



Measuring Business Excellence

Emerald Article: Is your organisation ready for beyond budgeting?

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Article information:

To cite this document: André A. de Waal, (2005), "Is your organisation ready for beyond budgeting?", Measuring Business Excellence, Vol. 9 Iss: 2 pp. 56 - 67

Permanent link to this document:

<http://dx.doi.org/10.1108/13683040510602885>

Downloaded on: 29-03-2012

References: This document contains references to 10 other documents

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Insights from practice

Is your organisation ready for beyond budgeting?

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Summary

Purpose – Traditionally, budgeting is considered to be one of the most important management tools to steer the organisation, evaluate its performance and motivate its people. However, criticism of the budgeting process has increased considerably in the past decade. This paper aims to examine an alternative to budgeting known as “beyond budgeting”, comparing it to traditional budgeting.

Design/methodology/approach – Examines some of the literature regarding budgeting and describes the beyond-budgeting entry scan, a tool which helps organisations to assess whether they are ready to start the powerful change process of abandoning the budget.

Findings – There are many possibilities, on the scale of traditional budgeting to beyond budgeting, to modernise the budgeting process. However, the beyond-budgeting model deserves serious consideration because it enables an organisation to look with a fresh view at its budgeting process, other planning processes, and organisational structure.

Originality/value – Each organisation should at least explore the benefits of introducing one or more beyond-budgeting principles. This is especially interesting because research has shown that the more beyond-budgeting principles an organisation implements, the better it performs.

Keywords Budgets, Behaviour

Paper type Research paper

Introducing beyond budgeting

The Beyond Budgeting Round Table (BBRT) consortium[1] has worked since 1998 on developing an alternative to the budgeting process. After conducting research at several organisations that fully or partly abandoned their budget, the BBRT developed a generic model that is based on 12 principles. In the “ideal” beyond-budgeting organisation, all 12 principles have been fully implemented. The first six principles concern creating a flexible organisational structure in which authority is devolved to employees. Principles seven to 12 deal with designing an adaptive management process for a flexible organisational structure. The 12 beyond-budgeting principles are described underneath (Hope and Fraser, 2003; de Waal *et al.*, 2004).

Creating a flexible organisational structure (principles 1 through 6):

1. *A self-governance framework.* In the beyond-budgeting organisation the hierarchical organisational structure is subdivided into smaller, self-managing units. The traditional central control system with many rules and procedures is thus abandoned. Managers have the authority to run their unit as they see fit. The hierarchical structure is used only if decisions have to be taken that affect all units. Because the self-managing units are small, the organisational structure is less complicated and therefore more flexible. As a result, so exploitation costs are decreasing.
2. *Empowered managers.* Organisational members have the freedom and opportunity to act at their own discretion. There are no tight controls that restrict people in their room to manoeuvre. Managers of self-managing units act within the values and strategic

boundaries as set by senior management. Managers are responsible for both short and medium term goals and can decide for themselves how to achieve these goals.

3. *Accountability for dynamic outcomes.* People in the beyond-budgeting organisation are responsible for achieving competitive results, not for achieving pre-set targets for a department or function. Managers get their evaluation after it is known what they have achieved compared to what they could have achieved, given the circumstances. The desired results are set dynamically (i.e. they can be adjusted throughout the year) and thus not beforehand because that would discourage people to achieve more than the preset targets.
4. *Network organisation.* The beyond-budgeting organisation is structured in such a way that self-managing units form independent, customer-focused entities. These entities focus completely on the market and delivering value to customers. They adapt quickly to changing customer needs as well as unexpected opportunities and threats in the market. The market is the determining factor and not the traditional hierarchical central planning, budgets and controls.
5. *Market coordination.* Services from central support units (like HRM, ICT) can be purchased by the self-managing units on the basis of service level agreements. Each unit can decide for itself whether it wants to use services from central support or whether it wants to hire external support. The central support units are in this way challenged to deliver high-quality and cost-efficient services.
6. *Supportive leadership.* The organisational members are encouraged to achieve stretching goals and coached by senior managers in obtaining these. The managers of self-managing units are allowed to take risks and make mistakes, without directly being punished for it. The senior managers act as mentors who coordinate the relations with and between unit managers.

