Loose coupling in a beyond budgeting implementation: a case study

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ABSTRACT

This case study addresses a puzzle encountered while researching a large Portuguese company which started a still on-going adoption of the Beyond Budgeting approach four years ago. It was apparent that the adoption of several principles of Beyond Budgeting was uneven across the company at the time of the research, in particular across different hierarchical levels. This uneven adoption formed a loosely coupled system, which can be explained by two different factors: the anticipated resistance in the lower levels and the strong hierarchies within the organization. The paper discusses how the coexistence of change and stability and the inherent creation of a loosely coupled system was key to enable a long term, gradual change process to be triggered. In particular, the paper discusses how, by first introducing and gaining acceptance of Beyond Budgeting principles at top management level only, implementation difficulties and tensions at other organizational levels have been avoided and more favorable conditions have been created to a future implementation in the remaining parts of the company.

Keywords: Management Control, Beyond Budgeting, Management Accounting Change, Loose Coupling, Loosely Coupled Systems
1. INTRODUCTION

The purpose of this research is to analyze the role of loose coupling in an implementation of the Beyond Budgeting concept in a Portuguese automobile distribution company, here identified as CarCo. With the contribution of Lukka (2007), loose coupling between rules and routines became a prominent topic in management control research. However, no specific research attention has yet been given to the loose coupling within the context of Beyond Budgeting, thus motivating us to empirically investigate a real world example.

CarCo has been the first organization in the Iberian economies to start implementing the Beyond Budgeting concept in 2012 and two master dissertations have been written about the process of implementation, though obviously only about its initial stages (to preserve anonymity, these dissertations cannot be identified at this stage). Thus, the CarCo case provides a perfect basis for an in-depth follow-up case study on how the new model was implemented, but electing as the main focus understanding the decoupling of an entire hierarchy within the system. The work aims to analyze the combination of two different theoretical concepts, Beyond Budgeting and loose coupling, and the implications in this particular context.

The next section reviews the literature about Beyond Budgeting, management accounting and control change and the notion of “loose coupling”, followed by a short presentation of the applied research methodology. Then, the empirical findings are presented, analyzed and discussed, followed by a conclusion.
2. LITERATURE REVIEW

2.1. BEYOND BUDGETING

2.1.1. DEFINITION

Since the introduction of the Beyond Budgeting concept, it has constantly been developed and the definitions vary. But as definitions for the concept vary, the specific denomination of Beyond Budgeting also varies greatly. As for Player (2003), “Beyond Budgeting is a guiding set of principles. It is not a model or set of tools” (Player, 2003:8), however, other authors denominate Beyond Budgeting as a “concept” (Bourmistrov and Kaarbøe, 2013, Heupel and Schmitz, 2015), a ”model” (Goode and Malik, 2011, De Waal, 2005), an “approach” (Østergren and Stensaker, 2011, Heupel and Schmitz, 2015, Hansen et al., 2003), an “idea” (Goode and Malik, 2011, Heupel and Schmitz, 2015), or a “system” (Goode and Malik, 2011). This fact emphasizes the puzzlement that is still embodied in Beyond Budgeting and outlines its early stage in development.

The most well-known definition of Beyond Budgeting are the 12 guiding principles originally developed by the BBRT, which have developed over time. The BBRT persistently points out that the Beyond Budgeting principles should be used as a coherent management model and that a mix of old and new principles would lead to the failure of the concept (Hope and Fraser, 2013). The most recent version of these principles is divided into Leadership Principles and Management Processes and reads as follows (Bogsnes, 2016):

Leadership Principles:

(1) Purpose – Engage and inspire people around bold and noble causes, not around short-term financial targets.

(2) Values - Govern through shared values and sound judgment, not through detailed rules and regulations.
(3) Transparency—Make information open for self-regulation, innovation, learning, and control; don’t restrict it.

(4) Organization—Cultivate a strong sense of belonging and organize around agile and accountable teams; avoid hierarchical controls and bureaucracy.

(5) Autonomy—Trust people with freedom to act; don’t punish everyone if someone should abuse it.

(6) Customers—Connect everyone’s work with customer needs; avoid conflicts of interest.

Management Processes:

(7) Rhythm—Organize management processes dynamically around business rhythms and events, not around the calendar year only.

(8) Targets—Set directional, ambitious, and relative goals; avoid fixed and cascaded targets.

(9) Plans and forecasts—Make planning and forecasting lean and unbiased processes, not rigid and political exercises.

(10) Resource allocation—Foster a cost-conscious mindset and make resources available as needed, not through detailed annual budget allocations.

(11) Performance evaluation—Evaluate performance holistically and with peer feedback for learning and development, not based on measurement only and not for rewards only.

(12) Rewards—Reward shared success against competition, not against fixed performance contracts.

Østergren and Stensaker (2011) and Bourmistrov and Kaarbøe (2013), however, define Beyond Budgeting in a broader way as consisting of “similar activities as budgeting, such as target setting, forecasting and resource allocation, but no budget is allocated in advance and the
processes are separated in time” (Østergren and Stensaker, 2011:153). They emphasize the fact that Beyond Budgeting is rather a change in mindset of managers when budget functions (forecasting, target setting and resource allocation) are unbundled than a change in accounting techniques.

2.1.2. ADVANTAGES AND DISADVANTAGES

Despite its young age as a management control system, Beyond Budgeting has gained significant importance in recent years (Rickards, 2006). The immediate advantages of Beyond Budgeting are the savings from not having to conduct a budgeting process of several months’ length, faster response time to changes in the business environment, more time for value-adding work for the finance team, better strategic alignment of targets, measures and employee behavior, and, last but not least, the avoidance of dysfunctional effects, such as budget games. Additionally, Beyond Budgeting also offers several advantages in the long-term: Due to the radical decentralization embodied in the concept, it promises permanent reductions in cost structure, more capable front-line employees, more loyal customers and more innovation (Player, 2003).

Nevertheless, it is not without criticism on its own. Without having a strict framework, such as the one previously provided by the traditional budgets, it is said that companies can easily lose direction (Goode and Malik, 2011). The before mentioned “change in mindset” often goes along with a loss of control and, therefore, organizations struggle at balancing the need for control (provided by traditional budgets) with the need for flexibility (provided by Beyond Budgeting principles). Consequently, the implementation of Beyond Budgeting cannot be considered as one universal approach which is applicable for all organizations, but rather needs to be adapted to the company’s specific prerequisites and needs.
2.1.3. IMPLEMENTATION

The academic literature acknowledges the fact that the implementation of the Beyond Budgeting concept is not an easy task since it fundamentally changes the organizational structure and the managers’ mindset (Østergren and Stensaker, 2011, Bourmistrov and Kaarbøe, 2013, Heupel and Schmitz, 2015). Several barriers to change have been identified and will be presented in the following.

First of all, there are technical obstacles. The change of the budgeting process can involve high costs for big companies, whereas the benefits of the change are difficult to be predicted and quantified, which might hinder managers to make the investment. As mentioned in a previous chapter, the traditional budget fulfilled three different functions in just one figure: the forecasting for planning purposes (long- and short-term), target setting for motivational and performance evaluation purposes, and resource allocation. By implementing Beyond Budgeting, the company needs to devise a new structure for all three functions, which also discourages managers to induce change. Furthermore, employees often lack the knowledge that is needed for the transformation (Waal et al., 2011).

Second, there are also human and organizational barriers to change. Traditional budgets provide managers with the stability and routine of a comfort zone. Top management often fears to lose power and control when stepping out of the comfort zone, so the implementation of Beyond Budgeting, which changes the requirements for managers, can easily cause refusal by the managers that are not able to fulfil these requirements (Waal et al., 2011, Bourmistrov and Kaarbøe, 2013, Heupel and Schmitz, 2015, Bogsnes, 2016). Moreover, top management might not see the implementation of a new budgeting concept as the top business priority, so resources for the change are not made available. On the part of the employees, one major obstacle is the ability to show good performance without engaging in dysfunctional behavior. Due to many years of work with traditional budgets, employees are often so used to influence costs and
revenues and reach targets in the performance contract by playing the budget, that they refuse change in order to keep their bonuses (Waal et al., 2011).

