

*"We don't use any internal benchmarking. It's too controversial. You can say that the measuring of productivity on terminals and things like that is a kind of internal benchmarking, but it's not spoken of what in any system at all. Why don't we use it? I think it's because we don't have any tradition of working that way".*

Nevertheless, in the subsequent part of our interview the middle manager of Posten AS revealed also the following issue that in fact results in the restriction of certain available information:

*"Yeah, we have some monitors on some indicators, where we compare, but we don't say it. We are not eager comparing internally. But the question is- are we setting the goals with enough stretch, depends on where you sit".*

Hence, he claims that there are some indicators in the company that are aimed at the comparison of the performance, but they are not revealed to the employees. Their assessment is performed in a hierarchical manner, by the people from the higher level of hierarchy.

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#### **4.2.3.2 THE PRESENCE OF THE PROCESS PRINCIPLES OF BB CONCEPT IN POSTEN'S MCS**

In this part of the presentation of Posten's management control system I will scrutinize the presence of the Beyond Budgeting process side principles in the above mentioned system. I will examine them in an analogous manner to the previously presented case of management control system in Miles AS.

##### **4.2.3.2.1 TARGET SETTING METHOD, EVALUATION AND THE BONUS SYSTEM IN POSTEN AS**

Target setting, evaluation and bonus system in Posten AS plays a significant role in its management control system. What is more, it is perceived as one of the most important issue in the whole company and a great deal of attention is devoted to this matter. It is a big concern of the top managers, the board. Furthermore, a lot of internal documents are written that are concerned with the above mentioned problem.

Targets in Posten AS are set in a hierarchical manner i.e. by the CEO whose decisions are subsequently confirmed by the Board at the Board meeting in December each year. The targets are set for a period of 12 months of the following year. The goal should not be changed during the period unless it is explicitly accepted by the CEO and the Board (Posten 2, 2013). It is also the CEO who assesses performance of the employees and the firm. The following quotation depicts the discussed system:

*"It's the CEO and the board who assesses the goals and set them. They assess it through a process, where they go through lots of indicators and see where was that on the strategy and where is the sensible level. Then you of course have an enormous discussion-is this the right level? But we have said, "well, when the CEO have decided and board have decided- end of the discussion". There is no point in going round and say that you have a target that is not appropriate. So the board is the decision maker and so is the CEO. When the CEO has decided, everything must be done in that way".*

The targets are based on the derived from the Balanced Scorecard KPIs which in turn are concerned with the five areas i.e. (health, environmental, quality, customer and financial side). Furthermore, targets need to fit the strategy and the long term plan. My interviewee describes this process in a following manner:

*"Yeah. You can say we follow the wheel. The cycle of the year. And the KPIs, for instance, are implemented throughout the organization, it's connected with the leader reviews and we call it "plus*

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*conversations<sup>12</sup>”, which is a kind of performance appraisal. So the system with the KPIs, performances is cascaded through all the system elements and our own tool in HR that is used to keep track on everything. The name of it is OEBS (Oracle E-Business Suite)”.*

Hence, it means that every leader throughout the organization is in this system and they are measured according to their KPIs. Moreover, every KPI is set in a hierarchic manner. In Posten AS this process basically starts with the CEO and then it goes down.

Furthermore, target setting method has previously been a source of confusion in Posten AS. The above mentioned goals comprises the goals of each business unit, division, etc. and the group as a whole. The purpose of the target for the Posten AS as a whole is to determine the group’s ambitions for EBIT result for the next calendar year. The main driver behind the level of this objective is the owner’s established requirements for the return on equity (to be more precise- the rate of Return on Equity- ROE), which currently is 9% after tax. It does not mean that equity returns each year must be 9%, but it requires the group to be able to achieve this return over time. This indicates that there is a certain room to maneuver with respect to the determination of the target year by year, but it does not mean on the other hand that the goal can merely be a prediction of the forecasting. Nevertheless, all the objectives should contain a certain (and agreed) level of ambition and thus some “stretch” (Posten 2, 2013).

Partly the ambiguity is created as a result of the fact that a clear distinction between what the objective is and what a prognosis is, is not established. While the forecast ought to estimate the actual outcome in the period on the basis of the best assessment, targets should indicate the desired result for the coming period (year) based on various assessed factors. The aim needs to reflect the ambition and direction of the adopted strategy, and is supposed to be determined as the result of an assessment of what needs to be achieved in a calendar year in order to realize the strategic and economic objectives set for the strategy period. This performance requirement should be considered and assessed in relation to the requirement for ROE, business status and the evaluated business related conditions. If there is a discrepancy between this year's objectives and planned progression in the strategic plan, it should be discussed and clarified via Strategic Review (Posten 2, 2013).

Moreover, the target is thus not a budget. The goal should be linked to and rooted in an action plan, but it may well be that not all the measures that are necessary to achieve the goal, are clarified at the point where the target is determined. One of the challenges in the target setting

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<sup>12</sup> Pluss-samtale in Norwegian

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process is to balance the required ambition level with a realistic assessment of what is feasible considering the achievable effects on the profit from the measures. Thus, one may say that is the recommended goal-setting process (Posten 2, 2013).

The risk of not achieving the year's objectives, respective targets for the strategy period, should be described and evaluated in the risk analysis. Here it is also considered whether Posten AS has enough tools and measures (in readiness) to handle the defined risks- in order to be able to combat and prevent the negative effects (Posten 2, 2013).

The issue of evaluation of the targets is also vital in Posten AS. It is performed by a great many tools and mechanisms. One of these is a frequent reporting (once a month). I will come back to the issue of reporting during the examination of the process principle associated with the control methods. My interviewee describes the evaluation approach in a following manner:

*“Yeah, it’s very systematic approach. This is a process, it takes some time to adapt, but today everyone has two measures a year, every employee. So it really fits into the model that you are evaluated twice a year, how your performance is and that fits really well into our model”.*

With respect to the issue of reporting, the target for the year is monitored through previously mentioned monthly reports by comparing them with the latest Best Estimate (BE) for the year. It is argued that in this way Posten AS will always have a continuous focus on the outcome of the period and not merely on the specific month's result. The company does not accrue the year objective per month. The purpose of it is to avoid the situation where the attention is pulled away from the need to look ahead and it also helps Posten to focus how a gap between the target and BE can be closed in the best possible manner (Posten 2, 2013).

Another issue tightly connected with the target setting, the performance evaluation (also with the control measures) is the presence of Balanced Scorecard and mainly quantitative KPIs in the management control system of Posten AS. The most important are the strategic KPIs, which are established for the strategy period (2014-2016). Nevertheless, they are revised every year in December to ensure that the respective KPI remains relevant in content, form and level (Posten 2, 2013).

Furthermore, the divisions' and the financial officers' KPI-map is determined for a 12-month period, but several of KPIs will most probably be the same year after year. The specific target level for each Strategy KPI is decided in the first management meeting in December. The

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specific target for each KPI for the division is determined by the CEO in Business Review which is conducted in November every year (Posten 2, 2013).

The divisions must determine their schedule to prepare and decide KPI-map for each financial officer and unit, but these should be ready by the end of January so that it can create consistency with the determination of individual performance targets and KPIs for employees (Posten 2, 2013).

My interviewee perceives that the advantage of this system is that one can look all the time at how far he/she is from their achievements as well as that one can, in a way, monitor how far away an employee is from the goal. In the old system the deviation was explain all the time. Hence, when it came to November employees suddenly realized that they are not able to reach their target. Furthermore, it is much easier to spot the early warnings, it is much easier to pick up problems, especially when the forecasts are to deviate a lot. For example, the current system gives Posten AS early warning of businesses that do not perform. The interviewee compare such a situation with the previous budget based control system where it was difficult to know whether workers perform badly or is it something wrong with the budget. The new system provides, in his opinion, more realistic perspective of the surrounding environment for the management.

*“I feel that the management here is much more the alert when it comes to “are we in line of our targets or not?”. So if you look at all the reporting from our side, it’s more and more concentrated on “are we able to achieve our goals or not?”. And if you look at the business reviews, they are nearly not focused on accounting at all anymore. They are focused on those KPIs areas- are we achieving our sickness goals, are we achieving our pollution goals. So in my experience there has been enormous change in the attitude, because I remember say 5 years ago we reported traditional monthly report, budget, accounting, deviation. The classical way of doing it”.*

The interviewee argues also that it is beneficial to try to keep the discussion of target away from forecasts and that the new MCS requires the employees and managers to look at the strategy as well as at the long term plan. Then one can set the target that fits. However:

*“If you are too short, if you have too short terms to discuss the target you are in difficulties at once, because then you look at the history more than what you are going to achieve. The model is more forward looking, absolutely”.*

Hence, it means that now Posten AS is more KPIs oriented. It seems that the right KPIs are of the essence for the company. Nevertheless, such an attitude involves, as it was showed a great many mechanisms and reports.

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It is known so far that Posten AS does not use internal benchmarking. In my interview I found out that external benchmarking is performed in the examined company, however its impact on the targets is difficult to assess.

*“We use benchmarking with respect to the major competitors and we all monitor competitors, customers and we also look into the international groups to look for specific changes and the market competition. But we try to have the Nordic view on things, because that’s our main area. So it’s DSV, Schenker, DHLpost and Nord logistics. These are big competitors, really. So we look at them all the time”.*

As it was written above in this subsection I will examine also the way in which bonuses in Posten AS are set. Currently, it is a combination of group and individual bonuses. They are a mixture of various financial and non-financial KPIs and a mixture of group targets and local targets. Nevertheless, according to my interviewee opinion the biggest problem is the latter. He thinks that it does not really fit the new model and it is claimed the rewards system is Posten’s last fight.

*“What we need to change? Basically individual bonuses. We have lost our faith in the individual bonuses to be honest, that’s our view. Because it invites you to a tactical behavior like combined forecasting and target setting. You always want to deliver better, but that doesn’t mean that you perform your best. But you know this is a complicated area, because this is the top management then this is the CEO’s consideration. So you know...”.*

#### **4.2.3.2.2 ALLOCATION OF RESOURCES, PLANNING PERSPECTIVE AND COORDINATION METHODS IN POSTEN AS**

This part of the empirical chapter will raise an issue of the presence of three process side principles i.e. continuous planning, dynamic coordination and flexible allocation of resources in the management control system of Posten AS. I decided to combine the analysis of these principles together on the basis of the analogous reasons as in the previous subsection regarding the examination of the Miles’ model.

The new model is described by my interviewee as more flexible and dynamic in terms of coordination of interactions as well as allocation of resources. A few times in our interview this issue was raised. The old model based on the annual budgeting process is perceived as rigid and limiting the appropriate decisions that should be taken by the employees and managers. They are concerned with the opportunities on the market and various activities affecting the profit that ought to be thoroughly considered.

*“The model is more flexible, has the dynamic or the perception of what has happened in the market, with competitors and everything like that. The old system was a very rigid one. You know. It was the budget and it was all the discussion. We felt like that it was the time to get something more dynamic”.*

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Furthermore, before the implementation of the new system Posten AS had conducted an internal survey which revealed that employees were very dissatisfied with budgeting and they felt that there was a lot of work with no gain. In addition, due to the fact that the group has bought a lot of companies and has become bigger and bigger it needed a more dynamic internal model. My interviewee summarized that in the current allocation of resources approach employees are much more aware if an opportunity fits or not in the business. There was a period when Posten AS bought basically everything without having investigation whether or not it suits their portfolio, etc. Moreover, he also admitted that when in November an opportunity appeared it was rarely used, unless there was enough money to spend in the budget. The new management control system possesses the following features according to interviewed Posten's middle manager.

*“It is more efficient, less resource consuming. More resources in the economic department do other kind of value added work. That's no doubt. In the old system it used to be like that: 80% number crushing and 20% analytic, it must be opposite”.*

Hence, it can be argued that the current, flexible model enable the company to decrease the resource consumption as well as allow to dedicate the saved time to more value added activities. Now the employees are more market oriented and when the appropriate and profitable opportunity appears, no matter whether in March or November, they use it.

Furthermore, planning is a salient issue in Posten AS as well. It is performed in various ways and is connected in the examined firm with the forecasting, strategy and a few other review documents that will be described in the following part of this subsection. The following quotation describes roughly how the planning look like in Posten AS.

*“You could say that life, the big picture is that the life in the company follows the cycles, everything we do have been changed to adapt to this, the big model. So everyone has to adapt their own processes so it fits into the time when the group does things”.*

Hence, as one can see planning in Posten AS is dependent on the different cycles. They are presented in Appendix 4 and the majority of the instruments depicted there will be thoroughly described in the subsequent part of this subsection.

My interviewee also emphasized in our discussion that it was very difficult to convince people to abandon the year thinking in planning which is tightly connected with the perspective used in the financial accounting and taxation system. In accordance with his opinion such an attitude does not have any sense in planning at all. He calls it “the year end

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wall” because it means that it is difficult to get the organization to have its mind on things over the year end perspective. Additionally, employees provided the economic department with a great deal of information which in the dominant part were irrelevant from the planning perspective or was little concerned with the market conditions. They did it because they were so used to giving an enormous amount of internal information and a little amount of the market one and what comes with it (this is a typical feature of budgeting based MCS in his opinion).