Designing an adaptive management process (principles 7 through 12):

7. *Relative targets.* The organisation's strategy is aimed at beating the competition, not last year's budget. The targets are set in relation to the organisation's main competitors or comparable organisations (in the case of nonprofit organisations). Managers are involved in the target-setting process, which has a strong motivating effect. The targets are continuously adapted based on the performances of competitors and market developments.
8. *Continuous strategy-setting.* The strategy-setting process in the beyond-budgeting organisation is a continuous and bottom-up process, not a yearly top-down exercise. The strategy is continually adapted to the circumstances, based upon signals and input from the organisation's front line.
9. *Anticipatory systems.* At least once every quarter managers make rolling forecasts which extend beyond year end (preferably six quarters ahead) for both the financial and non-financial critical success factors of the enterprise. There is no connection between the forecasts and the reward system, as a result of which forecasts can be set in an objective way. The senior managers provide support to managers of the self-managing units about future actions, based on these forecasts.
10. *Resources on demand.* Managers allocate resources to those units where they are needed most, at the time they are needed most. The self-managing units decide for themselves how much resources they need to satisfy the demands of their markets and make investment plans accordingly. Senior management "rewards" the best investment plans by allocating resources to them. There are no fixed investment budgets based on last year's budgets. Consequently, units have a different investment pool each year.
11. *Fast, distributed information.* Information is quickly available and easy to access for those who need it in the organisation, at the time they need it. The information is not over-detailed and contains both lagging and leading indicators. A balanced set of performance indicators is used to compare the results of the self-managing units with

the targets and the results of the other units in the organisation, competitors or comparable organisations. Senior management regularly checks to see whether the self-managing process works or whether corrective steering is needed.

12. *Relative team rewards.* The rewards are based on the results of the self-managing units and the organisation as a whole, in comparison with the competition. The fact that the reward structure is based on a combination of individual and group rewards, stimulates the team spirit of the organisation.

The essence of the beyond-budgeting model is that organisations must change their focus from top-down control to bottom-up empowerment, because this seems to be the best way to adjust to the fast changing world of the information age (Hope and Fraser, 2003). Through the use of rolling forecasts and continuous up-to-date information, companies can react quickly to changing market conditions. Because the self-managing units are highly customer-focused and market-oriented, they have the freedom to do whatever it takes to please customers. Because employees' performance is evaluated at the end of the year and compared to the results that could have been achieved under the circumstances, people stay motivated and strive continuously for the best. As the organisation has no budget allocation at the beginning of the year, investments are only made throughout the year, in plans which are in accordance with the organisation's strategy and which add value to the company.

The interest in the beyond-budgeting model is growing, as is illustrated by the increasing number of organisations which have implemented the model or parts of it: Ahlsell, Beckers, Borealis, Bulmers, Coors Brewers UK, Deutsche Bank, IKEA, Leyland Trucks, Rhodia, Sight Savers International and Unilever UK. These organisations state the following advantages of beyond budgeting: lower costs (of both management processes and organisational structure), improved quickness of reaction, and stronger commitment of employees. A good example of these advantages is that of Svenska Handelsbanken, which has been engaged since 1970 in implementing and refining of what we now refer to as the principles of beyond budgeting. From the mid-1970s onward, Svenska has consistently performed better than its European competitors on virtually every performance indicator (e.g. return on equity, total shareholder return, earnings per share, cost-to-income ratio, and client satisfaction). Senior management attributes this excellent performance to beyond budgeting and keeps on refining the application of the beyond-budgeting model in the company.