The question how to conduct the implementation of Beyond Budgeting is controversial, since every company has different prerequisites and needs. Wallander (1999) suggests to “stop budgeting at once and start to think about your problems afresh” (Wallander, 1999: 421), whereas Bogsnes (2016) approves an evolutionary approach, as long as each conducted step points in the same direction, to the bigger picture.

2.2. MANAGEMENT ACCOUNTING CHANGE AND LOOSE COUPLING

In recent years, debates about whether management accounting has changed, has not changed or should change have emerged in academic writing. The discussion was sparked by the rapid alterations in the environment, such as globalization, advances in technology or new management practices, which demanded the provided information for management use to be more adapted to the external context (Burns and Vaivio, 2001). However, the debate strongly focused on the outcomes of management accounting change (or the non-existence of the change), whereas it is more relevant for this research to regard management accounting change as a process, to find out how management accounting can (or cannot) change over time.

2.2.1. MANAGEMENT ACCOUNTING CHANGE AND INSTITUTIONAL THEORY

One of the first and most cited contributions to the study of management accounting change as a process has been made by Burns and Scapens (2000) with the introduction of an institutional framework accommodating the co-existence of stability and change. The management accounting system and practices is seen as a formal set of rules and routines. Burns and Scapens (2000) define rules as the “formally recognized way in which ‘things should be done’” (Burns and Scapens, 2000: 6), which are required to coordinate the actions of groups of individuals. Following this logic, routines can be described as “the way, in which ‘things are actually
done” (Burns and Scapens, 2000: 6) and represent patterns of thought and action of groups of individuals, that can be a result of repeatedly following rules. A strict distinction is made between routines as the behavior of a group and habits as the behavior of an individual. In the context of management accounting, rules correspond to the formal management accounting systems and routines represent the accounting practices that are actually in use.

In contrast to rules and routines, which are thought to be grounded in a specific historical context, institutions, another important element of the institutional framework, are disassociated from the historical context. Institutions are defined as the actors understanding of “the way things are” (Burns and Scapens, 2000: 7) and “the shared taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships”, that “inform and shape the actions of individual actors” (Burns and Scapens, 2000: 8). They have a normative and objective character and define behavioral patterns, that differ in their level of institutionalization. The level of institutionalization is measured by the length the institution has been in place and how widely it is accepted.

In a different approach of explaining management accounting change based on institutional theory, van der Steen (2011) draws the attention to the nature of routines. According to his findings, routines cannot be conceptualized in such a simplistic manner as it is done in Burns and Scapens’ framework and a greater emphasis need to be laid upon the process through which the routines themselves are reproduced and changed.

The management accounting change processes as displayed above can be described as evolutionary, since they compromise change over time, inertial forces that provide continuity, and both random elements (e.g. the development of mutually accepted practices or the way routines are reproduced) and systematic mechanisms (e.g. the selection of the new management accounting concept). Specific changes in the management accounting of an organization, however, can still have revolutionary characteristics. Revolutionary change is often due to
severe external changes (e.g. market collapse, economic recession) and aims to radically change existing routines and institutions. Nonetheless, even revolutionary change is impacted to some extent by prevailing rules and routines and managing the change requires a deep understanding of the context of the organization (Burns and Scapens, 2000).

2.2.2. Inertia in Management Accounting Change

As referred to by Hannan et al. (2004) the notion of inertia has increasingly become recognized by social scientists. Inertia is defined as “a persistent organizational resistance to changing architecture” (Hannan et al., 2004: 214) or the “inability to enact internal change in the face of significant external change” (van der Steen, 2009: 738). Gilbert (2005) further conceptualized the notion of inertia by dividing the phenomenon in two different categories, namely resource rigidity (failure to change resource investment patterns) and routine rigidity (failure to change the organizational processes that use those resource investments). The second of the two categories, routine rigidity, describes the inert nature of routines, which goes along with the findings of the institutional view on management accounting change that imputes routines a certain degree of resistance to change. Thus, in an institutional view on management accounting change, inertia is likely to manifest itself when routine behaviors are challenged by new formal rules, such as a new management accounting system (van der Steen, 2009).

Burns and Scapens (2000) portray three different types of resistance that can occur as a response to the introduction of new management accounting systems:

1. Formal resistance due to competing interest;
2. Resistance due to a lack of capability (knowledge and experience) to cope with the change; and
3. Resistance due to established ways of thinking and doing, embodied in existing routines and institutions.
In the case of the first type of resistance the employee is conscious about his resistant behavior, which occurs due to sense making. Sense making leads to self-interest calculations and the actor can decide to retain a certain old behavior at the expense of new behaviors (promoted by the new management accounting system) in order to improve the personal situation, which leads to inertia. In the case of the second and third type of resistance the employee is unconscious about the own behavior. Due to the lack of capability to cope with the change or the interpretation of new accounting rules through existing ways of thinking, inertia arises and the behavioral change intended by the new management accounting concept might not be imperative anymore and thus might not be reached. Furthermore, inertia can also arise from conflicting or inconsistent rules that produce anxiety and therefore encourage to retain old behaviors to reduce this anxiety (van der Steen, 2009).

In summary, it can be stated that in most cases inertia is not only due to conscious resistance, but also to a subconscious one. Institutional change through the simple introduction of new management accounting rules is therefore highly improbable, which has to be taken into account in the implementation process (van der Steen, 2009).

2.2.3. LOOSE COUPLING

The notion of an organization as a loosely coupled system goes back to the 1970’s, was first described by Glassman (1973) and Weick (1976) and further elaborated by Orton and Weick (1990). The early contributions to literature had a strong focus on loose coupling in educational environments, but since the notion has been applied to other types of organizations. Loose coupling assumes that an organization consists of both rational and indeterminate elements (Weick, 1976, Orton and Weick, 1990). These elements are seen as responsive, but preserve their own identity and show physical or logical separateness (Weick, 1976). They can be located in any part of the company (top, middle, or bottom) and vary in the degree of interdependencies (Orton and Weick, 1990). Loose coupling can be found in several different dimensions, such
as among individuals, organizations, subunits or ideas, between hierarchical levels or activities, between intention and action or even between past and future events (Weick, 1976, Dubois and Gadde, 2002). Recent management control research regarding the notion of loose coupling mainly focused on loosely coupled performance management systems (see Ahrens and Chapman, 2002) or on the loose coupling between formal rules and informal routines in order to enable management accounting change and stability occur simultaneously (see Lukka, 2007).

Loose coupling provides several advantages and disadvantages for organizations. The most important advantage for this research is described by Glassman (1973), who states that loose coupling allows certain parts of the organization to persist, while others change or have to change due to external changes. Loose coupling thus serves as a buffering mechanism for the entire organization against unfavorable circumstances in the external environment and enables local adaptation. This also protects the organization from potential breakdowns in one part of the system, as it seals off the problematic part (Glassman, 1973, Weick, 1976, Dubois and Gadde, 2002). Further potential advantages are the increase in self-determination that leads to a greater sense of efficacy of the employees, the upsurge of diversity and innovation, the decrease of costs due to the reduced need for coordination, and the fact that more independent elements can serve as a sensing mechanism to perceive changes in the environment more easily (Weick, 1976, Dubois and Gadde, 2002).