Moreover, important tools in Posten’s planning are so called Action plans. They are tightly connected with the other reports prepared in the company and are associated with the strategy and the management control system (especially with the Strategic Review). It is claimed that each completed Strategic Review process should be concluded with the preparation of a consistent and periodic action plan for each year of the strategy period. The action plan ought to document the activities to be undertaken, timetable for the implementation, necessary prerequisites for implementation and aimed effects on earnings. The financial assumptions and earnings effects are aimed at serving as input to the annual prognosis for next year. The action plans should hence constitute the specific link between the long-term goals and plans and the short-term operation and improvement efforts (Posten 2, 2013).

The action plans are recommended to be renewed and rolled annually. The start of work on the renewing of next year's action plans takes place at Strategic Review in the respective divisional management team in May/June and ought to be completed by the end of September (Posten 2, 2013).

The renewed/revised action plans are reviewed and discussed in SR in the units’ management team by the end of October each year (Posten 2, 2013).

Thus, one may say that planning is a comprehensive and quite a complicated process in Posten AS. It has experienced a great many changes and improvements (e.g. attempts to get rid of year thinking in planning) and currently consists of various tools, mechanisms and procedures that are aimed at the most efficient allocation of resources in the examined company.



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#### **4.2.3.2.3 THE PRESENCE OF RELATIVE BASED CONTROL MECHANISMS IN POSTEN'S MCS**

The last examined process side principle in the management control system of Posten AS is the presence of relative based control tools and mechanisms in the examined firm. The issue of control approaches is relatively complicated and performed in a great many forms in this company.

In Posten AS control systems are basically based on a lot of reports regarding various issues. They are associated with the following aspects: risk management, Strategic Review, Business Review, Mini-Business Review, monthly reports and the market analysis. All of these are associated with the different areas of company's operation and their control. I will start my description with the risk management approach.

The first examined control tool is the method of risk management in Posten AS. It is conducted twice a year and consists of an aggregated and comprehensive assessment of the Group's risk, which is submitted to the Executive Board. The risk analysis identifies the group's risks of strategic, financial, operational and reputational nature, and is followed up with measures to manage and control the individual risk factors (Posten 2, 2013).

Furthermore, in 2014 the risk analysis will be presented to the Board respectively in June and December. The purpose of it is to enable risk assessments to be closer and better connected to the forecasting process and to the time for completion of the Business Reviews. Posten AS will probably reconsider the form and process of risk analysis during the first half of 2014 to make this even more targeted and clear, while reducing the amount of the related to it duplication, monthly reports, BR and SR (Posten 2, 2013).

One of the most important tools of control is Strategic Review (SR). As the name indicates it is tightly associated with the issue of strategy, its implementation and development. In Posten AS strategic development is monitored *inter alia* through the implementation of common for the whole group and/or business -specific strategic processes, determination and measurement of strategic KPIs and through Strategic Reviews (SR) for each division. The purpose of SR is to control the development, and any possible change of the strategic assumptions, follow up the company's ability to conduct determined strategic initiatives, observe the realization of the strategic objectives and agreed necessary measures and/or operating discrepancies. SR is conducted every six months by a review of selected strategic themes during the meeting of the group's management i.e. one review for the divisional management meeting, where the main

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focus is on the examination of strategic objectives and risks, action plans and management capacity for the implementation (Posten 2, 2013).

Thus, one can say that Strategic Review is a powerful and essential control mechanism in Posten AS. It is associated with and influences all the aspects of the management control system including the above mentioned strategic KPIs. Eventually, it is conducted every six months.

Another vital control mechanism is Business Review (BR). BR is the main meeting place outside the management meetings where all elements of “The Steering Wheel” are brought together. The purpose of BR is to achieve a clear and common understanding of the current business situation of the divisions as well as to discuss the main issues that are or will appear on the agenda for the forthcoming period. This is a review from the corporate perspective, meaning that the agenda is mainly a combination of regular reporting and assessment points. The agenda is determined by Posten AS after consultation with the respective division. The regular agenda points consist of the following elements: follow-up points from the previous BR, KPI-map, HSE report, Monthly reports (including the latest Best Estimate in relation to determined company’s target), and Action plans. Also forecasts became one of the discussed matters (Posten 2, 2013).

BR, and especially the review of the above mentioned issues, forms a critical link between the actual operational performance and the strategic plan. While SR focuses on the positioning-related and longer-term aspects of the strategic plan, including the need to update and possibly revise it, the BR is most concerned with the actual implementation of the strategic plan in a shorter (up to 12 months) perspective (Posten 2, 2013).

Ideally, the times of BR are determined by the main points of strategy formulation, the action plans and the implementation of the SR as well as by the deliveries of forecasts and LTP (Long term planning, which will be described in the subsequent parts of this subsection) to the board. Efforts to improve “The Steering Wheel” in 2014 will include, according to the company, an assessment of how Posten AS can coordinate and optimize these processes in a better way - both at the group level and lower levels of the organization (Posten 2, 2013).

Thus, it can be claimed that Business Review is one of the most important control tools in Posten AS. Together with the Strategic Review they control the direction in which the company is heading.

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Other minor reports and approaches that are used in Posten AS to perform the control measures are Mini-BR, monthly reports and the market analysis.

Mini-BR is used as a shorter follow-up meeting that occurs after the end of every month, apart from the ones where BR takes place. The purpose of it is the same as the BR, but normally it covers only the fixed points in the BR agenda (Posten 2, 2013).

The monthly report, in turn, is the main tool to gather information and to report the ongoing status of and the development of the financial results of the group and its different parts. The monthly report is the basic document for BR and for performing rolling forecasts. In addition to presenting the profit figures according to the determined template, the monthly report provide relevant and accurate analyses and assessments of the reasons why the results were or were not achieved in such a way that it is possible to make quick and correct decisions and subsequently to make a immediate and effective actions aimed at their correction and improvement (Posten 2, 2013).

Posten AS works on improving and increasing the relevance of the monthly report by reducing comments that only reproduces what has happened and improving the quality of comments that analyze why this what has happened, has happened, those that provide the explanation how and why the Best Estimates falls out compared to targets. Furthermore, it aims at raising the value of those comments that estimate and assess any possible gaps, those that specify the measures that must be implemented to correct or achieve targeted results. Finally it is concerned with those ones that analyze trend developments so as to better understand the context as well as put the spotlight on it. It also assesses the impacts of the development that deviates from the assumptions of the strategic assumptions underlying the adopted strategy and long-term forecasts of the income (Posten 2, 2013).

The last examined control report prepared by Posten AS is the market analysis report. The market analysis report is a semi-annual report based on the form of a stock analysis report. The purpose of this is to combine market trends and information about the competitors as well as to compare this information with the Posten's own results and performance using historical data and the content of the latest forecast and LTP, thereby putting Posten's development strategies and plans in a broader and more market-based comparison picture. In 2014, the examined company will prepare such a market report respectively in April and October (Posten 2, 2013). Thus, it can be perceived as a form of external benchmarking tool.

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Finally, Posten AS has used ABC costing, which can be perceived as a control tool in the company. It is applied in order to allocate the costs incurred in the firm in the most appropriate manner. My interviewee responded to my question regarding the cost management method in a following way:

*“Yeah, we do ABC costing, we really do. We have a five people team here that do quarterly an analytic approach then on the ABC method. Yes. Basically everything what we use is Oracle. And it’s an enormous software for us that help, with everything”.*

Here, one more time the importance of the software called Oracle E-Business Suite is highlighted. Therefore, one may say that this program is of the essence in the examined company in almost every area of its activity.

Taking into account all what was written above one may claim that in Posten AS there are a great many control mechanisms and tools that are connected with various areas of the conducted business. They are frequent, detailed and require a great deal of effort and time to prepare them.

#### **4.2.4 TECHNICAL ELEMENTS AND CONTEXTUAL FACTORS OF THE MANAGEMENT CONTROL SYSTEM IN POSTEN AS**

In this part of the third subsection concerning the analysis of the management control system in Posten AS I will examine the most important technical tools and contextual factors influencing this above mentioned system. Some of the emphasized issues in this part are analogous to the previously described case, the others are different. The discrepancy is the consequence of the various importances of certain contexts, tools and solutions that are unique and significant to each individual management control system.

In this sub subsection I will examine the forecasting method in Posten AS, the relationship between the strategy and management control system, the attitude of employees towards the new model and finally the impact of industry and environment.

The subsequent part will be associated with the matter of forecasting in Posten AS.

##### **4.2.4.1 FORECASTING METHOD AND ITS PERSPECTIVE IN POSTEN AS**

The issue of forecasting plays a salient role in the examined company. Together with the target setting approach, allocation of resources and control methods, forecasting constitutes the biggest concern among the managers in Posten AS.

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Posten AS as it was mentioned above claims that it separated forecasting, target setting process and allocation of resources. Nevertheless, especially the two first aspects seem to be still combined together in the managers and employees minds and in consequence the proper application of these two constitutes a substantial challenge to overcome in the near future. The old, budget thinking is, to a certain extent, observable among the workers. The quotation below greatly describes the discussed issue.

*“You have this tactical behavior when you give a forecast that you know you will perform better then. That’s the old budget thinking really, because what we really want to say your best prediction of the future and it’s not good or it’s not bad whether or not you hit it. This is your expectation of your business, but we see this behavior. You try to keep it down so you can say at the end, when the others are there- “ha! look at me” but that’s not the point. One of the biggest challenge with rolling forecasts is that you need good targets. And targets should be separated from forecasting. However there is a tendency to mix forecast and target”.*

The issue of forecasting and its horizons still constitutes a big problem in Posten. Not merely on account of the presence of the old budgeting thinking as well as the certain attitude towards the solutions and methods used in the previous system. One of the biggest challenges for Posten AS is currently the fact that owing to its unique structure plus products and services the contemporary available methods do not fulfill the needs of the examined company. My interviewee claims that the major planning system tools are traditionally built on twelve months budgeting and year to date systems. He hopes, however, that the suppliers will eventually come with a system that suits the rolling forecasts issue in Posten AS. The interviewed middle manager thinks that they can develop a tool that handle forecasting requirements in the examined company. Currently the tools are designed for budgeting, and that gives the firm a problem with respect to the flexible horizons. Nevertheless:

*“When you talk about the quality you talk about holistic picture and you talk about the experience how you use your data how you use analytic skills, how you deal with deviations, etc. So it’s a major work with it, to get it more precise not that you miss or hit, but to be precise on the data you really use. And we can also develop our market information. It can be better than it is”.*

Thus, in the above mentioned quotation one may find also the issue of improvements in the current forecasting method. The main challenges are connected with the quality of forecasts and the attitude towards them. This thread is carried on in the subsequent quotation as well.

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*“We also struggled a lot with horizon thinking of rolling forecasts. So what we do now is twelve, twelve, 16 and long term. At least that’s the model that we have today. We are discussing to have long term in every delivery, from next year from 2015. The reason is the strategy part of it. We use Oracle as the supporting system for the rolling forecasts, so all the data are loaded into the system”.*

In addition the interviewee mentioned that in Posten AS the risk evaluation process is also an integrated part of the delivery (the risk assumptions are delivered twice a year). Moreover, the group is very in favor of connecting the risk assumptions and forecasts assumptions, because it allows for more holistic view concerning the risk in business, risk in the operations and the financial risk.

At this point it should be described how the rolling forecasts process look like in Posten AS in terms of the operating functions. In Posten's management control system based on “The Steering Wheel” two different types of forecasting methods are conducted i.e. the first type is the forecast that has a rolling 12-months perspective and the other one which is called Long term planning (LTP). It, in turn, has a rolling three year perspective (Posten 2, 2013).

The company prepares the forecasts for the two purposes. First of all, they ought to present the best possible consideration of as well as estimation of the most likely economic outcome for the coming 12 months (16 months in the September forecast). Furthermore, they are supposed to consider normal/expected business conditions, the incorporation of known plans and should adjust for the other known or probable impacts (Posten 2, 2013).

Secondly, through this insight they ought to be able to recalculate and adjust the probable outcome in terms of the targets with the ambition to provide a clear advance warning of possible deviations between outcomes and the targets so that corrective measures can be discussed and implemented as quickly and accurately as possible. The prognosis must therefore give as honest picture as possible of the expected development in the upcoming period in order to facilitate an efficient management (Posten 2, 2013).

It is recommended that the number of the rolling forecasts horizons in 2014 should be reduced from four to three and thus conducted in February, May and September. This will facilitate a better adaptation to the board meetings and reduce the workload of the financial officers or subsidiaries as well as in divisions (Posten 2, 2013).

My interviewee describes this process of forecasting as a combination of the actions of different levels in the hierarchy.

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*“The people on the bottom of course see a lot- we have for example a business area that offshore energy- they do supply services to our oil and gas platforms in north sea and it’s quite interesting because the weather has an impact on performance, but you could say that the level above looks, might look in a more wider perspective and say “OK, the growth in the society is as in this way, this way..” So it’s a combination. I can say that here at group level we look at more macroeconomics”.*

Finally, in order to forecast this company uses also another above mentioned tool i.e. Long term plan (LTP). The purpose of the LTP is to compare and evaluate to what extent the projected economic profit growth for the next three years is consistent with the expectations and calculations in the strategic plan. A significant deviation may indicate a need for reassessment and even an adjustment of the strategic plan. If so, this should be brought forward and clarified in Strategic Review. On the other hand, such a deviation indicates that the action plans are insufficient and thus needs a reassessment and reinforcement. This ought be reflected in, processed by and thoroughly discussed in the Business Review (Posten 2, 2013).