The beyond-budgeting entry scan (BBES)

It is advisable to check whether people in the organisation feel the need to change the budgeting process, before starting the implementation of the beyond-budgeting model. If this need exists, it then becomes important to estimate the effort required for implementation. The BBES is specially developed for this purpose. The scan is not so much an elaborate analysis but rather a quick scan that functions as a catalyst for the discussion of the desirability and feasibility of implementing beyond budgeting. The BBES has been developed in three stages in a period of two years. In the first stage, a draft version of the scan was made on the basis of management literature and several interviews, which then was tested at a pilot company. In the second stage, the scan was reworked and retested, at a different pilot company. In the third stage, the scan was again updated and piloted at several companies, and a final version of the scan was made (de Waal *et al.*, 2004).

The BBES poses three questions:

1. Does the organisation currently have problems with the budgeting process and if so, is it prepared to adapt and change this process?
2. To what extent does the organisation currently work according to the beyond-budgeting principles?
3. What are the preconditions for successfully implementing beyond budgeting in the organisation?

These three questions will be discussed in the following paragraphs.

The need for beyond budgeting

A possible implementation of the beyond-budgeting model starts with identifying the need for adapting and changing the budgeting process. After all, if the organisation is not experiencing any problems with the current budgeting process, implementation of a new model would be of little or of no value. It is therefore really necessary to check whether there is dissatisfaction within the organisation with the existing budgeting process. Once it has become clear that there is a need for change, the willingness of the organisation to adapt and change the organisational structure and processes should be identified. The opening questions of the BBES are as follows:

- How satisfied are you with the current budgeting process?
- Is the organisation prepared to change the budgeting process?

Status of the organisation

To determine the degree to which the organisation already works according to the 12 beyond-budgeting principles, the BBES examines the current method of working. In addition, the BBES makes an inventory of the possibilities and willingness of the company to adapt and change its method of working, if needed. Therefore BBES-questions are developed for each of the 12 beyond-budgeting principles.

Principle 1: a self-governance framework. A decentralized organisational structure with self-managing units constitutes the basis of beyond budgeting. Decisions in such a structure are made on the front-line, which is closest to the customer, and therefore it is possible to respond quickly to threats and opportunities that arise. The self-managing units contain several disciplines such as marketing, sales, logistics and finance. To safeguard the autonomy of the units, "remote management" is practised by senior management, i.e. it only comes into action when a unit is ill-performing during a longer period of time. The questions of the BBES for principle 1 are:

- The beyond-budgeting model uses a decentralized organisational structure with self-managing units. To what extent is your organisation currently decentralised?
- If your organisation is not or not completely decentralised, is it possible to implement (further) decentralisation?
- If (further) decentralisation is possible, are the people in the organisation in your opinion prepared to carry out the decentralisation?

Principle 2: empowered managers. For beyond budgeting to be effective, managers of the self-managing units need to have the freedom to act to their own discretion, within the strategic boundaries. This means that managers, if conditions permit, can independently set certain actions in motion without prior authorisation of senior management. If market conditions are favourable, it will not be difficult to adhere to this principle. However, if conditions are less favourable, the delegation of responsibilities could pose problems for senior management. There will, for instance, be an increased need to monitor the self-managing units and to check and control their operations. The questions of the BBES for principle 2 are:

- The beyond-budgeting model gives managers considerable freedom to act at their own discretion. To what extent do managers of lower levels in your organisation have the freedom to take decisions autonomously?
- If managers in lower organisational levels have limited or no freedom, is it possible to enlarge their authority to act?
- If (further) delegation of authority is possible, is senior management in the organisation in your opinion prepared to do so?