Most drawbacks of loosely coupled systems are related to the before mentioned advantages. For instance, while loose coupling allows a certain part of the organization to persists when another part changes, it could allow unwanted habits to persists as well. Moreover, the buffering mechanism feature may not only protect against unfavorable circumstances, but may also prevent advantageous mutations to diffuse throughout the organization (Weick, 1976).
3. METHODOLOGY OF THE RESEARCH

CarCo Group was the first organization (and is still one of the very few) implementing Beyond Budgeting in Portugal. As the case does not only portray a unique case of Beyond Budgeting implementation, but also represents the notion of loose coupling and how this notion is used to facilitate management accounting change, it is well worth to be studied in-depth.

Qualitative research was the most appropriate approach to address the research question, given its potential to capture the personal opinions of actors regarding the decisions and behaviors during the implementation process. As the research method the case study method was chosen, aiming to obtain a holistic understanding of the single case analyzed. The general mode of fieldwork was both exploratory and explanatory. While the first part of the empirical analysis, which investigates the way the Beyond Budgeting principles were implemented, can be considered exploratory, the findings of the first part – the fact that the Beyond Budgeting model was implemented as a loosely coupled system – are consequently used in an explanatory mode to clarify causal links that have led to the decoupling.

Different types of data collection techniques were used in order to avoid skewed results. For the collection of primary data, semi-structured interviews were conducted, which enable the interviewer to adjust the dialogue to potentially important topics that emerge during the interview process (Myers, 2008). This was particularly important due to the different modes of fieldwork that were applied and only emerged during the process. An individual interview guideline was designed before each interview session and the all interviews were tape-recorded and transcribed into written form to ensure the reliability of the data and facilitate analysis. The participants, their positions, as well as the respective dates, durations and language of the interviews, are displayed in the following table.
<table>
<thead>
<tr>
<th>Position</th>
<th>Interview code</th>
<th>Date (day/month/year)</th>
<th>Duration (hours:minutes)</th>
<th>Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director of Planning and Performance Management</td>
<td>CarCo1</td>
<td>09/12/2016</td>
<td>01:23</td>
<td>English</td>
</tr>
<tr>
<td>Executive Business Director</td>
<td>CarCo2</td>
<td>22/03/2017</td>
<td>01:02</td>
<td>Portuguese</td>
</tr>
<tr>
<td>Controller of a Business Unit</td>
<td>CarCo3</td>
<td>22/03/2017</td>
<td>00:56</td>
<td>English and Portuguese</td>
</tr>
<tr>
<td>Group Controller 1</td>
<td>CarCo4</td>
<td>06/04/2017</td>
<td>01:38</td>
<td>English and Portuguese</td>
</tr>
<tr>
<td>Director of Planning and Performance Management</td>
<td>CarCo5</td>
<td>19/05/2017</td>
<td>01:18</td>
<td>English</td>
</tr>
<tr>
<td>Executive Business Director</td>
<td>CarCo6</td>
<td>01/06/2017</td>
<td>00:40</td>
<td>Portuguese</td>
</tr>
<tr>
<td>Group Controller 2</td>
<td>CarCo7</td>
<td>01/06/2017</td>
<td>00:21</td>
<td>English</td>
</tr>
</tbody>
</table>

*Table 1: Conducted Interviews*

The participants of the study were chosen on the basis of a purposive or criterion based sampling due to their specific roles (CarCo 1, 4, 5, 7) and of a snowball sampling after being indicated as interesting interview partners (CarCo 2, 3, 6). Furthermore, primary data was also gathered by the author’s attendance at two university presentation on the topic held by the director of the planning and performance department, both including Q&A sessions. The presentation sessions, including the dates, durations and language, are displayed in the following table.
Table 2: Attended Presentations

<table>
<thead>
<tr>
<th>Presentation Code</th>
<th>Date (day/month/year)</th>
<th>Duration (hours:minutes)</th>
<th>Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Presentation on Beyond Budgeting (with Q&amp;A)</td>
<td>Pres1</td>
<td>30/03/2016</td>
<td>ca. 01:00</td>
</tr>
<tr>
<td>University Presentation on Beyond Budgeting (with Q&amp;A)</td>
<td>Pres2</td>
<td>16/05/2017</td>
<td>01:09</td>
</tr>
</tbody>
</table>

In addition, secondary data was collected and analyzed to validate the findings of the primary data. Secondary data included presentations files and internal communication documents.

4. EMPIRICAL ANALYSIS

This chapter is structured in two sections. It starts with a presentation of the company, the reasons for change and the process of implementing Beyond Budgeting as communicated by the interviewees. Based on the analysis of some of these preliminary interviews, the researchers discovered that the system was implemented in a loosely coupled fashion. Thus, the second part of the empirical analysis brings in the loose coupling concept and further presents and discusses how and why loose coupling was used within the context of Beyond Budgeting.

4.1. FINDINGS

4.1.1. COMPANY PRESENTATION

The CarCo Group was founded several decades ago, it is currently headquartered in Porto and has operations in multiple countries. In 2012, the Group underwent a restructuring process due to the need to accelerate growth and improve resource proximity in the international markets.
The restructuring process also led to the group’s renaming to CarCo Group, after it had invested greatly in internationalization and expansion into new business areas and the need for a global corporate brand had emerged.

Today, the group employs several thousand employees worldwide and is a leading distributor for various brands of automotive and construction equipment and a supplier of vehicle parts, in addition to other smaller business areas. CarCo Group is organized in six organizational areas, here anonymized: CarCo Market1, CarCo Market2, CarCo Market3, CarCo Market4, CarCo Initiatives, and CarCo XPTO, of which CarCo holds fifty percent equity.

The corporate governance structure includes a general board and a management board. The general board consists of three members and is responsible for approving the global strategy and monitoring its implementation, which is suggested by the management board. The management board is the main executive body of the group, consists of eight members, including the CEO, CFO, the executive administrators of CarCo Market1, CarCo Market2, CarCo Market3, CarCo Market4 (also CSO), CarCo Initiatives and two of the members of the general board. It is responsible for defining and implementing the required policies to achieve the overall strategy, for managing the groups business portfolio and monitoring the performance of the regions. In the following the general board and the management board will be denominated “top management”.

The additional hierarchical levels at CarCo are the executive business directors, in the following called “upper management”, the business line managers, denominated “middle management”, and the front line employees as the lowest hierarchical level of the organization. The corporate governance structure is displayed in the following figure.
4.1.2. REASONS FOR CHANGE

The change of the management control concept according to Beyond Budgeting principles at CarCo was initiated by the end of 2012 after a set of lighter budgeting tools had been researched due to continuous dissatisfaction with the traditional budgeting concept. The dissatisfaction was mainly caused by the radical change from a fairly stable market context prior the financial crisis to a rapidly ever-changing environment after 2008. Already before the financial crisis major drawbacks of the traditional budgeting concept were identified at CarCo, but the company had felt comfortable to tolerate them. This chapter describes the reasons for change in the case company. Several drawbacks of the traditional budgeting concept that were identified in the literature review could also be found at CarCo, and are presented subsequently.

