

The budget's viability in managing performance
- a case study of Eckes-Granini Oy Ab

Heidi Jaatinen
Master's thesis in accounting
Supervisor: Matti Skoog
Faculty of Social Sciences,
Business and Economics
Åbo Akademi University
2021

ÅBO AKADEMI UNIVERSITY – Faculty of Social Sciences, Business and Economics

Abstract for Master's thesis

Subject: Accounting	
Writer: Heidi Jaatinen	
Title: The budget's viability in managing performance – a case study of Eckes-Granini Finland Oy Ab	
Supervisor: Matti Skoog	
<p>Abstract:</p> <p>The budget is a cornerstone of management control in most organisations, providing a tool for planning, controlling and evaluating performance. Due to the increasingly volatile and complex business environments, the budget is perceived as unsupportive of modern management and incapable of reacting to changes fast enough. This has generated the Beyond Budgeting debate where one part considers the budget as fundamentally flawed and thus should be abolished, while the counterpart advocates for improving it. This thesis investigates the viability of the budget in managing performance, by considering its role in the performance management system. This thesis further considers three alternative approaches and their plausibility for improving or abandoning the budget.</p> <p>How budgets are used is strongly linked to organisational context. The research was conducted as a single case study in a middle-sized manufacturing company based in Finland. Data were collected through semi-structured interviews with seven respondents from various organisational levels and functions.</p> <p>The study revealed that the budget was perceived as a necessary tool for ensuring internal efficiency and cost-consciousness through planning, controlling and evaluating. Budgetary issues discovered were the time it consumes, the number of details required and its unsupportiveness of cross-functional cooperation. The performance management system has been complemented with supporting practices for strategic implementation and forecasting, indicating a reduced role for the budget as a tool for planning and evaluating. An analysis of alternative approaches was made to gain an understanding of whether to improve or abandon the budget.</p> <p>The results indicate that the budget is still the most efficient tool to fulfil the control function in the case company. It has a crucial role in integrating the performance management system. The proposed solution is a simplification of the required budgetary information and a formalisation of the new responsibility routines.</p>	
Keywords: Budget, beyond budgeting, performance management, management control, performance management systems	
Date: 17.5.2021	Number of pages: 77

ÅBO AKADEMI – FAKULTETEN FÖR SAMHÄLLSVETENSKAPER OCH EKONOMI

Abstrakt för avhandling pro gradu

Ämne: Redovisning	
Författare: Heidi Jaatinen	
Arbetets titel: The budget's viability in managing performance – a case study of Eckes-Granini Finland Oy Ab	
Handledare: Matti Skoog	
<p>Abstrakt:</p> <p>I de flesta organisationerna är budgeten en institutionaliserad del av ekonomistyrningen och utgör ett verktyg för planering, kontroll och utvärdering av verksamheten. På grund av den alltmer volatila och komplexa affärsmiljön uppfattas budgeten inte längre vara värdeskapande för modern ledning och oförmögen att reagera snabbt på förändringar. Detta har genererat Beyond budgeting-debatten där den ena parten anser att budgeten i grunden är bristfällig och bör avskaffas, medan den andra parten förespråkar en förbättring av budgeteringsprocessen. Avhandlingens syfte är att undersöka budgetens livskraft ur ett ekonomistyrningsperspektiv och överväga rimligheten av tre alternativa tillvägagångssätt för att förbättra eller ersätta budgeten.</p> <p>Hur budgetar utnyttjas är starkt sammankopplat med företagssammanhanget. Forskningen utfördes som en fallstudie i ett medelstort producerande företag i Finland. Data samlades in genom intervjuer med sju respondenter från olika organisationsnivåer och funktioner.</p> <p>Studien avslöjar att budgeten upplevs som ett nödvändigt verktyg för att säkerställa intern effektivitet och kostnadsmedvetenhet. Samtidigt upplevs budgeteringsprocessen som tidskrävande, för detaljerad och inkapabel att stöda tvärfunktionellt samarbete. Ekonomistyrningssystemet har kompletterats med stödjande processer.</p> <p>Resultaten indikerar att budgeten fortfarande är det lämpligaste verktyget för kontroll i fallföretaget. Det ökade tvärfunktionella samarbetet har ökat på mängden delad information och suddat ut ansvarsområden i budgeteringsprocessen. Den föreslagna lösningen är en förenkling av informationskravet i budgeteringsprocessen och en formalisering av nya ansvarsrutiner.</p>	
<p>Nyckelord: Budget, beyond budgeting, ekonomistyrning, kontroll</p>	
Datum: 17.5.2021	Sidoantal: 77