Posten AS wants the LTP to be updated in the conjunction with each forecast delivery. This will create a better insight and understanding of how changes in the year’s net income will affect the development in the coming years and will maintain the focus on the achievement of the strategic and financial objectives (Posten 2, 2013).

Thus, it can be claimed that the forecasting process in Posten AS involves a lot of mechanisms and approaches which are both short-term and long-term and are quite sophisticated in their nature.

#### **4.2.4.2 RELATIONSHIP BETWEEN STRATEGY AND THE MANAGEMENT CONTROL SYSTEM IN POSTEN AS**

Another vital consideration in every company is the relationship between strategy and the management control system. In this part of the second sub subsection I will examine this issue in Posten AS.

The development of the strategy in the analyzed organization constitutes an essential part of company’s attention. Everything what Posten AS performs, changes and develops should be done according to the strategy adopted by the Board. The strategy summarizes and describes the group's strategic intentions and ambitions (direction), explains the strategic rationale, describes at a high level how the strategy ought to be implemented and realized as well as



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what results and value creation in the strategy implementation process should be achieved (Posten 2, 2013).

In order to be able to carry out its strategy in the most efficient manner, Posten must exercise leadership, management and control of the business. Therefore, so as to do that Posten's "Steering Wheel" management control system is used in the most optimal way. It is based, as it was presented before, on a series of policy documents and processes, which are integrated and interdependent on each other to achieve the targeted management quality and efficiency (Posten 2, 2013).

"The Steering Wheel" is hence a model that summarizes and describes the framework for the management approach in line with the group's governing documents which draw up the order, contexts and times throughout the year (Posten 2, 2013).

Thus, on the basis of what was described above one may say that there is a certain connection between the management control system and the strategy. The former should facilitate the implementation of the latter. My interviewee perceives the relationship between these two in a following manner:

*"It's more of measuring that your strategy is really implemented and that it's not just a book that is written. We measure it against the long term target, 3 years ahead. I think that if you look at our company we have quite a large portfolio of businesses and in every business there is an ambition of certain market share, there is an ambition of positioning and so on. So we want to monitor also those kind of indicators when we forecast, really"*.

Today in the examined company one may observe more ad hoc analytic approach to the strategy. According to my interviewee, there is, first of all, a meeting called Strategic Review (described above) where the CEO meets the business to discuss how they perform against strategic ambitions. He discusses it in a following manner:

*"As a result of the ad hoc approach, you can find also some excuses why you are not there instead of saying that- "look here are we according to our strategy or are we not according to it" What's the problem? Is it the market or Is it ourselves?"*.

Furthermore, Posten AS wants to get the strategy more integrated into the model. Currently the approach known from the old MCS does not fit with the new control system. The interviewee describes it as "a kind of own thing over there". Hence, the scrutinized company decided to take certain steps to improve the situation.



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*“So we have an enormous task now- how now we are going to link the strategy into this model and, as you saw, we are trying to get it to fit in to the model. We also have some work to do on the risk assumptions, to get those also integrated. Yeah, I would say that’s our main challenges when it comes to the model”.*

#### **4.2.4.3 ATTITUDE OF EMPLOYEES TOWARDS THE BB SYSTEM, RECRUITMENT SYSTEM AND LEADERSHIP STYLE**

Another issue with reference to the analyzed management control system in Posten AS is the attitude of employees towards the new management control system. I decided to raise this issue in the subsection regarding this particular company due to the fact that it changed its management control system relatively recently. Therefore, the employees and managers might still compare how they did certain things in the former system and how they do it in the current one. Furthermore, they might have certain attitudes towards both models. In the view of my interviewee there were two reactions in Posten AS for the implementation of the new model.

The first one comprises those employees who were in favor. It was an enormous number of workers who were happy that they got rid of the budgeting and all the issues associated with this approach. They supported heavily the change. In their opinion one could have felt lack of value added in the budget process. Also managers were very worried that they are using a lot of efforts without any benefit. There was, however, the other type of reaction among Posten’s employees.

*“But then you’ve got the other side that- “how am I gonna perform now?” “I don’t have the department leaders so..”, “I don’t have budget anymore..”. So there are two kind of reactions on this thing- those who don’t understand how they gonna perform without a budget and the rest of it, people that see that this is a sensible thing to do... It’s me- I am the leader I have to make the decision not the budget. But still today there are some people in this group that are against the change”.*

Thus, it is clear in every organization one might find people that want to have more autonomy, responsibility, etc. when they work. How did Posten AS deal with the second group of employees who were against the changes? My interviewee said the following statement:

*“Well, we said them in a very polite way that you don’t have a choice. And those who were very against it they are not with us anymore. Because there is a limit of how far you can discuss things in a group, you know. Ok you can discuss and you can say “I am against it” and everything like that, but if you don’t adapt then it’s sorry mate but... So that there have been some changes, especially in the economic area. I think there are new FOs’ in*

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*all divisions. And also down in the business unit there have been some changes, getting people that really adhere to our way of doing things”.*

Hence, it can be said that the transformation from the traditional management control system based on the annual budgeting into the one inspired by the Beyond Budgeting philosophy also requires a great many changes in the human resources. Not everyone is able and willing to work in the new system. It merely depicts how comprehensive and challenging the transformation process is in every company.

With respect to the recruitment system one cannot find any particular features of methods that are associated with it. As my interviewee said:

*“The recruitment process in Posten is well quite a traditional one with the internal and external announcement”.*

Finally, in Posten AS, in turn, one can probably observe the value-based leadership style. According to the Posten’s official website *“the Group’s leaders must practice value-based leadership that balances involvement and control”* (Posten 9, 2014). Nevertheless, this issue requires more thorough research.

#### **4.2.4.4 THE ENVIRONMENT OF THE COMPANY**

The last part of the subsection regarding the management control system of Posten AS is associated with issue of the industry and the environment in which this company operates. These factors have had a considerable influence on the choice of the described system. As it was stated at the beginning of this subsection, it was the financial crisis that basically forced Posten to abandon its old model. Additionally, such issues as the company growth, more dynamic environment, and increased competition should be mentioned as the reasons for the implementation of the Beyond Budgeting concept based model. The quotations below describe the way in which the environment, industry and their influence on the company can be presented from Posten AS perspective.

The contact person in Posten argues that the environment has become more dynamic than it used to be e.g. 10 years ago:

*“Oh yeah, much more dynamic that for example 10 years ago, absolutely [environment]. And you can say there are contracts out in the market. The largest ones are 4, 5 hundred million NOK so if you lose it, you know”.*

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Furthermore, the forecasting, allocation of resources, etc. are more difficult on the contemporary market due to more severe competition, complexity and the increased number of imports to Norway.

*“It’s [market] more complicated, because of the competition. There are large competitors in Norway like Schenker, DHL, Post Nord, Logistics. But also the amount of volume that comes to Norway, as our import has increased enormously”.*

Finally, the competition on the market is increased also owing to the fact that all firms grow and have become larger and larger. That intensifies the competition because the growth on the postal market and partly on the logistics one is not particularly fast. These issues were also raised by my interviewee in our discussion.

*“A few years ago we decided to have a go on logistics, you know we had parcels in our postal business, to expand we started buying companies, Nor Cargo is the largest one in Norway. That’s what pretty much every company in Europe has done. And you can say that’s a competitive market. So we have to have management control system that in a way could handle shifting markets. And it was really defined as that it was the financial crisis that turned us away from the traditional budgeting to the system we have today because we saw that the budget didn’t have the dynamic or the perception of what happened in the market, competitors and everything like that”.*

Thus, it can be concluded that the changes in the environment, industry and in the company itself has had a significant influence on the transformation of the management control system in Posten AS from the traditional system based on budgets into the one inspired by the Beyond Budgeting philosophy.

### **4.3 SUMMARY OF THE EMPIRICAL CHAPTER**

**O**n the basis of the described characteristics of both MCS based on the Beyond Budgeting concept one may argue that these two companies possesses very different control systems. The summary of their tools, mechanisms and approaches to the management control issues are presented in the Table 1. and 2. They use the key words that describe each of the discussed dimensions in this chapter. The former is concerned with the management control systems matters. The latter depicts contextual factors that influence MCS. The performed comparison constitutes an excellent introduction to the subsequent empirical chapter.

**TABLE 1. THE COMPARISON OF MANAGEMENT CONTROL SYSTEMS IN MILES AS AND POSTEN AS**

<b>Feature</b>	<b>Miles AS</b>	<b>Posten AS</b>
<b>Improved customer outcomes</b>	Participation in consultants' evaluation	Broad Nordic offer
<b>Organizational structure</b>	Lean	Divisional
<b>Responsibility and autonomy</b>	Substantial freedom of action	Moderate freedom of action
<b>Governance of the employees' behavior</b>	Professional authority and warmth	Reporting and performance regulations
<b>The issue of transparency in the company</b>	Transparency-control mechanism	Limited transparency
<b>Target setting method and evaluation</b>	Employees set their targets	Top-down approach
<b>Forecasting method</b>	Simple forecasting performed by the CEO	The rolling forecasts and LTP
<b>The bonus system</b>	Individual provisions	The combination of individual and team bonuses
<b>Planning method(s)</b>	Continuous process	Action plans/LTP
<b>Control mechanisms and approaches</b>	Transparency, employee satisfactory rating and consultant evaluation	Various controlling reports
<b>Allocation of resources method</b>	Portfolio management/on daily basis	Flexible and dynamic allocation when needed
<b>Cost management method</b>	Spreadsheets/costs known in advance	ABC costing.
<b>The usage of Balanced Scorecard/KPIs</b>	Not used	Extensive usage
<b>Human resources and recruitment process</b>	Very specific and thorough recruitment	Casual recruitment process.
<b>Leadership style</b>	"Servant leadership"	Value-based leadership
<b>Period of usage Beyond Budgeting MCS (in years)</b>	Since the establishment in 2005 (~9 years).	Since 2009 (~5 years)

**TABLE 2. THE COMPARISON OF CONTEXTUAL FACTORS IN MILES AS AND POSTEN AS**

<b>Feature</b>	<b>Miles AS</b>	<b>Posten AS</b>
<b>Relationship between strategy and MCS</b>	"Our model is our strategy".	MCS implements the strategy
<b>Attitude of employees towards the BB system</b>	Positive attitude	Mainly positive attitude
<b>The size of the company</b>	Middle-sized	Large
<b>Ownership structure</b>	Privately held company	100% state owned limited company
<b>Industry type and offered products and services</b>	IT consulting services	Various postal, logistics products and services.
<b>Environment of the company</b>	Became more unpredictable/constant number of competitors	Became more unpredictable/more competitors
<b>The usage of additional software to manage the company performance</b>	Lack of any additional/specific software	OEBS (Oracle E-Business Suite)

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## 5. ANALYTICAL CHAPTER

In this part of my master thesis I will carry out the analysis of my empirical findings discussed in the previous chapter. In order to do that, I will apply mainly the described in the theoretical frame of reference contingency theory (Otley, 1995; Chenhall, 2003). The mentioned theory is aimed at explaining the problem statement brought up in the first part of the thesis. Furthermore, the remaining references presented in the second section will provide me with the tools that are required to answer the raised research questions.

### 5.1 MILES' "CULTURE-BASED" MCS VS. POSTEN'S "ADMINISTRATIVE" MCS

In accordance with the definition of the contingency theory proposed by Otley (1995), MCS in the organizations vary due to the developed in an unique context specifically tailored tools, mechanisms, solutions that are aimed at meeting their needs in the best possible manner. It means that despite basing a management control system on the same concept/philosophy one may observe the peculiar applications, components in various firms, even if they operate in the same country, environment or even industry.

The need to use the most appropriate MCS in the given context led to the development of two completely different Beyond Budgeting systems in the two scrutinized Norwegian companies. In the previous chapter I described how the twelve Beyond Budgeting principles (Bogsnes, 2009), technicalities and contexts of the MCS in both of the examined organizations look like. The comparison of these elements was depicted in Tables 1 and 2.

In order to understand why the presented elements are used in the respective models one has to comprehend the importance of each of the examined component for the applied MCS as well as immerse deeper into the needs of the particular firm.

As a result of the presentation of the collected data in the empirical chapter and their analysis, I decided to group the MCS in the two examined companies into two categories.

The first type of the Beyond Budgeting model can be called the "Culture-based" Beyond Budgeting MCS. The most significant foundation of this approach is the thorough and unique recruitment process that has an impact on the culture of the firm, which in turn influences all the mechanisms, solutions and tools used in the organization. Such a control system can be observed in Miles AS. The "Culture-based" Beyond Budgeting fits well the needs of Miles AS because it enables the consultants and managers to meet the requirements of the industry in which it operates, seizes the opportunities on the market as well as allows for using the

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strategic self-management. Therefore, it leads to a flat organizational structure, a great deal of responsibility, autonomy and transparency as well as to simple solutions, mechanisms and tools that are appropriate for such a company. It might be argued that it is more difficult to build this type of MCS owing to the fact that it requires revolutionary changes in every aspect of organizational life.