The major limitation of the traditional budgeting process found in the literature (Neely et al., 2001, Neely et al., 2003, Player, 2003, Waal et al., 2011), as well as at CarCo, is the fact that budgets are highly time consuming and costly to put together, although being outdated after a very short period of time. All participants in the study related to this fact as one of the major reasons for the change. The director of the planning and performance management department at CarCo mentioned as follows:

Figure 1: Corporate Governance Structure of CarCo
“In 2012 the budget didn’t work anymore, because in March, April there was no connection to reality anymore. So you didn’t have any more motivational tool regarding the targets or planning tool that you need to follow the business. And still you were wasting a lot of work hours between September and December to make the budget.” (Interview CarCo1)

In general, the former budgeting process was considered being too detailed and heavy and thus reflecting in high costs, as described by the controller of a business unit:

“In the end of each year we did something very detailed, something very particular, with a lot of information. For example, we ended up creating a budget for the electricity bill, and currently we do not do it.” (Interview CarCo3)

As another major drawback of the traditional budgeting concept the literature describes dysfunctional gaming behavior (Argyris, 1953, Neely et al., 2003, Horváth and Sauter, 2004, Bartram, 2006). Budget games also took place at CarCo, as a group controller states:

“They will allocate a certain amount of money for you to spend, right? And your performance contract will be based on that target. So if it comes to November and you reach the conclusion that you would want to recruit an employee that is important for your business, but you might not recruit him because you would not reach your target doing it.” (Interview CarCo4)

Other occurring budget games were the sudden decrease of sales when a sales target had already been met or the sudden increase of sales with low, or even without profit margins, at the year-end to reach the defined absolute number. Managers were also caught “telling stories” about their future performance in order to keep the same amount of resources they already had in the previous year.
The fact that traditional budgets constrain responsiveness and flexibility and often demonstrate a barrier to change (Neely et al., 2003, Hope and Fraser, 2003a, Hope and Fraser, 2003b, Player, 2003) was also considered an obstacle at CarCo, which is reflected in the statement of a business unit’s controller:

*It [the Beyond Budgeting model] is a much simpler model than the traditional one, it is dynamic. The previous one was very static, not very flexible, and it did not adapt to changes in the market.*” (Interview CarCo3)

Moreover, as also stated in literature (Neely et al., 2003, Horváth and Sauter, 2004, Waal et al., 2011), traditional budgets were believed to impede value creation. As already mentioned above, budgets motivated sales people at CarCo to sell on a lower margin at the year-end to achieve the desired target and thus, destroyed the value for the company.

Another issue with traditional budgets that was recognized in the traditional system is related to the strategic focus of the budget setting (Neely et al., 2001, Neely et al., 2003, Horváth and Sauter, 2004, Waal et al., 2011). Traditional budgets are often set on the basis of last year’s results and do not reflect the actual potential of an organization. At CarCo, the traditional budgets were usually set as a ten percent sales increase of the previous year, which resulted in a missing connection of strategy and budget.

Overall, the managers at CarCo were described as being tired of the traditional budgeting process, which led to a higher receptiveness of a new model.

4.1.3. IMPLEMENTATION OF BEYOND BUDGETING

As described in the last chapter, traditional budgeting at CarCo was highly criticized due to several limitations of the concept. Thus, the board members at CarCo exhibited a high willingness to accept changes in the management control concept and were convinced by the fact that an implementation of a new management control concept based on Beyond Budgeting
principles would not demand high investments in resources and could easily be reversed by returning to the previous year’s budget.

One distinguishing feature of the implementation process of Beyond Budgeting at CarCo can be observed in the case of information asymmetry between the several involved parties. As mentioned by the director of planning and performance management at CarCo, the only actors to have the full information at disposal at the time the implementation process was initiated, were himself and the CEO and CFO of the company. The information asymmetry applied at CarCo may be due to the fact that in academia Beyond Budgeting is repeatedly termed a “change in mindset” that is difficult to implement since it requires managers and employees to participate in decision making and to accept change (Østergren and Stensaker, 2011, Bourmistrov and Kaarbøe, 2013, Heupel and Schmitz, 2015). According to Waal et al. (2011) top management often forms a barrier to change as it fears to lose power since budgeting is seen as the main central control and coordination mechanism. CarCo, as a very conservative, hierarchical structured organization, could be vulnerable to such reaction.

Another observation contributing to this assumption is the approach that was chosen by the planning and performance management department to implement the twelve BBRT Beyond Budgeting principles. At CarCo, the six principles related to the management process were viewed as the necessary means to reach the ultimate change in culture. This thought follows the above mentioned finding in literature that characterizes Beyond Budgeting as a “change in mindset” (Østergren and Stensaker, 2011, Bourmistrov and Kaarbøe, 2013). Consequently, the implementation of the leadership principles is still viewed as a “work in progress”, while the process principles have been implemented right from the beginning.

“The [principles] regarding the management processes here at CarCo are already operating since the beginning; since they started to implement the Beyond Budgeting model they are clearly in the company. The leadership ones are not yet. It is a process
that takes some time and we do not believe that it will be accomplished in a year or two from now, but in the future we will manage to have all principles in place.” (Interview CarCo4)

In order to illustrate how the twelve Beyond Budgeting principles were applied at CarCo, the two following subchapters describe the application of each principle in detail, starting with the management processes principles, as they were implemented at first.

4.1.3.1. Implementation of the BBRT Management Processes Principles

The BBRT management processes principles include rhythm, targets, plans and forecast, resource allocation, performance evaluation and rewards.

Before the Beyond Budgeting implementation was initiated, the management processes at CarCo were entirely based on the year-end. Targets were set to be fulfilled, resources were allocated and performance was measured annually on December, 31st. When implementing the new management control concept, the implementation of a rolling forecast of a length of fifteen months in the future introduced a new rhythm. The rolling forecast helped the management processes to become more dynamic and the company’s vision focused more on a long-term than short-term financial objectives. The interviewed business unit’s controller noted:

“I think that everybody is talking in a more long-term vision. It is not that short-term [focused] anymore.” (Interview CarCo3)

This development is also noticeable in the company’s target setting process. Targets for all firms within the group are now set annually for five years in advance, but can be reviewed as needed. Nevertheless, several years after the implementation process was initiated, the year-end focus still play an important role in the organization. The business unit controller contributed to this topic by outlining the external pressure on the importance of the year-end focus:
“We still continue balancing and consolidating our accounts on December, 31st. It is very complicated for them [the managers] to forget the end of the year and to only live in “rollings”. This is the fact that is not yet fully enrooted in the people’s minds. […] It is very difficult to ask our managers to not think in the year-end, while it is still important for us to have impeccable financial indicators when the accounts close on December, 31st, right? Because of the banks, the stakeholders… […] We need to have a low stock on December, 31st, we need to have low receivables at December, 31st. This is still very important.” (Interview CarCo3)

As mentioned in the literature, one of the main purposes of budgeting is the motivation of employees (Horváth and Sauter, 2004). With the implementation of the Beyond Budgeting concept, CarCo decided to separate target setting and planning, two processes that had previously been defined by one single number - the traditional budget. The targets are seen as the medium and long-term strategic vision of the company and are set for a five-year period. As described by the interviewed executive business director, the revision is supposed to take place annually, but can even occur more often:

“[…] the targets that are set for the different business they are defined for a period of five years and are revised every year afterwards. To be honest, they are actually revised more than once a year, when a reason occurs.” (Interview CarCo2)

According to a group controller, the revision of the annual targets is not necessarily due to external reasons, such as a change in the market environment, but can also be justified with internal reasons, such as the opening of more store locations:

“Imagine that the director of a company adjusts [the rolling forecast]. This is already a reason to adjust the targets. If he wants to open more locations, this is already another reason to revise the target.” (Interview CarCo4)
The BBRT Beyond Budgeting principles describe annual targets as ambitious and directional (Bogsnes, 2016), which is also the case at CarCo. Due to the above mentioned untangling of target setting and planning, targets are supposed to be higher than the estimated numbers in the planning process in order to motivate the employees to strive for a better performance. Furthermore, the literature also relates to the targets as relative figures and suggests to avoid fixed and cascaded targets (Bogsnes, 2016). The annual targets at CarCo are set for each of the group’s businesses as an entity and include relative and fixed figures.

“And the targets are also relative. The only thing that is not relative is the target for EBITDA. And the others, it's market share, gross margin, all relative figures.”

(Interview CarCo2)

The reason for still maintaining a fixed number (EBITDA) in the target setting for the group’s businesses can, as well as in the case of the year-end focus, be found in the external pressure on the company.