Principle 3: accountability for dynamic outcomes. In the beyond-budgeting model, organisational members are held accountable by senior management for achieving challenging and dynamic targets. They are evaluated on their results compared to what they

could have achieved. Pre-set targets are not used in the beyond-budgeting organisation, instead targets dynamically are set (i.e. they can be adjusted) compared to the competitors or comparable organisations. The questions of the BBES for principle 3 are:

- The beyond-budgeting model states that managers should be responsible for achieving dynamic targets. To what extent are the targets in your organisation dynamic, which means they can be adjusted up or down, depending on the circumstances?
- If your organisation does not use dynamic targets, is it possible to introduce dynamic targets?
- If dynamic targets can be introduced, are people in the organisation in your opinion prepared to do so?

Principle 4: network organisation. The beyond-budgeting organisation is structured around independent, customer-focused units that replace the traditional design with hierarchical functions and departments. The units focus primarily on delivering value to customers, quick reaction, and anticipating changing local circumstances or unexpected threats and opportunities. The questions of the BBES for principle 4 are:

- The beyond-budgeting model uses an organisational structure of independent customer-focused units. To what extent is your organisation currently focussed on customers?
- If your organisation is not or not enough focussed on customers, is it possible to implement a customer-focused structure?
- If implementing a customer-focused structure is possible, are the people in the organisation in your opinion prepared to do so?

Principle 5: market coordination. In the beyond-budgeting organisation activities are coordinated on the basis of demand and supply, instead of being steered by central planning, budgets and controls. The self-managing units decide for themselves how many services they purchase from the central support units, they can also go to an outside company. This forces the central support units to deliver high-quality services as efficient as possible. Originally the question of the BBES for principle 5 was: "How are the activities and costs of the central support units (like HRM and ICT) coordinated and accounted for in your organisation?" However, when the BBES was tested, a few of the testing companies remarked that this question was not really relevant. In their opinion the way central support units are organised does not affect the implementation of beyond budgeting. Therefore, no questions have been included in the BBES for principle 5.

Principle 6: supportive leadership. In the beyond-budgeting organisation, organisational members are managed on the basis of coaching, not on receiving and executing orders. Senior managers act as coaches who do immediately call lower-level managers to account for their mistakes. Bad news is directly shared by the self-managing unit and senior management, so that they can give offer support as needed. The coaching style stimulates organisational members to be more entrepreneurial. The questions of the BBES for principle 6 are:

- Senior managers in a beyond-budgeting organisation are not directive but supportive and have a coaching attitude. To what extent can the prevailing management style in your organisation be described as coaching?
- If managers in your organisation only have a limited coaching style, is it possible to improve on this style?
- If developing a coaching management style is possible, are the people in the organisation in your opinion prepared to do so?

Principle 7: relative targets. Managers in a beyond-budgeting organisation set goals in relation to the competition. They aim their action plans at beating the competitors, not the budget. The gaming effect which often occurs during target setting is absent because all

targets are set equal or better than the competition. The targets are relative, i.e. if a competitor or comparable organisation (in the non-profit sector) performs better, the targets are adjusted to make up for the difference. The questions of the BBES for principle 7 are:

- The beyond-budgeting model uses targets that are set in relation to the competition. To what extent is this the case in your organisation?
- If targets in your organisation are not relative, is it possible to implement relative target setting?
- If relative target setting is possible, are the people in the organisation in your opinion prepared to do so?

Principle 8: continuous strategy setting. Because changing circumstances can render a strategy obsolete, the strategy-setting process in the beyond-budgeting organisation is a continuous process. It is bottom-up, because the strategy is based upon input of the self-managing units, which are closest to the market. The questions of the BBES for principle 8 are:

- The beyond-budgeting model uses a continuous bottom-up strategy-setting process. To what extent is the strategy-setting process in your organisation structured in this way?
- If the strategy-setting process in your organisation is a yearly and/or top-down process, is it possible to make the process continuous and bottom-up?
- If it is possible to make the strategy-setting process continuous and bottom-up, are the people in the organisation in your opinion prepared to do so?