Thus on the basis of the empirical chapter, it can be claimed that in the “Culture-based” MCS one may observe:

- high focus on the improvement of the customers’ outcomes (e.g. two new delivery projects, evaluation of consultant’s performance conducted by the clients);
- very high degree of autonomy, responsibility and transparency (e.g. a great deal of responsibility and autonomy in such situations as buying new computers, mobile phones, attending seminars, everyone can see what one bought, where and at what price, etc.);
- highly specific recruitment process (“birthplace of the culture”);
- participative leadership style (“servant leadership style”);
- a few governing values (mainly professional authority and warmth);
- very flat organizational structure;
- individual target setting and rewards (*inter alia* employees decide how much they want to work, when to attend the conferences, etc., 50% of the salary based on provision);
- very simple methods of planning, allocation of resources (allocation of resources as needed/portfolio management, planning performed roughly using spreadsheets, etc.);
- very simple methods of forecasting (mainly using spreadsheets, not so important- feeling of the business is of the essence);
- very simple methods of control (transparency, employee satisfactory rating and consultant evaluation with customer).

The second kind of Beyond Budgeting model can be discerned in Posten AS. I decided to call it the “Administrative” Beyond Budgeting MCS. This design is completely different than the previous one. Here, the most important element of the system as well as its foundation is the hierarchical, control-reporting approach. Complex and extended control system combined with moderate degree of autonomy and responsibility fits well the needs of such a company as Posten AS. It can be argued that this type of Beyond Budgeting system is easier to implement in a firm because it requires less radical transformations of the way in which it operates as

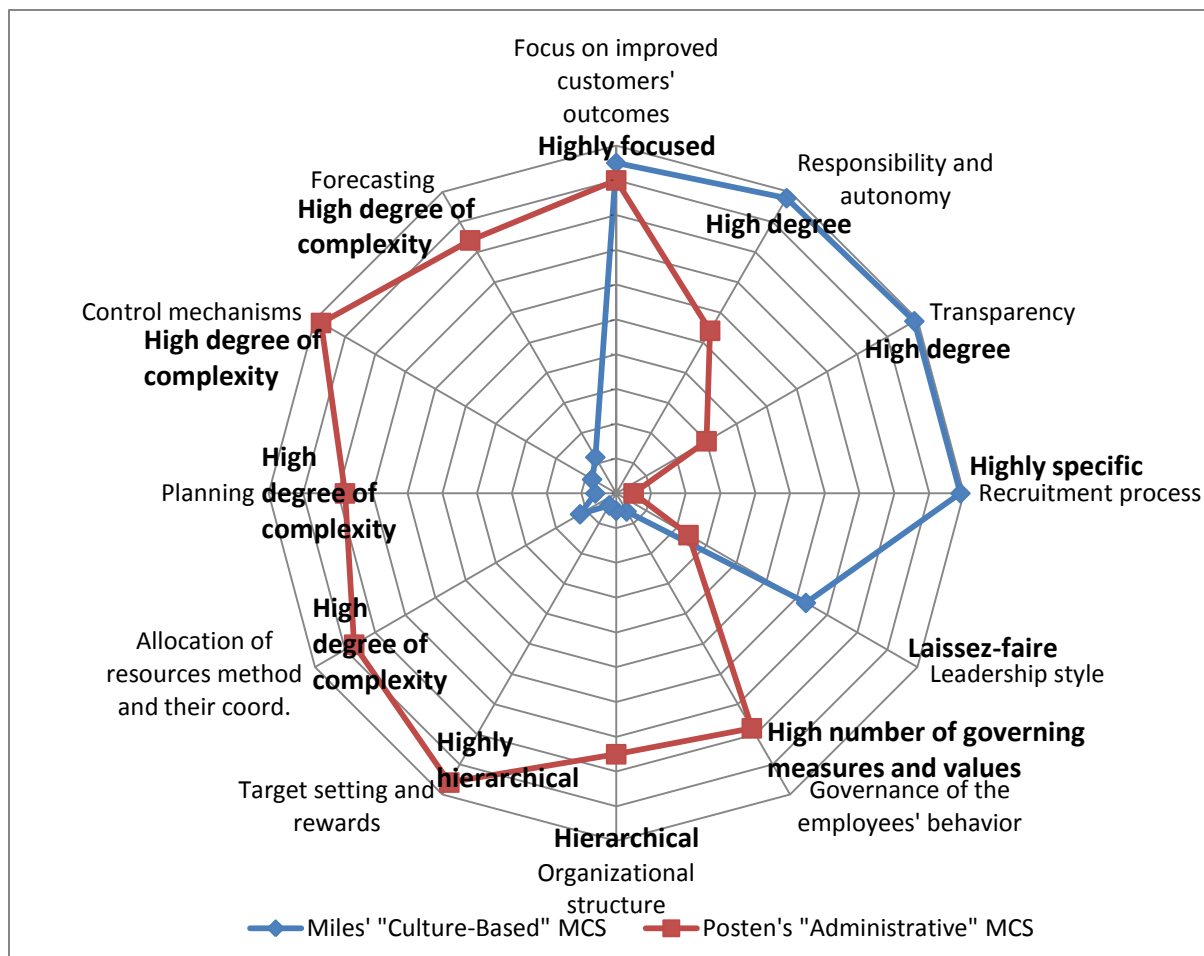
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well as leads to less extensive changes in the organizational routines than the previous approach.

Hence considering the empirical findings, in the “Administrative” MCS in Posten AS one may observe:

- high focus on the improved customer’s outcomes (Nordic offer, broader range of products and services);
- a moderate degree of responsibility and autonomy (employees are expected to feel like leaders, contribute, seize opportunities and participate in the decision making process, but the importance of hierarchical relations and mechanisms is observed as well);
- relatively low extent of transparency (the company is not in favor of bottom-up solutions, internal benchmarking, internal comparison of performance and information, some performance indicators not revealed);
- ordinary recruitment process;
- relatively autocratic leadership style (value-based leadership style);
- the high number of governing measures and values (four levels of governing documents of an administrative nature plus various reporting and controlling tools and procedures);
- divisional organizational structure;
- highly hierarchical approach to target setting and evaluation method (objectives determined in a hierarchical manner i.e. by the CEO and confirmed by the Board for the annual period, a multitude of KPIs, evaluation process is also performed applying the top-down approach, a combination of individual and group bonuses);
- very complex methods of planning, allocation of resources (*inter alia*, Action plans, approach that follows different cycles);
- very complex methods of forecasting (the rolling forecasts and LTP);
- very complex methods of control (a multitude of reports e.g. SR, Mini-BR or BR).

Figure 4. depicts graphically the above discussed findings. The particular elements of the two MCS designs are described and analyzed in a greater detail in the Appendix 6. There, I examine and compare more thoroughly how each element fits the needs of the described type of the MCS based on the Beyond Budgeting philosophy.



**FIGURE 4. THE COMPARISON OF MCS DESIGNS BASED ON THE BB PHILOSOPHY IN MILES AS AND POSTEN AS**

Thus, this subsection was aimed at explaining the first raised research question i.e. *What are the MCS designs based on the twelve Beyond Budgeting principles in the examined companies?* In accordance with the discussion above it can be argued that the design of the MCS are different in these two firms because they depend on the applied approach to the BB philosophy, which is used in the examined organizations. It is in line with the contingency theory (Otley, 1995; Chenhall, 2003) that claims that the implementation of the same concept of management control may lead to the different configurations that are aimed at meeting the needs of companies in the best possible manner. Hence, the presented types of Beyond Budgeting MCS have been developed to be as effective as possible to the requirements of the scrutinized organizations. I decided to call these two systems the “Culture-based” and “Administrative” MCS inspired by the Beyond Budgeting philosophy because, respectively, culture and administrative relations and mechanisms influence significantly the control systems designs.



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In the following part of the analytical chapter I will examine why the examined companies decided to apply the MCS based on the BB concept.

## **5.2 WHY BEYOND BUDGETING?**

The issue of the implementation of the MCS based on the Beyond Budgeting philosophy looked differently in Miles AS and Posten AS. The former has never used any other type of control system. The latter had a long tradition of using budgets. In this subsection I will analyze the rationale for making the decision to employ the Beyond Budgeting model in the respective companies.

The most significant reason behind the implementation of the MCS inspired by the BB concept in the majority of companies is that it increases the flexibility and dynamics in the organization (e.g. Hope and Fraser, 2000; Bogsnes, 2009; Neely et al., 2003). That was the situation in Posten AS and partly in Miles AS.

Miles AS is a peculiar case. This company has never used any other MCS than the one that can be described as Beyond Budgeting inspired. Their unique system has been developed in an organic manner, from scratch. It could have been done because back in 2005 the company consisted of a few consultants who wanted to build a firm that is based on certain, desirable values, where one may experience friendly atmosphere and meet skillful consultants. In one of the first interviews with the CEO of Miles AS I found out that they did not know about the Beyond Budgeting philosophy. The founders just wanted to have such a system that allows them to meet the needs of the environment, seize the opportunities on the market, and have a great deal of flexibility, dynamics and freedom. Therefore, they constructed the MCS that can be described as built on the Beyond Budgeting values.

The case of Miles AS reminds to a certain extent the circumstances of the implementation of the BB model in Borealis discussed by Bogsnes (2009) in his famous book. In Borealis the managers also introduced something innovative without knowing how this approach can be called (the concept of Beyond Budgeting was not formulated that time, however). Nevertheless, for Miles AS the applied MCS was something natural, but from the literature perspective it can be perceived as innovation.

Finally, the attitude of employees towards the used system is very positive in Miles AS. The reason for that is the repeatedly mentioned recruitment system, which allows the company to

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hire the consultants that can handle with a lot of freedom, responsibility and can be trusted. Such a system fits them and therefore is perceived as a very good one.

The history of the implementation of the MCS based on the Beyond Budgeting philosophy in Posten AS is diametrically different. As it was mentioned in the empirical chapter the new system in the scrutinized company was introduced in 2009 during the financial crisis. The old, budget based one was perceived as too rigid, not dynamic enough in the turbulent environment, very resource consuming. Furthermore, in the budget based approach targets, forecasting and allocation were combined and inaccurately set and conducted (e.g. objectives were not “stretched” enough).

Finally, in the old MCS one experienced tactical behavior, sandbagging from employees and the explanation of discrepancies between what was in the budget and what took place in the reality, etc. In other words, in Posten AS one could have observed all the problems with the budgeting practices that were described in the second chapter by Hope and Fraser (1997, 2000, 2001, 2003), Daum (2002), Hansen et al. (2003), Neely et al. (2003), Player (2003), Jensen (2003), Rickards (2006) and Bogsnes (2009).

The implementation of the new MCS took place, basically, in two phases. The initiator of change was the group CFO. Subsequently, the vision of change and the new tools and approaches were designed as well as developed mainly through the hierarchical guidelines and recommendations to the business units. In the second phase the rollout and devolution of the new MCS with the help of the group CEO took place. All of the steps described are in line with the three phases Beyond Budgeting implementation process presented by Hope and Fraser (2001) in their article, discussed in the second chapter of this thesis.

Furthermore, the interviewee said, as it was mentioned in the empirical part, that before the change itself an internal survey was conducted among the employees and it revealed that one could have observed enormous dissatisfaction with the budgeting process. Then the assessment of when and how the change should take place and look like was carried out. This is to a significant extent in line with the procedures recommended by De Waal (2005) regarding the Beyond Budgeting Entry Scan (BBES) that were described in the theoretical chapter.

In case of Posten AS the implementation of the new MCS was based to a considerable degree on the experiences of the others. In accordance with my interviewee, the examined company

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talked about the change process, the most appropriate tools, solutions, and faced challenges during the transformation with other important Norwegian Beyond Budgeting users i.e. Statoil, Sparebanken and Telenor. Therefore, it can be claimed that the change process was based on the experiences of the others and might be called the “learning from others” journey towards the new MCS based on the scrutinized in this thesis concept.

Finally, in terms of the attitude of the employees with respect to the discussed transformation, two reactions, as it was mentioned in the previous chapter, were observed i.e. enormous number in favor of the changes and the minority of workers who were against them. During this process there were a great many discussions with those who were in opposition to the Beyond Budgeting MCS. If they did not want to perform their task in the new manner they had to leave the company. It once again shows that for some people “comfort” zones are in the budgeting system and one needs to find such managers, employees that belong to “stretch” zones, which are typical of the Beyond Budgeting approaches as described by Bourmistrov and Kaarbøe (2013).

Thus, the discussion and analysis showed in this subsection was aimed at answering the second research question, namely *Why did the examined Norwegian companies decide to implement the management control systems based on the Beyond Budgeting philosophy?* The examined findings suggest that the main reason behind the implementation of the MCS inspired by the BB concept was the need to be more adaptive to the dynamic, turbulent and complex environment. The Beyond Budgeting model offers more flexibility, dynamics, enable the companies to seize opportunities on the market. It also allocates their resources more efficiently, allow them to better forecast, plan and set targets with enough stretch, and provides more autonomy, transparency and responsibility. It also leads to the improved performance of the companies. Therefore, it appears that taking into account all the above mentioned advantages it is wise for every organization regardless of the industry to introduce the MCS based on the scrutinized in this thesis philosophy.