“We have to have a fixed value, a fixed target, because the information we send to the banks, to the stakeholders... that we publish in the annual reports have to be in fixed values, since the banks still compare a lot on that basis.” (Interview CarCo4)

This condition clearly contradicts the literature on Beyond Budgeting, that advocates relative target setting at all levels of the organization (e.g. Hope and Fraser, 2003b, Player, 2003, Hansen, 2011, Bogsnes, 2016).

Only the target set for the upper management level is denominated a “target” at CarCo. From the upper managers (the executive business directors) the target is broken down in key performance indicators, is passed to the middle managers (business line managers) and can differ from one person to another, as described by a group controller:
“It exists one target, this target. This is what we call target. But the targets [...] can be broken down into KPIs. [...] The KPIs can be different for each person. The commercial director will have KPIs related to the commercial area, the after-sales director will have KPIs related to after-sales, and so on.” (Interview CarCo4)

It is very important to mention that on the middle management level at CarCo, in opposition to the upper management level, all targets are set in relative figures. This is justified by the need to compare the numbers with historical values, as the group controller explains:

“Here [on the middle management level] we only use relative KPIs. If it’s relative, if the numbers are relative, you can compare them along the entire year. With annual periods or monthly periods. With absolutes you cannot do this comparison.” (Interview CarCo4)

When analyzing the target setting in the lower levels of the company (here also called front line employees), it is strikingly noticeable that in contrast to the suggestions by the Beyond Budgeting literature all targets are set in absolute figures. The director of planning and performance management mentioned:

“Once you go to the individual targets then, I am implementing from top-down the model, so if they want to put here the target, individual target is... If you are an accountant, how many invoices you have inserted, of the shop floor, how many screws you screwed or something.” (Interview CarCo1)

The planning and forecasting at CarCo changed from a static annual planning procedure to a dynamic monthly process, called rolling forecast. The rolling forecast is conducted monthly by the executive business directors (upper managers), who are held accountable for it. It represents the company’s short-term strategy and is created for fifteen months in the future. This means that every month one month becomes historical data, the fourteen months in the future are
updated according to current changes in the market environment and a new fifteenth’s month is added. This process enabled CarCo to avoid immense investments for the annual budgeting process and increased communication between the C-level executives and the regional managers.

Moreover, the monthly planning process forces the managers to continuously think about the company’s future. Although this is also denoted as one of the advantages of traditional budgeting that forces managers to plan annually (Bhimani et al., 2013), the rolling forecasts further reinforce this gain. The business unit’s controller stated as follows:

“Basically, the major change in my function with the [implementation of the] new model is that we passed on to sit down with the directors of the businesses every month and ask: “Ok, let’s go. How are the next fifteen months going to look like?” And then they start thinking about it again...” (Interview CarCo3)

Compared to the previous planning process, the rolling forecasts are perceived as much lighter and less detailed. An IT-software supports the executive business directors by generating the outputs (KPIs) on the basis of the monthly inserted data. The data is openly accessible to the company and can be adjusted at any time. The main benefit of the rolling forecasts at CarCo is the degree of transparency about external changes the technique generates and the resulting ability to react quickly. A group controller mentioned:

“The rolling forecast, which is adjusted month by month, has the purpose to help the director to anticipate problems, right? Anticipate to take decisions as fast as possible.”

(Interview CarCo4)

Even though the target setting and the planning function have been unbundled at CarCo, as mentioned in the previous chapter, they are still associated with one another. According to an
executive business director, the rolling forecasts also serve as information used during the target negotiation process with the C-level executives:

“The executive director with his version of the rolling forecast, he can say why he thinks he will reach the defined target or not. In the reunion, he can justify why he reaches it or why not, there is a lot of discussion, arguments, and afterwards there will be a target set based on the trend this tool gives you. [...] So the tool is the basis for decision making, it is more precise, because there are no arguments against numbers.”

(Interview CarCo2)

In terms of resource allocation, the implementation of the new management control concept strictly follows the academic literature on Beyond Budgeting implementation, which suggests to “foster a cost-conscious mindset and make resources available as needed, not through detailed annual budget allocations” (Bogsnes, 2016: 70). At CarCo, every middle manager has the right to administrate the resources that are needed for day-to-day routines. But other than that, resources allocations always need the approval of the superior, who asks for a valid reason and thus creates cost-consciousness. The interviewed executive business director stated as follows:

“To change the determination of the company my approval is needed. If he wants to dismiss people, he cannot dismiss without explaining to me why he wants to dismiss.”

(Interview CarCo2)

The executive business director in return needs to ask for permission to the C-level executives and justify his attempts to change. The new approach of allocating resources already shows improvement compared with the old concept.

“And afterwards they could not detect the necessity of the investments, right? They allocated the resources to whoever came up and asked for them and it was not easy to
see the trends, it was not easy to understand the necessity of the allocated amount. […] We did not take completely uninformed decisions with zero confirmation, but had some information… With the new model, we understood that the information we had was not sufficient and that this resulted in some damages.” (Interview CarCo 3)

According to the BBRT Beyond Budgeting principles performance evaluation should be conducted “holistically and with peer feedback for learning and development, not based on measurement only and not for rewards only” (Bogsnes, 2016: 70), while rewards are supposed to focus on shared success against competitors, instead against fixed performance contracts (Bogsnes, 2016). At CarCo, the performance evaluation and bonus structure still has a strong focus on individual performance contracts based on the defined targets. The interviewed business unit’s controller describes the situation:

“We never accomplished to completely adjust the bonus system to the new model. Because it still continues to use absolute information.” (Interview CarCo3)

Nevertheless, improvements from the old model have been made and nowadays even the C-level executives, the top management level of the organization, have relative figures in their performance contract. Moreover, with the implementation of the new model the performance contracts were designed to support the long-term strategy and not only short-term gains.

“[…] other things that after this already happened is that top management already has a part of the bonuses for three years’ performance, and not only for a yearly performance.” (Interview CarCo1)

The performance evaluation for all other levels of the company (upper management, middle management and front line employees) is based on the targets which are set annually, and thus follows the characteristics of the target setting:
On the upper management level, the executive business directors, the performance evaluation and bonus structure is based on the annually defined targets, which include relative and absolutes figures.

“All the directors, whether in Market1, Market2 or Market3, are measured by the same KPIs. They are measured by the targets. One can have the EBIT, another one the EBITDA, another one the ROCI, but all based on the targets. The performance is measured by what they agreed with on the targets.” (Interview CarCo4)

The middle management is evaluated exclusively in relative measures, which was seen as one of the milestones at the beginning of the implementation process of Beyond Budgeting.

“These ones we managed straight away to go to return on capital employed, market share, and some other variables. [...] For all middle management people.” (Interview CarCo1)

The relative performance evaluation in the middle management level of the company offers the new model the promised flexibility and comparability. As an executive business director described, relative targets allow the company to compare to historical data taking into account differences in the environment:

“[…] and then it comes to interesting measures, such as market share. We cannot just deliver the same quantity [as before], but we aspire to be the [market] leader at all times. [...] If the market decreases and we lose the leadership, this means we are not doing a good job. Like this, we can see that the performance is not good. So all this is a search for performance.” (Interview CarCo2)

At the lower levels of the company the performance evaluation is conducted on the basis of more operational and absolute figures, which differ according to the job description.
“[…] the employees in general have an annual bonus system. This differs from one person to another. […] For instance, a person responsible for sales has as an objective for this bonus the numbers of sold units.” (Interview CarCo3)

In general, the performance evaluation process at CarCo gained a stronger focus on trust. This was especially displayed in the comments made by the executive business director:

“First of all, if we have competent managers, and if we believe in our managers, we cannot punish them for not reaching a simple number. […] So nobody is punished for not reaching numbers, people can be punished for, let’s put it that way, lack of performance. And lack of performance does not happen within a month. Lack of performance is associated with attitude, is associated with trust and with the actual scenario.” (Interview CarCo2)

Moreover, the communication between the different levels of hierarchies increased significantly. Due to the monthly rolling forecasts created within each of CarCo’s businesses, the performance is also discussed monthly.