Principle 9: anticipatory systems. Each quarter, the beyond-budgeting organisation makes rolling forecasts of the most important financial and non-financial indicators, looking six quarters ahead. These forecasts have no connection with the reward system and earlier forecasts, so an objective estimation can be made without aiming at pre-set targets. The questions of the BBES for principle 9 are:

- The beyond-budgeting model uses rolling forecasts that look six quarters ahead. To what extent does your organisation use this type of rolling forecasts?
- If your organisation does not use this type of rolling forecasts, is it possible to implement them?
- If it is possible to implement this type of rolling forecasts, are the people in the organisation in your opinion prepared to do so?

Principle 10: resources on demand. The self-managing units in the beyond-budgeting organisation do not “automatically” get a resource budget at the beginning of the year, which builds on the budget of the previous year. They have to obtain resources based on good quality business plans. Adaptations in this allocation can be made during the year, based on changing internal and external circumstances. Senior management has to quickly evaluate the plans so the units can seize on opportunities. The questions of the BBES for principle 10 are:

- In the beyond-budgeting organisation, resources are allocated on the basis of need, not on the previous year budgets. How are resources allocated in your organisation?
- If resources are not or not enough allocated flexibly, is it possible to implement a more flexible allocation process, based on good-quality business plans?
- If more flexibility is possible, are the people in the organisation in your opinion prepared to make the allocation process more flexible?

Principle 11: fast, distributed information. In the beyond-budgeting organisation, good-quality management information is freely available and easily accessible to everyone in the organisation. This information, which includes a set of lagging and leading indicators, is used to compare the results of the self-managing units with targets, results of other units and competitors or comparable organisations (benchmarking). The questions of the BBES for principle 11 are:

- The beyond-budgeting model has an efficient and effective management information supply process, including a set of financial and non-financial indicators. To what extent does your organisation currently has such an management information supply process?
- If the quality of the information supply process in your organisation is not sufficient, is it possible to improve it?
- If (further) improving the management information supply process is possible, are the people in the organisation in your opinion prepared to do so?

Principle 12: relative team rewards. The reward structure in the beyond-budgeting organisation is based on a combination of the results of the self-managing units and the results of the organisation as a whole. At the end of the year, the results are evaluated and compared to the results that were possible to achieve in the specific market situation, compared to the competition and comparable organisations. The questions of the BBES for principle 12 are:

- The beyond-budgeting model uses a reward structure that consists of a combination of individual and group rewards (balanced rewards). To what extent does your organisation uses such a structure?
- If your organisation does not use such a balanced reward structure, is it possible to implement a reward structure based on individual and group results?
- If implementing a balanced reward structure is possible, are the people in the organisation in your opinion prepared to do so?

Precondition for a successful implementation

It is important that the preconditions for a successful implementation of the beyond-budget model are known before implementing it. Various beyond-budgeting projects (see for example the case of Cleaning Industries Netherlands further on in this article) have made it clear that the role of corporate can be decisive in the process. When an organisation operates independently, it can decide for itself whether or not to implement the beyond-budgeting model. However, if a company is part of a larger organisation or conglomerate, for instance a business unit of a multinational, it often is not authorised to adapt such an important business process like budgeting on its own. Often, corporate does not or not yet want to give up managing its organisational units with pre-set financial targets. It is then virtually impossible for an organisational unit to implement the beyond-budget model. At the most it can try to implement some of the 12 beyond-budget principles. The final question of the BBES is: "Is your organisation part of a larger organisation or conglomerate? If so, is your organisation authorised to adapt and change the budgeting process?"

The complete test

Table I shows a complete overview of the BBES, including the possible answers to the questions (the BBES is also available at www.beyondbudgeting.nl). Completing the questionnaire will be followed by immediate advice on whether the implementation of beyond budgeting has a chance of success in the organisation.