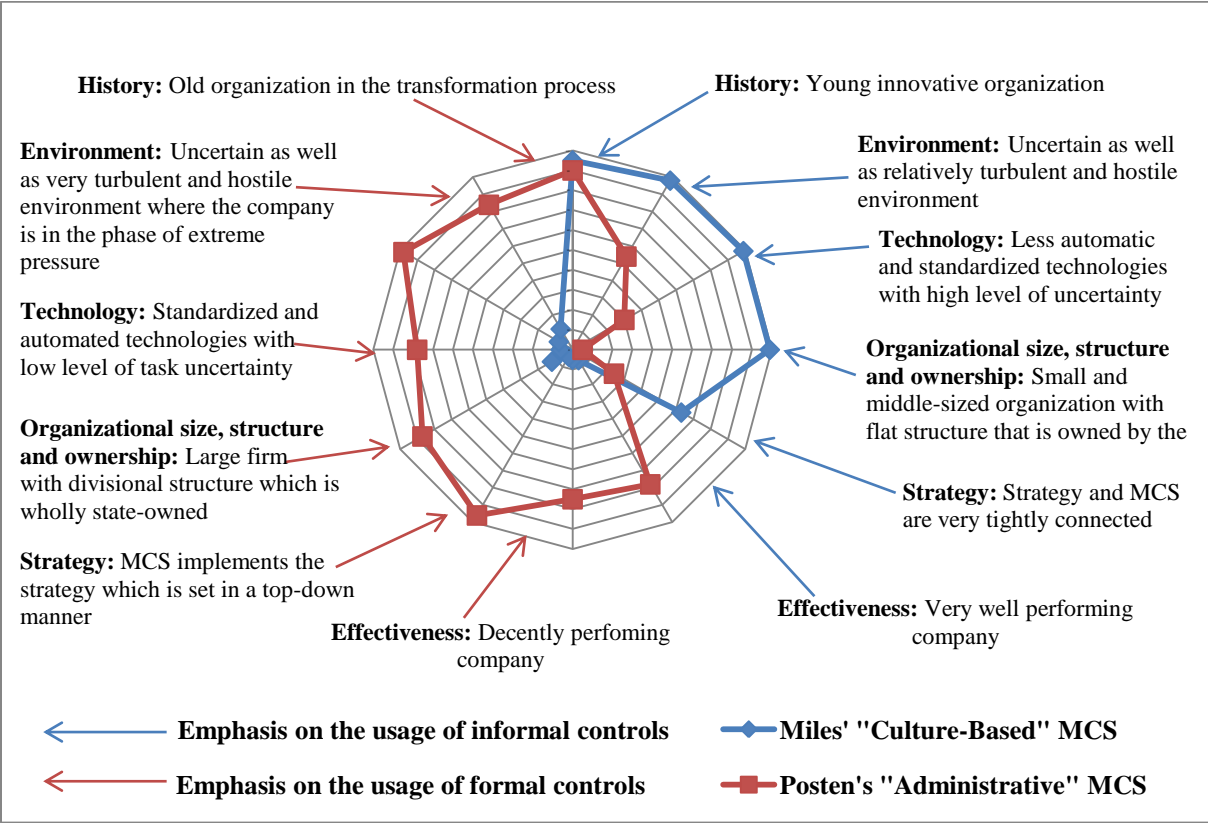
### **5.3 CONTINGENT VARIABLES AND THEIR INFLUENCE ON BEYOND BUDGETING**

#### **MCS DESIGNS**

**I**n the third subsection of the analytical chapter I will analyze the contextual factors that have an impact on the types of MCS inspired by the Beyond Budgeting philosophy discussed in the point 5.1. In order to do that I will use the contingency theory described in the theoretical frame of reference.

In the articles of Otley (1995) and Chenhall (2003) a list of contingent variables that influence the design of the MCS was presented. The impact of each of them (as well as some other not mentioned by those authors aspects) on the configurations observed in the “Culture-based” and “Administrative” control systems will be examined in this part of my master thesis. Most of the contextual variables that will be discussed here were presented in the Table 2. at the end of the empirical chapter.

Figure 5. presents the influence of six contingent variables that will be described in the following sub subsections on the MCS designs observed in the two scrutinized in this thesis organizations. Various contextual factors in which Miles AS and Posten AS operate contribute to either informal i.e. less accounting-oriented controls (in the former) or formal, accounting-based controls (in the latter).



**FIGURE 5. THE INFLUENCE OF THE CONTINGENT VARIABLES ON THE MCS DESIGNS BASED ON THE BB PHILOSOPHY**

**5.3.1 EXTERNAL ENVIRONMENT**

The first contingent variable that will be analyzed in this subsection is the influence of the environment on the MCS in the both scrutinized organizations. This aspect was recognized by the both above mentioned authors as the most important one.

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Miles AS perceives the environment as more unpredictable and turbulent than it used to be nine years ago, when it was established. The number of competitors, however, has not changed significantly since then. Nevertheless, the structure of the industry is more stable (e.g. it is more difficult for small firms to enter the industry- Miles AS is a middle-sized company). Furthermore, the majority of changes on the market (for example in terms of regulations) are thought to be the opportunities for the examined firm. Thus, it can be claimed that the external environment has a definite impact on the design of the control system in Miles AS. Chenhall (2003) argues that on the basis of the 20 years of research one may claim that in uncertain environment the companies use more open, externally oriented and nonfinancial MCS.

Nevertheless, in turbulent and hostile surroundings they tend to focus more on formal tools typical of budget. In case of the existence of hostile, turbulent and uncertain environment firms tend to develop MCS that are more formal in the short-term and then they become more organic in their nature. Taking into account the presented discussion one may say that the empirical findings in this thesis partly confirm the claims of Chenhall (2003). Miles AS operates in the uncertain environment. The question is to what extent it is turbulent and hostile.

It is very difficult to assess it without the thorough research. Miles' "Culture-based" MCS inspired by the BB philosophy contains a lot of features of less formal controls that are not aimed at using accounting, financial measures and it is more open and flexible (it confirms the first statement of Chenhall (2003)). The scrutinized firm developed organic MCS without the introduction of the formal tools (in the initial stage of the existence-survival period-i.e. the first years since Miles AS was founded, it did not apply any formal methods of control-different than the recommendation of Chenhall (2003)).

In case of Posten AS the environment significantly contributed to the change of the MCS. As it was mentioned before, the financial crisis caused a great deal of uncertainty on the world markets. It resulted in more unpredictability and turbulence that could not have been handled by the budgeting approach. Also the need to enter the logistics industry (mainly because Posten's rivals, both domestically and abroad, made this step) led to the introduction of a system that was more flexible. Furthermore, now the company perceives the surrounding environment as dynamic, where competition is fierce.

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Taking into consideration the above discussed claims found in the article of Chenhall (2003), it can be argued that the “Administrative” MCS based on the Beyond Budgeting concept corresponds decently to the findings of this author, especially with respect to the two statements.

First of all, during the financial crisis (can be perceived as the survival stage) Posten AS developed certain more formal control mechanisms (not budgets, but more administrative approach to the BB philosophy) and it might develop more organic controls in the future.

Secondly, Chenhall (2003) argues that when one may observe more formal control mechanisms in the uncertain external environment they are usually connected with the flexible, interpersonal relations. That is to a certain extent the case in Posten AS. Nevertheless, the more certain claims might be made if more comprehensive research regarding the relationships between the employees and managers in Posten AS will be conducted.

### **5.3.2 TECHNOLOGY**

The second examined contingent variable, in the articles of both authors, is technology. Taking into consideration Chenhall’s approach (2003) to this factor i.e. technology consists of *inter alia* software, material, knowledge and people one might notice significant differences between the two examined companies. In Miles AS employees are very skillful, clever, they use state of the art software, tools and solution in their industry. Posten AS, in turn, employs various kinds of people (very knowledgeable and less qualified employees) plus it uses various software to offer its services and manage the different areas of the MCS (OEBS).

The statements proposed by Chenhall (2003) in his article basically are in line with the observed “Cultural-Based” MCS inspired by the BB philosophy in Miles AS. This author claims that where the technologies are less automatic and standardized the controls are less formal (it means less accounting oriented). Moreover, where technologies can be characterized as having high level of task uncertainty (that is the case in IT services) the more informal control mechanisms are included in the designed MCS (e.g. more personal controls, less reliance on accounting performance approaches, planning, etc.).

The empirical findings in Posten AS also correspond to the Chenhall’s claims (2003) relatively well. In this firm one may observe more standardized and automated technologies (e.g. Digipost, delivery of letters and parcels) in many areas of Posten’s activity. Therefore,

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more formal control measures are used. Similarly, the task uncertainty in many departments of this firm is relatively lower. Thus, one may observe lower number of informal controls in the “Administrative” MCS of Posten AS.

### **5.3.3 ORGANIZATIONAL SIZE, STRUCTURE AND OWNERSHIP STRUCTURE**

Third contingent variable raised by the mentioned authors is the organizational size. I decided to analyze this aspect together with the organizational structure contingency, discussed only by Chenhall (2003), and with the ownership structure proposed by the author of this thesis due to the close interrelation between these three. These variables are one of the most important factors that explain the difference between both examined MCS based on the BB philosophy in the two Norwegian companies.

In Miles AS, which is a middle-sized firm, one may observe very flat organizational structure with hardly any hierarchy. In Posten AS, which is a large enterprise, one might find however a divisional, rather a hierarchical structure. According to Otley (1995) an organization is initially organized using a functional approach. Its growth leads to more divisional structure where more formal controls dominate the control systems. The described situation is to a large extent present in Posten AS. Because of various take-over actions Posten had to change its structure many times as it was mentioned in the empirical chapter. Now it has a divisional structure and a great many tools, mechanisms and solutions are typical of more formal controls (accounting-based), which, in turn, constitute the basis of the “Administrative” MCS inspired by the BB philosophy.

The findings of Chenhall (2003) confirm the above mentioned claims. It can also explain why Miles AS uses more informal control measures. Owing to the fact that it is middle-sized company it does not need a lot of formal controls. The author, thus, claims that in smaller firms the systems are focused more on the interpersonal controls (that is the case in Miles AS). In large organizations (Posten AS) there is an emphasis on more administrative rules as well as procedures.

With respect to the issue of the type of the organizational structure on the basis of Chenhall (2003) it can be argued that Posten AS might be described as having a mechanistic structure (a lot of formal procedures, rules, decision making process, but also openness of communication). Miles AS, in turn, may be perceived as an organic structure (flexible, responsive, a few rules and standards). Therefore, it could be claimed that the types of the organizational structures explain why the MCS inspired by the BB philosophy is in Miles AS



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more “Culture-based” (where informal controls are emphasized), whereas in Posten AS more “Administrative” system is observed (with more formal controls).

Ownership structure is the first additional contingent variable that is considered by the author of this thesis. In Miles AS the vast majority of the company’s shares is owned by the employees and the CEOs of the three local branches. In such conditions (plus considering that the firm is of a medium size, has very flat organizational structure) it is easier to implement the MCS that is in line with the needs of the company and its managers, namely more culture oriented MCS (also talking into account the discussed below variable i.e. history and that the current CEOs established Miles AS). In Posten AS, in turn, the CEO and managers do not own their organization- the owner is the government. Therefore, it is more difficult to build more organic and less formal MCS. Certain hierarchical structure must be present as well as definite control mechanisms. Hence, the “Administrative” MCS is also to a considerable degree the result of the ownership structure in Posten AS.

#### **5.3.4 STRATEGY**

The influence of the strategy on the MCS is, as it was mentioned in the second chapter, of utmost importance in this thesis. In Miles AS the strategy and the MCS constitute the unity. Everyone shares the strategy-model values. Such a situation is possible because the control system in the examined company is based on the culture which is influenced by the specific recruitment process.

It is very unique, nonetheless one can compare this relationship with the circumstances described by Henri (2006), who examines the research that scrutinize the effects of management control systems on strategy. He claims there that MCS participate in the formulation of strategy as well as that they continuously influence strategic management process. Hence, it can be argued that in Miles’ the peculiar situation where strategy and MCS are entirely integrated contributes to the decreased need of having formal measures that are aimed at implementing the strategy through the MCS. Therefore, one may observe more informal, the “Culture-based” MCS inspired by the Beyond Budgeting philosophy in Miles AS.

In Posten AS, however, the relationship between these two aspects is more administrative. The strategy is determined by the CEO and the Board. Strategy is not as closely connected with the MCS as it is in Miles’ case. The main task of the “Steering Wheel”- Posten’s control system is to implement the strategy. Such an approach is in line with the claims of Chenhall



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and Langfield-Smith (2003), O'Connor et al. (2011) and Henri (2006) (the first approach that examine the effects of strategy on MCS) described in the second chapter of this thesis. Therefore, it can be argued that in Posten's AS "Administrative" MCS based on the Beyond Budgeting philosophy is aimed at the implementation of strategy determined by the top management and therefore more formal control mechanisms are required.