“And yes, there is punishment. The punishment starts from the moment when our actual results are not coherent with what we had planned and there is no plausible explanation why there is this kind of divergence. Then the person receives a feedback in order to improve and deliver the expected performance. If the person still does not deliver after having received and understood the feedback, […] we have to dismiss this person, because we believe that all of us are penalized if one department or one person does not deliver performance.” (Interview CarCo2)

Another important Beyond Budgeting feature that was implemented at CarCo is the internal company league, an internal benchmarking between the group’s businesses. The benchmarking is based on comparable measures, such as profitability, return on capital invested or gross
margin, and is organized in two leagues: a first and a second league. A price is awarded at the end of each year to the best business in the first league. As one of the group controllers states:

"Every year there is a meeting where the prize is awarded to the first place in the first league. It is not a monetary award, but it is an award that is internally recognized. Because the bonus is based on the performance contract each one has... this is not about money. But they really compete against each other." (Interview CarCo4)

4.1.3.2. Implementation of the BBRT Leadership Principles

The BBRT leadership principles include purpose, values, transparency, organization, autonomy and customers.

The purpose of an organization has the power to influence how employees think and act. In recent years, the mission of many companies strongly focused on financial results, such as the increase of shareholder value and, thus, lacked the clarity to pass the deep meaning of what matters in the long run (Hope and Player, 2012). At CarCo, the vision clearly states the objective of being one of the world leaders in transportation and construction equipment solutions. This vision is supported by the implementation of the Beyond Budgeting concept, which was named “The Darwin project” at CarCo and emphasizes the “survival of the fittest”, of the company that can adapt best to external circumstances.

“We strongly believe in this sentence that says: ‘It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.’” (Interview CarCo2)

The main focus of CarCo’ mission is not solely set on shareholder value, but also acknowledges the value creation for customers and suppliers and the development of the employees. Furthermore, the performance culture and importance of trust at CarCo play a prominent role in the group’s mission as a “demanding attitude” and “trustful relationships”.

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Group values at CarCo include three main topics, namely (1) ambition, (2) trust and (3) talent and thus combine several aspects of the Beyond Budgeting principles.

The first group value describes the performance culture at CarCo, the continuous improvement and the ambition to steadily strive for excellence. This value also represents a very important characteristic of the Beyond Budgeting concept, which is displayed in the statement of the planning and performance department director:

“It's about having the right culture. If you have the right culture, the performance culture, then you will double the results, your EBITDA at least.” (Interview CarCo1)

The second value, trust, is described in literature as one of the necessary requirements to implement the Beyond Budgeting management control concept (Daum and Hope, 2004, Heupel and Schmitz, 2015). As already mentioned before, trust has gained more and more importance and functions as a control mechanism. The managers at CarCo have realized that trust is the basis of successful management, which was commented more than once in the conducted interviews. Trust is treasured as an achievement at CarCo, which is considered the prerequisite for autonomy and decentralization. An executive business director states:

“[…] I, personally, talk daily to all the managers to understand how things are going. I tell all the managers that trust is an achievement. Because trust is difficult to achieve and easy to lose. And, if anything out of the ordinary happens and I do not get informed, there are breaches of trust. And a breach of trust leads to a break of autonomy.” (Interview CarCo2)

In day-to-day business operations, the trust the executive business director puts in all of his employees is demonstrated in a rigorous open-door policy that allows any employee of the business to talk personally with the director at any time. Apart from the trust between employees and managers, the group values at CarCo also focus on trustful relations and
partnerships with other stakeholders. The third group value, talent, outlines the importance of talent development and performance evaluation.

The BBRT transparency principle suggest to make information open for self-regulation, innovation, learning and control in an organization, and to avoid restricting information to some actors only (Bogsnes, 2016). This principle can also, to a certain extent, be found at CarCo. Especially the short-term strategy, which is displayed in the fifteen-months rolling forecasts, is described as much more transparent than before. This is due to the transparent information about the external effects on the performance and the thereby resulting data about individual and group performance.

“With this system, since it is dynamic, it is possible to achieve an understanding in a much more transparent way, because the numbers speak for themselves.” (Interview CarCo2)

Not only the executive directors, but also all of the middle managers can, at any given time, consult the business trends and the group’s performance in comparison with the market using the IT-software. This allows every part of the company to have a clear understanding about the ongoing business and supports discussions with valid arguments, which prevents budget games.

In terms of the organization principle, which suggest to “cultivate a strong sense of belonging and organize around agile and accountable teams” and to “avoid hierarchical controls and bureaucracy” (Bogsnes, 2016: 70), CarCo has already made improvements but has not yet reached the ultimate state. The sense of belonging can already be felt in the group, which is demonstrated in a statement given by the executive business director:

“[…] the people spend more time in the company than at home, so the atmosphere has to be good and the people have to do what they believe in. If a person does not believe
in what he is doing, there is no reason to be with us anymore. [...] And the people even buy and use the t-shirts of the company.” (Interview CarCo2)

Nonetheless, as the director of planning and performance management mentions, the group still lacks behind in terms of accountability of the teams.

“[...] it's very hard to change people and once this another step that's missing at CARCO is, you're already going to empowerment but you are still not at accountability.” (Interview CarCo1)

The desired accountability is difficult to achieve regarding the fact that CarCo has not yet abolished individual performance evaluation and strong hierarchical controls. The complete abolishment is of individual performance evaluation and hierarchical control is however very unlikely during the next years due to the conservative organizational culture that is still enrooted in the company.

Similar to the target setting and the performance evaluation and rewards, the degree of autonomy at CarCo differs throughout the hierarchical levels of the company. Between the top management and the upper management, the autonomy can be considered as moderate. As long as the predefined target is met, the top management gives upper management as much free hand as possible. The executive business directors cannot decide freely on every decision, but gained a certain degree of autonomy through the rolling forecasts that provide a tool to justify investment decisions or adjustments in the annual targets, as discussed in an interview with the business unit’s controller:

“They don't have the freedom to take the decisions, they always need the approval. [But] they can justify their need of the resources more easily; it is much easier.” (Interview CarCo3)
In the relation between the upper management (executive business directors) and the middle management (business line managers) the degree of autonomy can also be described as moderate. The biggest change that is noticed from the old concept is the reduction of details that is discussed regularly. The executive business director indicated that a detailed discussion is only needed when strong deviations from the forecasted results emerge. In that case the discussion does not attempt to control the business line managers, since the business is conducted under the premise of trust in the collaborators’ work, but tries to find potential causes in order to analyze if the deviation provides an opportunity or a threat. Apart from this, the targets are only seen as a reference for the business line managers, which they are allowed to surpass or to fall behind on. As an example the executive business director described a case of autonomy in one of his business’ subsidiaries:

“[The target] exists to serve as a reference point. For example, I tell my manager, let’s say, he has a budget to spend one thousand Reais in the energy bill and five hundred Reais in the water bill. But he decides to offer a promotion to wash all trucks for free to boost revenues. The only calculation he needs to make is to decide where to reduce expenses to make up for the high water bill. [...] So this is all about the idea of him having a reference to adopt an attitude without destroying the overall strategy.”