After the questionnaire of the BBES has been completed, the answers are "translated" into colour and depicted in a scheme. On the basis of this colour scheme, an advice is given on whether or not to implement beyond budgeting. With the BBES-results, an organisation can decide whether it will start implementing the beyond-budgeting model or whether it will first improve its current budgeting process ("better budgeting"). The colour scheme that is used is discussed below:

1. Need for beyond budgeting (opening questions A + B):

- *Green.* The implementation of beyond budgeting should be seriously considered.
- *Orange.* The test result shows that the need or preparedness for changing the budgeting process is moderate. The lack of need or preparedness of the organisation

Table I Complete overview of the BBES

		Possible answers	
Opening questions			
A.	How satisfied are you with the current budgeting process?	Satisfied	Reasonably satisfied
B.	Is the organisation prepared to change the budgeting process?	Not at all	To a certain degree
			Dissatisfied Fully prepared
Principle questions			
1a.	To what extent is your organisation currently decentralised?	Not at all	Partly
1b.	Is it possible to implement (further) decentralisation?	No	To a certain degree
1c.	Are the people in the organisation prepared to carry out the decentralisation?	No	To a certain degree
			(Almost) completely Yes Yes
2a.	To what extent do managers on lower organisational levels have the freedom to take decisions autonomously?	Little to no freedom	Limited freedom
2b.	Is it possible to enlarge managers' authority to act?	No	To a certain degree
2c.	Is senior management in the organisation prepared to delegate authority?	No	To a certain degree
			Large degree of freedom Yes Yes
3a.	To what extent are the targets in your organisation dynamic (i.e. they can be adjusted up or down, depending on the circumstances)?	All targets are preset and fixed	Some targets are dynamic
3b.	Is it possible to introduce dynamic targets?	No	Limited
3c.	Are the people in the organisation prepared to introduce dynamic targets?	No	To a certain degree
			Yes Yes
4a.	To what extent is your organisation currently focussed on customers?	Hardly	Partly
4b.	Is it possible to implement a customer-focused structure?	No	To a certain degree
4c.	Are the people in the organisation prepared to implement a customer-focused structure?	No	To a certain degree
			Yes Yes
5.	No questions		
6a.	To what extent can the prevailing management style in your organisation be described as coaching?	Hardly	Partly
6b.	Is it possible to develop a coaching management style?	Limited	To a certain degree
6c.	Are the people in the organisation prepared to do so?	No	To a certain degree
7a.	To what extent are targets in your organisation set relative to the competition?	None of the targets are relative	Some targets are relative
7b.	Is it possible to implement relative target setting?	No	To a certain degree
7c.	Are the people in the organisation prepared to do so?	No	To a certain degree
8a.	To what extent is the strategy-setting process in your organisation continuous and bottom-up?	Yearly, top-down	Yearly, bottom-up <i>OR</i> flexible, top-down
8b.	Is it possible to make the strategy-setting process continuous and bottom-up?	No	To a certain degree
			Yes
8c.	Are the people in the organisation prepared to do so?	No	To a certain degree
9a.	To what extent does your organisation use rolling forecasts that look six quarters ahead?	Not at all	Limited
9b.	Is it possible to implement rolling forecasts that look six quarters ahead?	No	To a certain degree
9c.	Are the people in the organisation prepared to do so?	No	To a certain degree
10a.	How are resources allocated in your organisation?	On the basis of the budget	On the basis of previously made investment plans
			At the time and place where needed
10b.	Is it possible to implement a more flexible allocation process, based on good-quality business plans?	No	To a certain degree
10c.	Are the people in the organisation prepared to do make the allocation process more flexible?	No	Limited
			Yes
11a.	To what extent does your organisation currently has an efficient and effective management information supply process, including a set of financial and non-financial indicators?	Not at all	Limited
			Completely
11b.	Is it possible to improve the management information supply process?	No	To a certain degree
			Yes

(Continued)

Table I

		Possible answers	
11c. Are the people in the organisation prepared to do so?	No	To a certain degree	Yes
12a. To what extent does your organisation use a reward structure based on a combination of individual and group rewards?	Not at all	For some of the management levels	For the entire organisation
12b. Is it possible to implement a structure based on individual and group results?	No	To a certain degree	Yes
12c. Are the people in the organisation prepared to do so?	No	To a certain degree	Yes
Final question			
I. Is your organisation part of a larger organisation or conglomerate? If so, is your organisation authorised to adapt and change the budgeting process?	Part of a larger entity + no authority to adapt budgeting	Part of a larger entity + limited authority to adapt budgeting	Not part of a larger entity <i>OR</i> part of a larger entity + authority to adapt budgeting

to change should be a point of special attention during the implementation of the beyond-budgeting principles.