### **5.3.5 THE ISSUE OF EFFECTIVENESS**

The issue of effectiveness was the last discussed contingent variable in Otley's (1995) paper. In accordance with his claims very well performing companies usually do not have strict formal controls. That seems to be the case in Miles AS. This organization as it was discussed in the previous chapter has made good profits since it was established in 2005. Furthermore, it is widely recognized (e.g. by the rating institutions, the press, by the customers and employees) as an example of a well-managed and successful firm. Therefore, it does not need any advanced formal controls in its MCS and can use the "Culture-based" control system inspired by the Beyond Budgeting philosophy.

Posten AS has experienced certain problems in the recent years and received the public aid from the government after the financial crisis had appeared in Europe. Hence, in accordance with Otley (1995) the enterprises that are not very successful tend to adopt more formal controls. That partly explains why in Posten AS the MCS, based on the scrutinized in this thesis concept, is more "Administrative" in its nature.

### **5.3.6 HISTORY**

In addition to the contingent variables that are discussed in the literature I would like to emphasize another additional factor that has a significant impact on the MCS in both companies. It is worth mentioning that it is not described in the literature (similarly to the ownership structure presented above). However, it should be emphasized that the importance of the history and the change of the accounting systems over time and their influence on a company were examined before e.g. by Hopwood (1987). Thus, as far as I am concerned, it might be interesting to consider history as a contingent variable.

History of these two organizations is the second of the proposed by the author of this thesis additional contingent variable. It can be even perceived as the most important factor that influences the designs of MCS in Posten AS and Miles AS. It appears that history matters substantially when it comes to the MCS.

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Miles AS is a young innovative firm that could have developed the MCS from scratch on the basis of the values that the founders thought are of the essence. In consequence of the unique, tailor-made control system where the peculiar culture constitutes its irreplaceable basis, certain routines, practices and tools were created. Furthermore, the appropriate employees were recruited as well. Thus, this “Culture-based” system is more organic in its nature, based on informal controls and on the solutions that were decided and formed by Miles AS itself.

Posten AS is a diametrically different case. It is one of the biggest and oldest Norwegian companies which has experienced a great many changes and formed definite internal organizational values. In this enterprise budgets were prepared for a large number of years. Certain routines and approaches associated with this process were established. The employees were not managed using any special MCS as in Miles’ case. The transformation from the old MCS based on budgets into the new one inspired by the BB philosophy has led to a lot of confusion and challenges that were connected with every aspect of the company activities. For example they were linked to the used control tools, the organizational structure or the human resources. It has been a very difficult process for it and required a great deal of patience, effort and time. Moreover, the experiences of the other companies who has made this step were vital. They facilitated overcoming the problems that appeared during the transformation process. Therefore, it seems that more “Administrative” MCS was developed to handle all these changes and challenges, where hierarchical control was essential.

Thus, it can be claimed that history of the firms has a significant influence on the configurations of the MCS. One needs to bear in mind that it is not easy to redesign MCS as well as implement a new one. MCS is also associated with the certain routines in the organization, with people who are an important part of the firm and with the definite approaches to various mechanisms that are not easy to change overnight.

Thus, in this subsection I tried to answer the last research question that was raised in the first chapter i.e. *What factors explain the differences and similarities between the Beyond Budgeting MCS used by the two Norwegian companies?* The answer might be formulated as follows: the majority of the contingent variables discussed by Otley (1995) and Chenhall (2003) satisfactorily explains the differences (there are very few similarities in these two models) between the MCS used in these two organizations. In addition such factors proposed by the author of this thesis as history and ownership structure also contribute to the deeper understanding of the observed discrepancies between the “Culture-based” MCS in Miles AS

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and “Administrative” MCS in Posten AS. It should be borne in mind that the proposed list of contingent factors is not finished- one may identify more factors that can successfully explain the reasons behind the used designs in the two scrutinized companies. Furthermore, as it is mentioned in the Appendix 6 sometimes it is very difficult to decide whether a variable is an internal or external in its nature (e.g. leadership style or recruitment process). Therefore, certain challenges with respect to the research based on the contingency theory might be observed.

#### **5.4 DISCUSSION OF THE PROBLEM STATEMENT**

**T**he three raised and discussed research questions above were aimed at helping me to answer the problem statement, which was formulated as follows: *What are the differences and similarities in the design of management control systems in Miles AS and Posten AS?* As it was showed above one may observe a great many differences between these two MCS based on the Beyond Budgeting philosophy and only very few similarities. The rationale for the existence of two different MCS designs inspired by the same concept is well explained by the contingency theory (Otley 1995; Chenhall 2003). It claims that due to the existence of contingent variables companies develop the control systems that fit their needs in the most appropriate manner. Thus, discussed contingencies i.e. external environment, technology, organizational structure, size and ownership structure, strategy, effectiveness and history explain why Miles AS has, what I call “Culture-based” MCS and Posten AS possess “Administrative” MCS inspired by the scrutinized in this thesis concept.

In consequence of having context based designs one may observe a great many discrepancies in terms of the used elements between these two approaches. They were described in the first subsection of the analytical chapter. One can conclude that the MCS in Miles AS is based on more informal controls, a lot of autonomy, transparency, responsibility, where there is hardly any hierarchy, and simple tools and mechanisms are employed. In Posten’s MCS, in turn, there are more formal, accounting based control mechanisms and tools. Moreover, more hierarchical structures are applied in the “Administrative” control system in the second examined company. The examples of them are the target setting and evaluation methods or various kinds of control-aimed reporting.

In terms of the similarities in these designs that are based on the same concept one may, above all, highlight that the used MCS provide more flexibility, dynamics and freedom which are necessary to handle with the turbulent environment and competitive, fast changing

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industries in which each firm operates. Furthermore, in both cases the MCS inspired by the BB philosophy are perceived as beneficial and one might observe a positive attitude towards them either by all or by the vast majority of the employees and managers.

## **6. CONCLUSIONS AND FUTURE RESEARCH**

### **6.1 SUMMARY OF THE RESEARCH**

The purpose of this master thesis was to examine and analyze the designs of management control systems inspired by the Beyond Budgeting philosophy that were implemented in the two selected organizations in Norway. It was a gradual process that comprises a few phases. The initial stage embraced the formulation of problem statements and research questions as well as the relevant theoretical concepts that laid the foundation for the analysis of the scrutinized issues. They allowed me to identify the gaps in the theory that my thesis could cover. The chosen methodological approach, methods and techniques to this research based on the qualitative, social constructionist assumptions led to the presentation of the collected data and their analysis in the typical of such studies manner. Empirical data consisted of the information regarding the MCS in two different Norwegian companies, namely Miles AS and Posten AS. The examination of it provided me with the interesting findings that seem to contribute significantly to our knowledge concerning the concept of Beyond Budgeting and its implications.

This research has been a very inspiring and enlightening journey for me in a great many dimensions. I challenged, *inter alia*, a few of my pre-conceptions regarding the Beyond Budgeting and management control systems in the companies. I have always assumed that firms had to use budgets at least at some point of time in their history (which is not true taking into consideration the case of Miles AS). Moreover, I thought that there is a perfect Beyond Budgeting model that ought to be implemented regardless of the context of a company. Now I know that it is not possible to introduce the same concept and have the same tools, mechanisms and solutions everywhere. Everything is context dependent. Finally, before the data collection process I expected that the MCS in both companies would differ, however I did not expect that the observed discrepancies would be such significant.

The analysis of the observed MCS based on the Beyond Budgeting philosophy in these two organizations has resulted in the following conclusions:

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1. The implementation of the same approach to the management control issues brings about various configurations in different firms. In the scrutinized organizations two very contrasting Beyond Budgeting models are observed, which possess a large number of differences and very few similarities;
  2. The adoption of the examined concept in the companies that have been the subject of this research led to two types of MCS within the area of Beyond Budgeting which emphasize the importance of various mechanisms, solutions and attitudes;
  3. In both companies the main objective of the used MCS is to provide them with the best possible solutions and mechanisms in the given circumstances. Due to turbulent, unpredictable, dynamic environments solely flexible and future oriented control systems might unlock the companies' performance leading to their successful perception internally and externally;
  4. One may observe different contextual variables that have an impact on the design of the management control system in each organization. Their influence varies in terms of their importance and the ability of a researcher to recognize how they affect the employed approaches to the matter of a management control.

Thus, on the basis of this thesis and the mentioned case studies in the theoretical frame of reference it can be claimed that the implementation of the twelve Beyond Budgeting principles in various contexts, countries and companies leads to different MCS models. In these MCS applied tools, solutions, mechanisms are aimed at serving the needs of the users in the most appropriate manner.

## **6.2 CONTRIBUTIONS**

**I** believe that this dissertation has added certain contribution to the research area associated with the Beyond Budgeting and management control systems both theoretically and practically.

First of all, the application of the contingency theory to my analysis enabled me to identify two different types of the MCS based on the Beyond Budgeting concept. The main features of them have an impact on which solutions and tools are used in the control systems and how they are applied. The first one was named by me as the "Culture-based" MCS that one may observe in Miles' case. The other one can be described as the "Administrative" MCS which is employed in Posten AS. The former is based on the unique culture and the emphasis on the appropriate characteristics and values of the employees, the latter is more hierarchically-

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oriented and focused on advanced accounting tools and frequent reporting. These findings confirm the contingency theory and that it can also be applied to the MCS inspired by the Beyond Budgeting philosophy.

Secondly, the existence of these two approaches is highly determined by the contextual factors that influence the designs of these MCS. Apart for the contingent variables identified by Otley (1995) and Chenhall (2003) I also proposed some additional aspects that seems to be relevant for the analysis of the discrepancies among the control systems based on the same concept. I determined such factors as history and ownership structure. This list is probably not complete and other interesting contingencies might be discovered as well.

Finally, I found out that Beyond Budgeting MCS might be implemented in two ways. Either it can be done “organically” through a management control innovation or by applying the “learning from the others” approach to this concept. The former is based on the unique attitude to this philosophy where the consideration and usage of the experiences of different BB companies are not taken into account. The latter, however, is the opposite case. An organization that learns from others tends, to contact the firms which has already introduced such a system and can share their experience as well as help the implementing company to overcome the challenges and difficulties that it faces.

### **6.3 LIMITATION OF THE RESEARCH**

First of all, the issue of the applied MCS based on the Beyond Budgeting philosophy require comprehensive and longitudinal research where every aspect of the implemented system is thoroughly examined from various perspectives. The conducted studies were aimed at the exploration of the practical solutions, mechanisms and tools used in different organizations in as comprehensive as possible manner. Nevertheless, not every element of the scrutinized control systems was deeply analyzed. The financial limitation and the relatively short time designated to carry out the data collection and analysis process allow me to present these two MCS only from the managerial perspective.

Secondly, the application of the contingency theory might be problematic in certain aspects. The biggest reservation might be expressed about the issue of the distinction between the internal and external factors that affect the design of MCS in companies. The “cause and effect” relationship among the discussed contingent variables and control systems can be difficult to measure and may be perceived as artificial.

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Moreover, a significant issue associated with this research is also the language in which it was carried out. The interviews were conducted in English, written and informal oral conversations were made in Norwegian and in English. In addition, all the secondary data sources were translated from Norwegian to English. It should be claimed that language barrier might constitute a significant obstacle to the explicit and full expression of the ideas and concepts that were discussed. Despite the fact that both transcriptions of the interviews were validated there is still a possibility that respondents' meanings were misunderstood.

#### **6.4 SUGGESTIONS FOR THE FURTHER RESEARCH**

**T**he issue of MCS designs based on the Beyond Budgeting concept constitutes a rich field for academic research. This dissertation provided only two examples of the implemented control systems in practice. The literature, however, is still scarce in terms of the description of the Beyond Budgeting case studies.

Furthermore, it would be desirable to scrutinize more MCS based on the examined in this thesis concept and find out whether one might observe more organizations that have either the "Culture-based" or "Administrative" control systems. Perhaps other configurations might also be discovered.

The examination of the presence of the influence of the contingent variables both described in the literature (Otley, 1995; Chenhall, 2003) as well as those identified by the author of the thesis on the MCS designs in other organizations seems to be interesting as well.

Moreover, the studies using the quantitative, statistical approach to the scrutinized MCS designs in Miles AS and Posten AS, which tests the presented variables, can be intriguing.

Finally, another look on the issue of MCS designs based on the Beyond Budgeting theory may be from the perspective of or the combination of various theories (e.g. institutional theory), other than the used here the contingency theory. In addition, the examination and comparison of the control systems' configurations in different countries appears to be worth conducting.