(Interview CarCo2)

In the lower levels of the organization the degree of autonomy can be considered as very low. Due to absolute targets, performance evaluation on the basis of absolute figures and no participation in the resource allocation process, the scope of action for the front line employees is very limited, which is one of the characteristics of the old, traditional budgeting concept. The break that exists in terms of autonomy between the different hierarchies was acknowledged by a group controller:
“What should I say, if you don't have a certain level of decentralization, if you don't pass the right message, the model won't work. It passes until a certain level, which is this one [middle management] for us, but then it stops.” (Interview CarCo4)

The BBRT customer principle suggest to “connect everyone’s work with the customer needs” and to “avoid conflicts of interests” (Bogsnes, 2016: 70). This principle is emphasized in the group’s mission statement but other than that, from analyzing the case study interviews, it does not seem to be first priority at CarCo.

4.2. DISCUSSION

This section will describe the distinctive way of Beyond Budgeting implementation, namely the use of loose coupling, as found in the case company. Specifically, we will discuss how this enabled CarCo to become successful with the Beyond Budgeting system and how it was able to overcome potential resistance to the new management accounting concept.

Four years after the implementation of Beyond Budgeting was initiated the model already achieved first success. Although the implementation was at first triggered by the financial crisis, the system already proved useful when the company faced next big challenge: economic recessions in Market3 and Market2 starting in 2014 and 2015, respectively. Caused by political instability in Market3 and low crude oil prices in Market2, CarCo felt the impact of the crises but was able to react to the changes more quickly due to the dynamic provided by the Beyond Budgeting concept.

4.2.1. BEYOND BUDGETING AS A LOOSELY COUPLED SYSTEM

As the description in the foregoing chapter displays, the principles of Beyond Budgeting are implemented to a different extent at CarCo. Especially striking is the fact, that there is a difference noticeable in the implementation between the organizational hierarchies, as presented in the following figure.
As displayed in the figure, the Beyond Budgeting concept is so far only implemented in the upper and middle management level of the company, whereas the system used in the lowest hierarchy shows the characteristics of the old, traditional budgeting model. This is most obvious with regard to three of the BBRT principles, namely the target setting, performance evaluation and reward setting, and autonomy. While targets in the upper and middle level are mainly set on the basis of relative values (with the EBITDA in the upper level as one exception), in the lowest hierarchical level the targets are still set on absolute values, as the traditional budgeting model comprises. This analogously accounts for the performance evaluation and rewards, which are based on the targets of each hierarchy. Moreover, the lowest hierarchy has a low level autonomy, whereas the middle and upper level management enjoy more freedom and flexibility in their actions.

As described in the literature review, loose coupling assumes that an organization consists of rational and indeterminate elements, which are seen as responsive but preserve their own identity and show physical or logical separateness (Weick, 1976, Orton and Weick, 1990). The different elements in the case company (upper and middle management on the one side and front line employees on the other side) are undoubtedly responsive elements, since they form

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**Figure 2: Hierarchical Break in Beyond Budgeting Concept**

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parts of the same organization and as there are direct flows of communication and resources between them. Although there is no physical separateness to be found between the hierarchies, the logical separateness is evident. The literature strictly describes the Beyond Budgeting concept as a coherent management model, which should not be used in separate pieces, since the mix of old and new principles would lead to the failure of the concept (Hope and Fraser, 2013). Thus, the implementation of Beyond Budgeting in the higher hierarchical levels and the simultaneous retention of the traditional budgeting concept in the lowest hierarchy represents the “absence of linkages that should be present based on some [the Beyond Budgeting] theory” (Weick, 1976: 5).

Several advantages of loosely coupled systems have been pointed out in the literature. As mentioned above, the most important advantage for this research was outlined by Glassman (1973) and states that loose coupling allows certain parts of the organization to persist, while others change or have to change due to external changes. Weick (1976), Dubois and Gadde (2002) further elaborated that loose coupling provides a buffering mechanism against unfavorable circumstance in the external environment. At the case company this statement proves partially true, as the loose coupling used during the implementation of the new management accounting system allowed the lowest hierarchy of the organization to retain the traditional budgeting system, while the rest of the organization underwent radical change. Nonetheless, the case at hand does not provide an example for a buffering mechanism against unfavorable circumstances in the external environment, but rather focuses on (for the implementation) unfavorable conditions within the company, on an intra-organizational level. The two factors that have led to this situation are presented in the following two chapters.
4.2.2. Anticipated Resistance on Lower Hierarchical Levels

One factor that impacted the emergence of the new management accounting system as a loosely coupled system is the anticipated resistance against change in the lower levels of the organization, which was expected to eventually lead to inertia.

As described in the literature review, inertia is defined as “a persistent organizational resistance to changing architecture” (Hannan et al., 2004: 214), which can, according to Burns and Scapens (2000), be divided in three different types:

1. Formal resistance due to competing interest;
2. Resistance due to a lack of capability (knowledge and experience) to cope with the change; and
3. Resistance due to established ways of thinking and doing, embodied in existing routines and institutions.

All three different types of potential resistance could be found in the case company and, thus, supported the decision of the Beyond Budgeting implementation in a loosely coupled fashion. Even though the potential resistance was not fully acknowledged by all the interviewees from the beginning, throughout the interviews some of the aspects of potential resistance were uncovered.

The first type of resistance, the resistance due to competing interests, was anticipated in the case company because of the variety of “budget games” that were played when the old system was still in place, as mentioned above. Employees were thought to be afraid of losing their bonus and consequently resist against the new model, as displayed in the following statement by the director of planning and performance management:

“So the [...] people, they didn't like to lose the budget, because this was a game and they knew how to play the game.” (Interview CarCo1)
This first type of resistance, however, applies to all different parts of the organization and thus is not considered as a strong reason for the implementation of the Beyond Budgeting concept as a loosely coupled system.

The second type of resistance, the potential resistance due to the lack of capability (knowledge and experience) to cope with the change, applies exclusively for the lower levels of the organization and was mentioned in several interviews. Being questioned whether relative targets could also be applied to lower levels of the organization during one of the university presentations, the director of planning and performance management answered the following:

“At the business level maybe... but under that... commercial guys don’t know anything about marketing.” (University Presentation Pres2)

When elaborating the subject in a follow-up interview, he further explained that most front line employees that work in the commercial area lack a higher education in economics or management and thus “just know how to sell” (Interview CarCo5), which makes it difficult to understand more abstract approaches, such as the Beyond Budgeting model. The interviews with one group controller and the executive business director show similar findings, stating that “it is really complicated for them [front line employees] and they don’t understand” (Interview CarCo3) and that the front line employees “lack the maturity to deal with the information” (Interview CarCo6). For some regional areas of the organization, such as Market2 and Market3, the interviewees mentioned the great gap within the educational level of employees, which further emphasizes the complicated situation.

The evidence of the third type of resistance anticipated to occur at CarCo, resistance due to established ways of thinking and doing, embodied in existing routines and institutions, was very obvious in the conducted interviews. As referred to by a group controller the mindset of the salespeople, who focus on sales quantities instead of value creation, represent one of these reasons for resistance as illustrated in the following statement:
“A commercial director wants to sell. Wants to sell, sell, sell. And he doesn’t care about the margin. For him it is of a greater interest to sell another fifty trucks.” (Interview CarCo4)

The other interviewed group controller and the director of planning and performance management underline the assumption:

“[...]change generates fear. The majority of the people like to do the same things one day after another.” (Interview CarCo7)

“Because if you are working for twenty years with the hierarchical system, they are like children, they have to learn how to walk alone.” (Interview CarCo5)

The statements acknowledge the fact that the routines that existed in the organization in the last twenty years can be considered institutionalized and would most likely influence the acceptance of the new model. Using the metaphor of children, that need to learn how to walk alone, emphasizes the great level of institutionalization and suggests that a profound change in the people’s mindset would be needed to change the current state.