- *Red.* Implementing beyond budgeting is strongly advised against. The test result shows that there is no the need nor preparedness to change the budgeting process. Not until the need and preparedness to change has increased, should you consider implementing the beyond-budgeting model.

2. *Status of the organisation (principle questions 1-12).* The colours for the scores are given for each principle:

- *Green.* There are hardly any to no obstacles to the implementation of this beyond-budgeting principle.
- *Orange.* Some obstacles can be expected during the implementation of this beyond-budgeting principle. Several elements will require special attention.
- *Red.* Many obstacles can be expected during the implementation of this beyond-budgeting principle. Many elements need to be changed substantially.

3. *Precondition (final question I):*

- *Green.* You can seriously consider implementing the beyond-budgeting model because you have the authority to do so.
- *Orange.* You cannot benefit from all the advantages of beyond budgeting because your organisation is not completely authorised to change autonomously the budgeting process. You first have to obtain permission before you can begin or continue with beyond budgeting.
- *Red.* You cannot implement beyond budgeting because your organisation does not have the authority to do so. You first have to obtain permission before you can start with beyond budgeting.

BBES in practice: Cleaning Industries Netherlands

Cleaning Industries Netherlands B.V. (CIN)[2] is a subsidiary of multinational World Cleaning, Inc., a manufacturer of household products. The organisation produces A-brands as well as house brands and has a leading position on almost all of the markets it operates in. The company has a sales office in The Netherlands, where the marketing and sales departments reside, and two factories where household products for the Dutch market are produced. CIN is subdivided in so-called business teams, which are each responsible for the turnover and margin of a specific product category. Each team is led by a business team leader and consists of the functions marketing, finance, logistics, sales, account

management and market research. In this way, teams can autonomously take decisions and actions to quickly anticipate developments in local markets.

CIN is experiencing several problems with its current budgeting process:

- The process takes too long (half a year) and requires too much effort. For example, during the budgeting period the finance department spends more than half its time on this process.
- Because corporate imposes the targets on CIN, the targets for the business teams in CIN are often raised arbitrarily compared to their original estimates. Therefore the business teams already know in September of the current year that they will not be able to achieve their targets for next year.
- There is much margin in the budgets of the business teams.
- Because the reward structure is linked to the achievement of fixed targets at year-end, short-term goals prevail over longer-term goals.
- The budgeting process uses static targets, which makes them less realistic during the year.

The described problems and the dissatisfaction with the current budgeting process motivated CIN to fill in the BBES, to see whether beyond budgeting could form an alternative for the company. The BBES for CIN looked as follows (see also Table II):

- *Need for beyond budgeting.* The managers of CIN are not satisfied with the current budgeting process and see a clear need for changing this process.
- *Principe 1: a self-governance framework.* The organisation has a decentralised structure with business teams, which function like the self-managing units in the beyond-budgeting model.
- *Principe 2: empowered managers.* The business teams are only to a certain limit authorized to make decisions autonomously. Under favourable circumstances responsibility is delegated to the teams, but in adverse conditions this authority is taken back by the CIN senior management team.
- *Principe 3: accountability for dynamic outcomes.* The managers are held accountable for achieving fixed financial targets. Senior management does not look at what could have been achieved.
- *Principe 4: network organisation.* The business teams consist of managers from various disciplines (marketing, sales, logistics, finance), who cooperate to position and sell products in a specific market segment as good as possible. The teams are