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## APPENDIXES

### APPENDIX 1. POSTEN'S KEY FINANCIAL DATA (POSTEN 6, 2014)

#### Nøkkeltall

KONSERN

	2012	2011	2010	2009	2008	2007	2006	2005
RESULTAT								
Driftsinntekter mill. kr.	22.925	22.981	22.451	22.613	23.940	22.662	20.953	18.675
Driftsresultatt (EBIT) mill. kr.	632	956	1.630	248	(14)	813	1.078	1.070
Statlig kjøp mill. kr.	219	345	497	211				326
Andel av inntekter fra enerettsområde	14,6%	14,5%	15,0%	15,3%	14,8%	15,8%	16,9%	18,3%
Omsetning i utenlandske selskaper mill. kr.	6.434	6.446	5.959	5.855	5871	4.886	3.967	1.658
Totalvolum pakker Posten Norge AS mill. stk.	37.3	38.5	36.6	34.9	35	32.1	30.7	31.3
Totalvolum brev Posten Norge AS mill. stk.	2.219	2.223	2.289	2.284	2.598	2.687	2.752	2.654
Utvikling A- og B-post	(8,2%)	(6,1%)	(7,2%)	(10,1%)	0,7%	(0,3%)	(0,8%)	(5,8%)
Leveringskvalitet A-post	85,3%	85,3%	83,5%	88,3%	87,1%	85,1%	82,4%	86,7%
Maskinsorteringsgrad, alle brev	79,6%	79,2%	75%	72%	70%	66%	64%	61%
Årsverk pr. 31.12.	19.388	19.622	19.884	20.555	22.221	21.389	20.202	18.953
Antall salgssteder (postkontor/Post i Butikk)	1.407	1.413	1.434	1.443	1.479	1.487	1.501	1.523
Postens omdømme, andel «Godt inntrykk» (Synovate)	57%	69%	63%	61%	55%	54%	59%	56%

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## APPENDIX 2. CUSTOMER PROMISE IN MILES AS (MILES 5, 2014)

### Customer promise

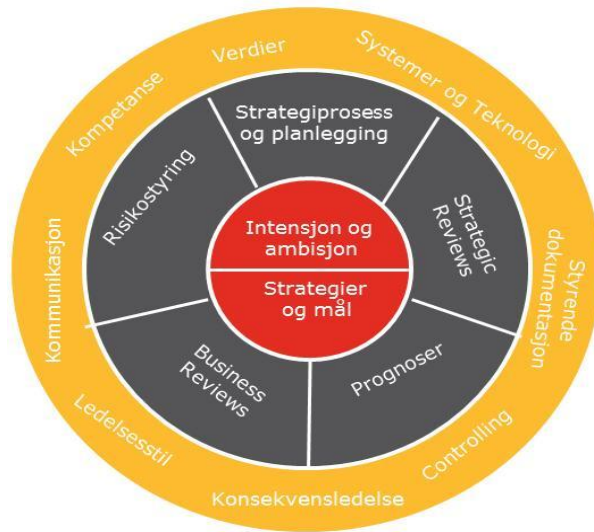
#### We promise that we:

- will act independently and with integrity
- will be on your side and understand your business
- will share our competences with the customers
- will keep us updated on latest technologies, tools and methods
- will be humble and show you respect
- will contribute to a good working environment
- will tell you about the improvements
- **we care**



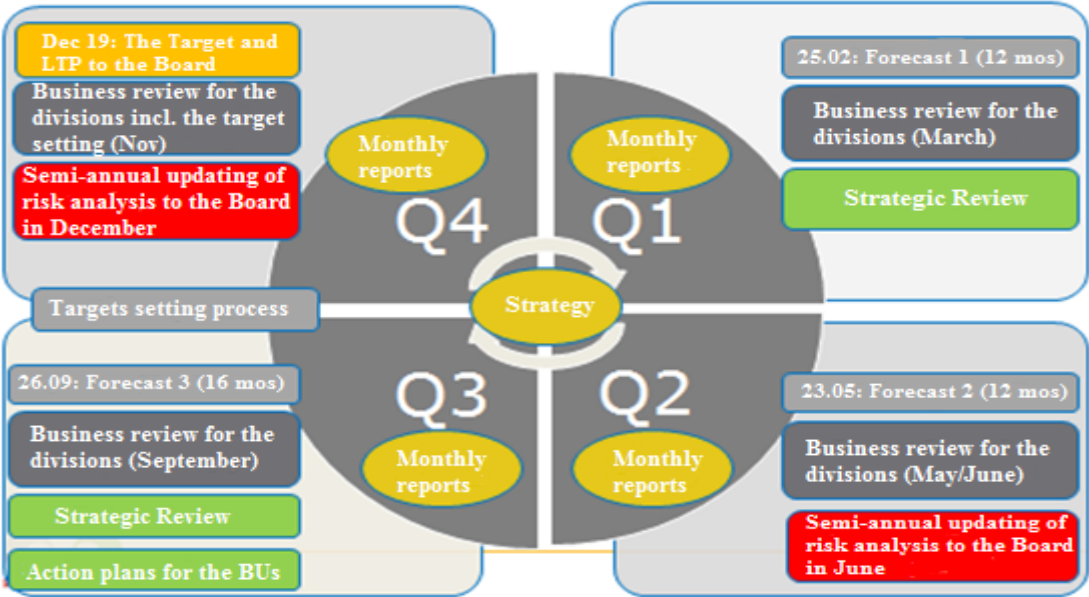
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### APPENDIX 3. POSTEN'S STEERING WHEEL MANAGEMENT CONTROL SYSTEM (POSTEN 2, 2013)





**APPENDIX 4. POSTEN'S STEERING WHEEL AND THE CALENDAR YEAR (POSTEN 2, 2013)**



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## **APPENDIX 5. FURTHER DISCUSSION REGARDING THE ISSUE OF BALANCED SCORECARD AND ABC SYSTEM**

**Balanced Scorecard (BSC)**- this instrument is essential for Beyond Budgeting, because each of the above mentioned perspective appears to be relevant for this concept. The customer perspective helps an organization to focus on creating value to customers, to be more customers oriented. The internal business perspective, in turn, allows companies to concentrate on those activities that are the most important for them, in order to provide the expected value for customers as efficiently and productively as possible. It also contributes to innovations and stimulates improvement. The learning and growth perspective helps an organization to follow its strategic objectives by utilizing its internal skills and capabilities. Balanced Scorecard can thus identify the gap between the two mentioned dimensions (i.e. skills and capabilities) and lead to the closure of these gaps. Finally, the financial perspective is connected with the long-term goals of an enterprise. The measures used in this concept are related to the relevant stage in the cycle of a product or service. Different stages require therefore various measures (Mooraj et al., 1999).

Nevertheless, this concept has some drawbacks such as problematic cause and effect relations that are the core of Balanced Scorecard, lack of focus on trade-offs among measures as well as amongst the previously mentioned perspectives, the problem of equal weighting of all measures, rather poor illustration of the dynamics of the system used for the refinement of this concept, etc. (Chytas et al., 2011). Furthermore, BSC does not take into account the extended value chain, does not identify the community role while defining the environment of the company and finally fail to consider performance measurement as a process that works in two-way (Mooraj et al., 1999). It is emphasized that Balanced Scorecard is not sufficient in itself to overcome the problems with the traditional management control system.

Hope and Fraser (2003a) argue that most companies use annual targets to allocate a defined percentage of the bonus pool (according to the authors, even such an example was given in one of the books written by Kaplan and Norton). The same authors in their earlier publication highlight that the effectiveness of Balanced Scorecard is dependent on the way, in which it is used. They claim that BSC is the most valuable if it builds a picture of the organization's strategy which subsequently can be communicated as well as described to the teams inside it. It also has a strong contribution if it presents a moving picture of observed change from the managers' perspective, which is based on a strategic measurement framework provided by the Scorecard. Hope and Fraser argue that the biggest advantage of this concept is the ability of it

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to give continuous feedback as well as learning. The inappropriate approach is connected with, as it was mentioned, linking targets to rewards (BSC perceived as only “*another version of budget*”). Balance Scorecard is therefore a splendid tool which might be used for engaging as well as educating people in a company’s strategy process. The scorecard enables management to identify the KPIs that are of the essence and that ought to be monitored (Hope and Fraser, 2001).

**Activity based cost systems** provide more accurate information regarding the cost incurred in the business process than the traditional systems, mainly by using cause and effect relationships. The cost allocation process is performed in a following way: one has to determine cost drivers at first, and then it is required to create cost pools that possess the same driver. In the next step one needs to trace all indirect costs to the appropriate pools and calculate the rate for every activity cost pool. Eventually one must allocate the indirect costs to the right product in accordance with amount of costs that this product uses from each of the activity pool. Such systems allow managers to analyze a number of other aspects of the operations that their firm performs plus ABC systems are simple, help them understand which actions are profitable for a company and which are not. The main drawback of this approach is unreliable measurement of the short-term influence of decisions concerning inventory, throughput as well as operating costs (Chea, 2011).

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## **APPENDIX 6. THE THOROUGH ANALYSIS OF THE ELEMENTS OBSERVED IN BOTH MCS DESIGNS**

### **5.1.1 Focus on improved customers' outcomes**

The difference is not so significant with respect to the first discussed leadership principle that requires the company to improve the customer outcomes (Bogsens, 2009). Both examined organizations are customer oriented. In order to increase their clients' satisfaction each firm uses, however, various measures.

By using the described in the empirical chapter approaches such as new delivery models or evaluation of consultant's performance conducted by the clients Miles AS indicates that the latter are of the essence for it. Furthermore, it shows that their satisfaction is a matter of utmost importance for this company. The "Culture-based" MCS facilitates having good relations with both employees and clients because all the activities are performed by the people that do not have to be tightly controlled and can be trusted.

In Posten AS customers are also very important (despite having a monopoly on one market). All the previously described actions e.g. providing Nordic offer to the clients or broader range of products and services are aimed at increasing the customer satisfaction. In this approach one might see a certain influence of the "Administrative" Beyond Budgeting system. All these changes were decided in a hierarchical manner, by the managers on the top of the group.

Nevertheless, despite the different types of Beyond Budgeting MCS both companies are highly focused on the improvement of the outcomes of the customers and they do that according to the needs of their industries, environment and the clients themselves.

### **5.1.2 Responsibility and autonomy**

Responsibility and autonomy are used in a significantly different manner in both scrutinized MCS based on the Beyond Budgeting philosophy.

In Miles AS the importance of organizational culture was emphasized by its CEO several times during the interview. It is claimed that it influences every aspect of the control system in this firm. Owing to the recruitment process (which, as it was mentioned, has a dominant impact on the culture) the company has solely the employees that share Miles' values. Therefore, they do not have to be managed every day, they participate and take responsibility when it is necessary, are given a great deal of responsibility and autonomy even in such

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situations as buying new computers, mobile phones, attending seminars, etc. Thus, on account of the culture that is shared and respected by everyone, this MCS appears to work in relatively unmanaged way. It is in line with the findings of Bourmistrov and Kaarbøe (2013) who claim that managers and workers in Beyond Budgeting systems are supposed to belong to “stretch” zones where employees have the ability to use the transparency of information. They are not afraid to make decisions and be entrepreneurial, where they learn and interact with the business environment, where they like freedom.

In Posten AS one may observe a moderate extent of responsibility and autonomy. It is associated with the MCS based on more administrative measures. Employees are expected to feel like a leaders, contribute, seize opportunities and participate in the decision making process. Nevertheless, the autonomy of action is not as significant as in Miles AS due to the importance of hierarchical relations and mechanisms (e.g. target setting system, allocation of resources and control tools). Thus, the administrative bases of this MCS based on Beyond Budgeting are visible in Posten AS with respect to this principle.

### **5.1.3 Transparency**

In both MCS based on Beyond Budgeting philosophy one may notice different approach to the sixth discussed leadership principle, i.e. transparency.

In Miles AS, it is of the essence. Basically, transparency functions as the control mechanism and is, in a way, the balancing tool for the enormous autonomy and transparency that is given to the employees. In this firm every decision regarding e.g. the purchase of a new computer is placed on a specially made wiki-based intranet. Everyone can see what one bought, where and at what price. Miles AS, therefore, does not need any sophisticated control mechanisms-employees control themselves. Again, such a system is feasible owing to the fact that a special type of culture and certain values are respected and obeyed in this company. Without the employees who were thoroughly recruited to adhere to Miles’ AS way of conduct and principles such a high extent of transparency would have been unattainable. Thus, it can be claimed that a huge amount of transparency can be explained by the presence of “Culture-based” MCS inspired by the Beyond Budgeting philosophy.

In Posten AS, however, the issue of transparency is less important. The company is not in favor of bottom-up solutions, internal benchmarking (perceived as controversial), internal comparison of performance and information. Furthermore, some indicators regarding the

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performance matters are not revealed to the employees (merely know to the top managers). Such an attitude is understandable taking into consideration its type of MCS based on BB philosophy, namely the “Administrative” one. Using this approach a lot of transparency is not needed. It is replaced by frequent and varied reporting concerning various aspect in the company.

#### **5.1.4 Recruitment process**

As it was mentioned plenty of times in this thesis the foundation of the culture and one of the most important element (if not the most important) of the MCS in Miles AS is the specific recruitment process that influences all the areas in the scrutinized company. In this company it is performed in a very thorough and sophisticated manner. Employing people that belong to “stretch” zones (Bourmistrov and Kaarbøe, 2013) and that are trustful, can cope with freedom, a great deal of autonomy is essential. Furthermore, those that have at least ten references and share Miles’ culture and values guarantees that such a control system might be applied in this firm.

As the CEO of the scrutinized company claimed *“I like to say that the recruiting process is the birthplace of the culture”*. Thus, it can be said that the whole system is of the essence and constitutes the basis of the “Culture-based” MCS. However, one could ask oneself a question- is the recruiting process a birth place of the culture or is it the culture that influences the way in which the recruitment process is performed? Maybe, both elements equally influence each other? Perhaps the mentioned cause and effect relationship is more complicated that it seems to be? Nonetheless, this research cannot answer these questions and needs to conclude that the recruiting process influences the culture and not conversely.