4.2.3. Hierarchical Organizational Structure

The second factor that impacted the emergence of the new management accounting model as a loosely coupled system is the strong hierarchical character the organization inhibits. As a very traditional company, CarCo Group is organized in several layers, of which the top management holds the greatest power. Due to this reason the director of planning and performance management decided to implement Beyond Budgeting in a top-down change approach, first approaching the top and upper management, subsequently passing the model down to the middle management, while conserving the status quo in the lower level or the organization. In addition to the first factor regarding the potential resistance, this factor was considered critical.
for the success of the change approach. The director of planning and performance management states:

“Because it is a chain of implementing strategy, so you have to influence behavior on a hierarchical chain. [...] Then you go down on the line and it’s the same conversation, [...] So you need to take care of the people, and influence the people, that can change the outcome. Usually, the lower levels of the teams, they are more operational, so it is not that important... [...] With Beyond Budgeting you start at the good behavior at the top level.” (Presentation Pres2)

One group controller further justified the chosen implementation method by referring to the power structure that is too weak in the lower levels to have enough impact to induce a cultural change:

“[...] when he decided to implement such a change to the organization, it is advised to do it not everything at the time. So you start in one level and maybe with time you are going to spread it all over the organization. And of course, if you decide to do it, you must start it from the top, not the bottom. [...] Because the bottom does not have influence or power to do it from the bottom to the top. Mainly because of the hierarchy...” (Interview CarCo7)

4.2.4. Usage Of Loose Coupling Between Hierarchies For Management Accounting Change

According to the literature, loose coupling can act as a buffering mechanism against unfavorable external circumstances (Dubois and Gadde, 2002). At CarCo, the implementation led to a loosely coupled system with the purpose to provide a buffering mechanism. But, differing from the literature insights, the main purpose of loose coupling at CarCo was not the protection against unfavorable circumstances in the external environment, but against
unfavorable circumstances at the intra-organizational level. By decoupling the lowest hierarchical level during the implementation of the new system, CarCo was able to protect the ongoing change process against negative reactions in this particular part of the organization, which were thought to potentially lead to the failure of the management control change. The initial introduction only in the upper and middle management levels enabled the system to first gain acceptance in the more powerful parts of the company, before spreading the concept to the rest of the organization.

From a research perspective, it is important to emphasize that neither the director of the planning and performance management department nor the involved board members presented any conscious knowledge about the concept of loose coupling and its use. Yet the decision to implement Beyond Budgeting as a loosely coupled system was taken, and indeed the implementation has already proven to be successful, as demonstrated in the following statement by the group controller:

“Because of Beyond Budgeting we had the agility to change things much more quickly that without these principles. Of course we would prefer not to have had the financial crisis and the crises in Brazil in Angola, but, well, we didn’t control that, they are context variables and we needed to deal with them. I think we dealt with them in a very agile way [...].” (Interview CarCo7)

Nevertheless, CarCo still intends to implement the concept in the remaining parts of the organization.

“The Beyond Budgeting model is supposed to be in place in the entire company. It will only work at 100% when it is implemented in all hierarchies.” (Interview CarCo4)
In 2017, almost five years after the implementation of Beyond Budgeting has started, the system is already established in the upper and middle levels and efforts are taken to pass it to the lower levels, as a quote from a group controller uncovers:

“I can only think of trainings [for them to accept the change], they have to be more autonomous and we have to insist in trainings. [...] Now they already start to understand. But in the implementation phase two or three years ago, it would have been very difficult.” (Interview CarCo4)

“It is a continuous process and we have to support them to go down to the lower levels. And how do we do this? Through trainings and persistency.” (Interview CarCo4)

Summarizing, it can be said that CarCo has now passed to a second phase of the implementation process of Beyond Budgeting. While the first phase included convincing the top management, implementing the necessary tools and gaining acceptance in the upper and middle management, the second stage will now make use of the more favorable conditions that were created to spread the system through the remaining parts of the organization. The adoption of a loosely coupled system during this partial implementation was key not only to succeed in the first phase but also to gather the resources (experience and top management support) required in a future second stage of Beyond Budgeting implementation.

5. CONCLUSION

The present case study attempts to make a modest contribution to the academic literature in several different ways:

(1) Due the relatively young age of the Beyond Budgeting management control concept, there is an existing gap in case studies concerning the long-term effects of implementation processes, to which this study contributes.
This research provides evidence from one of the biggest players in the Portuguese automobile distribution business, which is particularly interesting as it was also the first company in the Iberian Peninsula to implement the concept. As two case studies had already been written about the case company in 2013 and 2015, this study provides continuity to a rich set of data, enabling a longitudinal, long-term view of the developments of this unique Beyond Budgeting implementation.

(2) The study extends the literature on Beyond Budgeting implementation by presenting a new way of implementing Beyond Budgeting successfully in a very distinctive fashion, which has not yet been described.

The decision to decouple an entire hierarchy from the Beyond Budgeting implementation in order to avoid tensions and difficulties led to a more gradual change process at CarCo. Distinctive implementation approaches are a common phenomenon, since a new management control system, such as Beyond Budgeting, needs to be adapted to the company’s specific needs and prerequisites. Several distinctive approaches have been identified in the literature; nonetheless the implementation approach used at CarCo presents a very particular situation, in which the risk of resistance was identified as a potential obstacle to implementation, and avoided through loose coupling.

(3) The decoupling of the lowest hierarchy at CarCo was used as a buffering mechanism against unfavorable conditions in the organization itself, in an intra-organizational environment. This finding extends the literature on loose coupling, which had, up to date, only recognized loose coupling as a buffering mechanism against unfavorable conditions in the environment.

The buffering mechanism mentioned in the academic literature (Dubois and Gadde, 2002) focuses on the fact that the organization as a whole does not have to respond to each little change in the environment when a part of the organization is decoupled. In the case at hand, changes in the environment recommended, in theory, the change of the entire organization to a Beyond Budgeting system. However, the decoupling served as a buffering mechanism against
negative reactions in a particular part of the organization to the implementation of the new management control system. By implementing Beyond Budgeting in the upper and middle management first, the implementation process was able to introduce the desired changes in this area of the organization, enabling them to react to changes more adequately. On the other hand, the lowest hierarchy was allowed to remain decoupled, without adopting the new approach which was thought to be too complex for this area to deal with. Finally, it was also examined that the change was implemented in the organizational levels with the highest power, which is important to promote the planned future implementation of Beyond Budgeting in the rest of the organization.

(4) While most studies about loose coupling in management accounting change focused on the loose coupling between certain elements (e.g. rules and routines) to explain the simultaneous existence of stability and change as well as the possible change to a new management accounting system, this study shows how stability and change can coexist in different hierarchies of an organization.

The case at hand sheds light on the possible coexistence of stability and change during a gradual change process. It describes how change in the management control system can only affect the upper hierarchies of an organization, while the lowest hierarchy is characterized by a persistent stability as it continued to work in the same way as before.

From a practical perspective, this study helped the case company to create awareness of the status of implementation of the Beyond Budgeting concept. Since neither the former director of the planning and performance management department nor the involved board members presented any conscious knowledge about the concept of loose coupling and its use, the study can give relevant insights on how the distinctive way of implementation is perceived by different employees in the organization. It can support the on-going implementation process by providing inputs for future decisions. Furthermore, other companies can take advantage of the
information provided to avoid or anticipate problems that may arise during Beyond Budgeting implementation in their organization.

Another practical contribution of the case study concerns the adjustments to the system that were made two years after the implementation was initiated. Allowing the employees to go partially back to their comfort zone, providing some information which had been initially withdrawn, while continuing to provide the new Beyond Budgeting information, actually accelerated the introduction of the new concept instead of putting it to a risk. This insight emphasizes the fact that when implementing a new management control concept, change agents should not necessarily be too rigid and are advised to occasionally deviate from the original plans to make people more comfortable and succeed in the long run as people will actively promote and live the new concept.
6. BIBLIOGRAPHY


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