Table II Result of CIN's BBES

BBES part	Test	Score
Need for beyond budgeting	Preparedness to adapt the budgeting process	Green
Status of the organisation	1. Self-governance framework	Green
	2. Empowered managers	Red
	3. Accountability for dynamic outcomes	Orange
	4. Network organisation	Green
	5. Market coordination	N.A.
	6. Supportive leadership	Green
	7. Relative targets	Red
	8. Continuous strategy-setting	Green
	9. Anticipatory systems	Orange
	10. Resources on demand	Orange
	11. Fast, distributed information	Orange
	12. Relative team rewards	Green
Precondition	Authority to adapt the budgeting process	Red

strongly market-oriented and customer-focussed.

- *Principe 5: market coordination.* No questions in the BBES.
- *Principe 6: supportive leadership.* CIN is a flat, non-hierarchical organisation in which people can speak their mind, and in which the management team manages the organisation in a coaching manner.
- *Principe 7: relative targets.* CIN uses fixed, absolute targets that are not changed during the year, despite changing market conditions.
- *Principe 8: continuous strategy setting.* The strategy-setting process is bottom-up on the basis of input from the business teams. The overall CIN strategy is once a year reviewed and, if necessary, adapted. Within the business teams, this strategy review takes place several times a year.
- *Principe 9: anticipatory systems.* CIN does not use rolling forecasts. It uses three monthly forecasts that do not extend beyond year-end. They serve to give management an idea of whether the fixed targets will be achieved at the end of the year.
- *Principe 10: resources on demand.* All resources are during the budgeting process divided among the business teams, on the basis of investment plans. The teams have to finance all their activities with these resources and cannot take up promising opportunities that occur during the year.
- *Principe 11: fast, distributed information.* The information within CIN originates from several sources, some of which are ambiguous thereby making the information sometimes unreliable. As a result, management information is not available for everyone in the organisation.
- *Principe 12: relative team rewards.* The reward structure is based upon group rewards. Only if CIN as a company achieves its targets, a bonus is paid to employees.
- *Precondition for a successful implementation.* Because CIN is part of a multinational, it lacks real possibilities to make changes in the target-setting process without previous authorisation of World Cleaning, Inc.

The following recommendations were made to CIN, based on the results of its BBES:

- The management team of CIN has to talk to corporate to ask for authorisation to adapt the current budgeting process. Only with approval of corporate can the implementation of the beyond-budgeting model at CIN become a success.
- From now on, business teams have to be evaluated on the basis of relative and dynamic targets.
- The introduction of rolling forecasts that extend beyond year-end make it possible for the organisation to better evaluate whether it is still on its strategic track.
- By improving the management information supply within CIN, the business teams can, at any time, get insight into market developments and their own results, which will improve their motivation and commitment.

Conclusion

There are many possibilities, on the scale of traditional budgeting to beyond budgeting, to modernise the budgeting process. However, the beyond-budgeting model deserves serious consideration because it enables an organisation to look with a fresh view at its budgeting process, other planning processes, and organisational structure. Each organisation should at least explore the benefits of introducing one or more beyond-budgeting principles. This is especially interesting because research has shown that the more beyond-budgeting principles an organisation implements, the better it performs (Fraser and de Waal, 2001). Before an organisation starts to implement the beyond-budgeting model, it is advisable to fill in the BBES. This scan provides a company a good indication of whether there is dissatisfaction with the current budgeting process, whether people in the organisation are

prepared to change and adapt it, and how much effort this will take. With a filled in BBES, an organisation will be better prepared for the discussion that inevitably lies ahead in the near future: whether to change, abandon or leave the budgeting process the way it is.

Notes

1. The Beyond Budgeting Round Table is an international not-for-profit management research consortium, consisting of representatives from profit organisations, non-profit organisations and academics. More information can be found at: www.bbrt.org
2. On request the organisation stays anonymous.

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