In any case, the presence of a thorough and specific recruitment process can be perceived either as a part of the management control system, as it is assumed here, or as an additional, external contingent variable that influence the design of MCS based on the BB philosophy (see the third subsection of the fifth chapter). The latter approach requires, however, from the researcher to decide whether the borders of MCS in companies can be unambiguously settled (is the recruitment process an internal element of the MCS or not?) and it seems to be a difficult task to do.

In Posten AS, in turn, there is no special recruitment process that constitutes a basis of the firm’s control system. Therefore, it seems that more “Administrative” MCS inspired by the

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BB philosophy, where hierarchy and formal control mechanisms are essential, is more appropriate in the companies which do not have any peculiar recruitment system.

### **5.1.5 Leadership style**

The next element that I would like to discuss in this subsection is the leadership style. In Miles AS the “Servant Leadership” approach seems to be explained by the usage of the “Culture-based” MCS in this company. This philosophy of leadership promotes very flat organizational structure, hardly any hierarchy and more informal controls- the issues that are essential in the above mentioned design. Thus, such a style ought to be classified in my opinion as a participative leadership style.

Furthermore, taking into account the whole description of MCS in Miles AS one may say that every element of the control system is tightly connected with the other i.e. due to the appropriate recruiting process one might have the “Culture-based” MCS inspired by the Beyond Budgeting philosophy. In addition, owing to the fact that management control system that is in the same time the strategy of the company, it is possible to have the above mentioned management style. The management style, in turn, has a certain impact on the culture and the perception of the firm externally and it significantly influences the recruitment process (e.g. the best IT consultants want to work in such a company). Thus, it can be claimed that the usage of “Servant Leadership” approach considerably affects and is affected by the design of “Culture-based” MCS inspired by the scrutinized in this thesis philosophy. Therefore, similarly to the above mentioned element it might be also perceived as a contingent variable (they are discussed in the third subsection of this chapter).

As it was mentioned in the fourth chapter in Posten AS, in turn, one can probably observe the value-based leadership style. This style is more appropriate in the “Administrative” MCS based on the BB concept, where such an attitude is noticeable and essential (hierarchy and control with moderated extent of responsibility and autonomy). Nevertheless, in this case a more thorough research is required in order to make more certain claims regarding the leadership style in Posten AS as well as what its influence on the design of the control systems is and how it affects the MCS.

### **5.1.6 Governance of employees’ behavior**

With reference to governance of employees’ behavior in both companies one may notice considerable differences between these two MCS based on BB concept.

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In Miles AS the basic values are professional authority and warmth, which together with the features of the defined notion of outstanding workplace, are aimed at governing the attitude of workers. These as well as the other important values are embedded in the culture are highlighted in the recruitment process. All employees need to respect and “live” them. Thus, the cultural basis of Miles’ MCS again influence the way in which this element is used.

In Posten AS one may find certain governing documents that are divided in the described four levels of importance which in themselves are of an administrative nature. Furthermore, the behavior is also influenced by various reporting and controlling tools and procedures. Hence, it can be argued that organization culture and certain values have less impact on the governance of the workers’ attitude. More important measures are associated with the administrative approach that constitutes the basis of the MCS in Posten AS.

### **5.1.7 Organizational structure**

With respect to the issue of organizational structure of the scrutinized companies, one may observe significant differences between Miles AS and Posten AS. Such discrepancies are understandable mainly due to the various size of each respective firm.

The former has very flat organizational structure, the latter possesses divisional one. Nevertheless, the influence of the types of MCS might be noticed in terms of the usage of such approaches to the organizational structure. Owing to the fact that the culture in Miles AS promotes friendly atmosphere and co-management, where everyone is equally important and participates in the management process in the company, one may observe a very flat structure in this organization. In Posten AS, in turn, the administrative measures can be easier performed in the divisional structure which is suitable for relatively hierarchical approaches in the organization.

The issue of the organizational structure is associated with the similar consideration as the above mentioned recruitment process and leadership style (i.e. can be perceived as the element of the MCS or as a contingent variable). Nevertheless, due to the presence of a great deal of contingency-based research in the literature that places it among the contingent variables, the influence of the organizational structure will be more thoroughly described in the third sub subsection of this chapter.



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### **5.1.8 Targets setting and evaluation method**

The targets setting, evaluation and rewards system differ considerably in the examined organizations.

In Miles AS there are no quantitative goals. The employees decide how much they want to work, when to attend the courses or conferences, if they want to work overtime, etc. They set the objectives for themselves. The system can work in such a manner because about 50% of the consultants' salary based on the provisions from the hours invoiced. Thus, it can be claimed that the system is flexible and leave a lot of freedom for the employees. There is no group or team based bonuses because, basically, it is not feasible in Miles AS to form a team (mainly consultants' work individually for various customers). Such a freedom is merely possible because of the appropriate recruitment system that reflects the culture and values of the scrutinized organization. Therefore, one may claim that the "Culture-based" MCS inspired by the BB philosophy explains and contributes to the above described way of setting targets and the applied rewards system.

In Posten AS the goals setting method, evaluation and rewards system is diametrically different. The objectives are determined in a hierarchical manner i.e. by the CEO and confirmed by the Board for the annual period. Furthermore, various KPIs are employed so as to facilitate the measurement of the performance. The evaluation process is also performed applying the top-down approach, using different reports and tools (e.g. Strategic Review for the company goals). The external benchmarking is carried out as well. In terms of the rewards system in Posten AS there is a combination of individual and group bonuses. Hence, it can be claimed that such an approach can be explained by the application of the "Administrative" type of the MCS based on the Beyond Budgeting philosophy. In this system hierarchical relationships are preferred and supported by frequent and diverse reporting.

### **5.1.9 Allocation of resources, planning and coordination**

Allocation of resources, planning perspective and coordination methods based on the respective process side principles are differently used in both of the examined MCS based on the Beyond Budgeting philosophy. In Miles AS the resources are allocated and coordinated dynamically, on the daily basis, when needed. In terms of planning, it is performed roughly using spreadsheets that are also important for forecasting. One can notice the simple way in which these processes are performed. Simplicity of solutions and tools (visible also in the

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target setting method) is also a feature of the “Culture-based” MCS based on the Beyond Budgeting philosophy. In such an approach there is no need of sophisticated planning mechanisms or allocation measures. The most important thing is, however, the feeling of the business. Owing to the specific context of Miles AS (e.g. size, industry, offered services) that is examined in the third subsection of the analytical chapter one might use this kind of approach to the examined BB principles.

In Posten AS the new MCS allows also for more dynamic and flexible allocation of resources. Nevertheless, a great many decisions regarding this examined issues are made by the economic department. Planning in the scrutinized firm follows different cycles, but employees still think in the annual terms. An important tool is the Action plan. It comprises the reports that are tightly connected with other measures e.g. Strategic Review. With respect to these elements one may again explain this approach to planning, resource allocation and coordination by the usage of the “Administrative” type of MCS based on the Beyond Budgeting philosophy. Therefore, in Posten AS hierarchical relationships (the vital role of economic department), frequent reporting (e.g. Action plans, LTP) and controlling might be observed.

#### **5.1.10 Control mechanisms**

The control mechanisms in both MCS based on the Beyond Budgeting philosophy differ significantly. In Miles AS, as it was mentioned before, the main control mechanism is transparency. Nevertheless, also other control tools are employed in its system. These are the consultant evaluation with customer, benchmarking and employee satisfactory rating. Therefore, it can be argued that control mechanisms are based on relative and individual performances. They are unsophisticated and understandable. The importance of Miles’ culture and values contributes to less complicated tools that are applied in the MCS in Miles. The “Culture-based” approach leads to simple control and costing practices where no advanced techniques are used.

In Posten AS, the issue of control mechanisms is complex and complicated. A great many tools, reports are prepared in order to perform the matter of supervision by the management. The majority of the measures are not relative based. Among the used tools and reports one might find the risk management approach, Strategic Review, Business Review, Mini-Business Review, monthly reports, and the market analysis. Additionally, ABC costing is applied. These are the comprehensive solutions which require a lot of effort and time to prepare. Such

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a multitude of reports can be explained by the fact that Posten AS uses the “Administrative” type of MCS based on the Beyond Budgeting philosophy. In this approach frequent and advanced techniques of controlling are observed.

#### **5.1.11 Forecasting**

Finally, in this sub subsection I decided to include the forecasting methods because it constitutes a significant element of every MCS. In Miles AS forecasting is simple and performed by every CEO in the three operating branches. The spreadsheets are used in such a process in order to predict the most likely amount of costs that will be incurred in the following month(s). Nonetheless, forecasting is not particularly important in Miles AS according to its CEO. Thus, it can be argued that using the “Culture-based” MCS inspired by the Beyond Budgeting philosophy leads to the simplicity of forecasting method and its moderate significance in Miles AS. Again, the feeling of the business is more salient in such an approach.

In Posten AS, in turn, the issue of forecasting is substantial. It comprises two perspectives: short-term and long-term approaches. The former is performed by the rolling forecasts, the latter constitutes Long-Term Planning (LTP). In the examined company one might still observe certain confusion that is the result of the old MCS approach based on annual budgeting where the connection between the target setting and forecasting is noticeable. Nevertheless, the prevailing confusion is about to be overcome. The rolling forecast is updated three times a year and it is performed in February, May and September (12, 12 and 16 months perspectives). The LTP is expected to forecast the situation in the next three years. Again, the usage of the “Administrative” type of MCS inspired by the Beyond Budgeting philosophy explains the presence of more advanced and complex forecasting techniques and mechanisms.

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## APPENDIX 7. INTERVIEW GUIDES

### Interview questions in Miles AS:

1. How would you assess the influence of the changes in the industry, external environment (e.g. emergence of new competitors, changes in the regulations, emergence of new ways of communication through the internet) on your model of management? Do you perceive the mentioned factors as threats for Miles or as opportunities?
2. With respect to the new competitors, do you perceive that the competition is more and more severe or conversely, or the influence of the changes of the regulations e.g. associated with the different programs need to implement constitute a threat or an opportunity for Miles?
3. What about the competitors? How would you assess their number in comparison with 2005 when Miles was established?
4. Another question is connected roughly speaking with the first one. How would you describe market fluctuations, the volatility of your business in comparison with the situation when your company was founded in 2005? Is it more unpredictable to forecast the future or maybe conversely?
5. Could you describe your management model in great detail? That is- how do you set your targets, forecasts, allocate your resources, etc.
6. What about forecasts? Do you use rolling forecasts?
7. What about the allocation of resources? How do you do that?
8. What is the perspective of your forecasts?
9. What about benchmarking? Do you use external and/or internal benchmarking?
10. Do you have any comparison measures internally, to compare employees performances?
11. Do you have any team bonuses?
12. Do you have any other performance criteria in evaluations apart from that what you have already said?
13. Do you have any book of values that guide the performance of the employees?
14. How would you describe the influence of the model on the exploitation of the strategic opportunities on the market?
15. How would you assess the relationship between the model (management control systems) in your company and the strategy pursued by your company? Does your model influence the strategy or maybe conversely?

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16. How do the control mechanisms look like in your company?
  17. What are the procedures if any that your company pursue, maybe you prepare certain reports, evaluations etc. to minimize for example the self-interest behavior or abuse of resources?
  18. Do you perceive any organizational routines associated with your management model e.g. certain practices, informal practices in terms of behavior, talk etc. or not?
  19. Would you improve anything in your model or not?

**Interview questions in Posten AS:**

1. -How would you assess the changes in the industry, the external environment in terms of emergence of new competitors or changes in regulations or the emergence of the new ways of communication through e.g. Internet on your management model? Do you perceive these mentioned factors as threats or rather opportunities for Posten?
2. -How would you describe market fluctuations in your business in comparison with the situation e.g. 10 years ago, is it more unpredictable to predict the future or maybe conversely?
3. How would you assess the impact of the internal factors, from the company itself, on the change of the management model?
4. How would you assess the reliability of traditional management model based on annual budgeting when goals, forecasts, and allocation of resources are not separated? How effective such system was in Posten? What is your attitude towards the old system?
5. Are there any practices, attitudes that remained in the company and are not connected with the new system?
6. When did you decide to implement the new model and why? Who was the initiator of the changes?
7. How has the change process looked like in your company? What challenges you faced during the transformation? How has the employees and middle managers reacted on changes?
8. How have you addressed the challenges you faced during the transformation?
9. What is your opinion about the new model? How would you describe it?
10. What are the main characteristics of your model? What tools do you use in your model e.g. KPI's, rolling forecasts, etc.? Describe all the instruments and procedures that you use in your management model.

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11. How does the model based on Beyond Budgeting philosophy influence your capability to achieve your goals and more efficiently predict the future and allocate resources as effectively and effectively as possible?
  12. What should be improved in your model and why?
  13. What is the impact of the new model on Posten's performance? Please compare it with the results produced by the old model.
  14. How do you think the change of management model influenced the company and the behavior of the employees? What are the observed changes (e.g. changes in the structure of organization)?
  15. How do you think the managers, top management and employees have perceived the changes in the management model of the company?
  16. How would you describe the influence of the new model on the exploitation of the strategic opportunities on the market?
  17. Has the change had any influence on the organizational routines, understandability of expectation among employees, the identity of your company (identification with the company among workers)?