Abbreviations

BSC – Balanced scorecard

E-G Finland – Eckes-Granini Finland Oy Ab

PMS – Performance management system

S&OP – Sales & operational planning

Table of Contents

1.	Introduction.....	1
1.1	Research problem.....	2
1.2	Purpose of the study.....	3
1.3	Research method and contributions.....	4
1.4	Structure and delimitations.....	5
2.	Performance management systems.....	6
2.1	Management control.....	6
2.2	Framework by Ferreira & Otley.....	8
2.3	Framework by Johanson, Almqvist & Skoog.....	14
3	Traditional Budgeting.....	17
3.1	Purposes of budgeting.....	17
3.1.1	Planning.....	17
3.1.2	Control.....	18
3.1.3	Evaluation.....	18
3.2	Criticism of traditional budgeting.....	19
3.3	Better budgeting.....	20
3.3.1	The balanced scorecard.....	21
3.3.2	Rolling budgets and forecasts.....	23
3.4	Beyond Budgeting.....	24
4	Prior research.....	27
5	Methodology.....	32
5.1	Case study.....	32
5.1.1	The case company.....	33
5.2	Interviews.....	34
5.2	Analysis of data.....	35
5.3	Research reliability and validity.....	36
6	Empirical findings.....	37
6.2	The interviewees.....	37
6.3	Strategy, key success factors and organisational structure.....	38
6.4	Performance measurement, evaluation and rewards.....	41
6.5	Information flows and the business environment.....	44
6.6	The budgetary process.....	47
7	Analysis.....	52
7.2	The integrated performance management system.....	52
7.2.1	Ideal and coherence.....	52
7.2.2	Functional process.....	53

7.2.3	Contextual support	54
7.2.4	Contextual communication and learning	55
7.3	The budget's role in the PMS.....	55
7.4	Alternative approaches	59
7.4.1	The Balanced scorecard	59
7.4.2	Rolling budget.....	60
7.4.3	Beyond Budgeting.....	61
8	Conclusions and discussion	63
8.2	Directions for future research.....	65
	Swedish summary – Svensk sammanfattning.....	66
	References	69
	Appendix 1. Information to the respondents.....	73
	Appendix 2. Interview guide 1	74
	Appendix 3. Interview guide 2.....	76
	Appendix 4. Conducted interviews	77

1. Introduction

Budgeting is a cornerstone of management control in most organisations, making its functionality an extensively researched topic within management accounting. (Covaleski et al. 2007) Budgeting has many advantages when done right, its key functions being planning, control and evaluation of performance. (Henttu-Aho & Järvinen 2013) However, in recent years criticism of the annual budget has been well documented. The criticism is grounded on the budget's inability to support modern management in a fast-changing business environment. (Hansen et al. 2003; Neely et al. 2003) The criticism has generated the Beyond Budgeting debate where Beyond Budgeting perceives the budget as fundamentally flawed and thus should be abolished, while the counterpart advocates for improving the budget to answer to its shortcomings. (Henttu-Aho 2016)

Traditional budgeting was created in a time when economic circumstances were more stable with the aim of helping companies perform. The purpose of budgeting is to be a tool combining planning, coordination, and communication among sub-units in an organisation, providing a framework for motivation, control, and evaluation of employees. (Hansen et al. 2003) Globalisation, the development of technology and digitalisation have added to the volatility, uncertainty, complexity, and ambiguity of business environments. Bunce, Fraser & Woodcock (1995) argue that since the traditional budgeting process was developed for a more stable business environment, it is unsupportive of modern management.

The discontent with the budgeting process and its ability to support the larger perspective has resulted in an increased interest in alternatives for traditional budgeting. There is a wide framework of critique on budgeting and a set of alternative concepts, but there is still a lack of understanding the practical implications of substituting the annual budget. This research considers the viability of budgeting through a broader perspective of performance management and whether companies should improve or abandon the process.

1.1 Research problem

Budgeting is implicated in basically every aspect of management accounting and an institutionalised part of performance management. Overall, performance management and measurement has seen a revolution during the last 30 years. The focus on formal financial control has evolved to a broader perspective of financial and non-financial information of both internal and external variables, in order to adapt to the changing business environments and strengthen the overall company performance through strategic positioning. (Chenhall 2007) The perceptions of traditional management accounting methods, such as the budget, have changed from supporting management to being too theoretical, short-sighted, financially focused and simplified for modern complex business environments. Traditional methods neglect value-creating aspects, such as knowledge and customer relations, that need to be considered in contemporary society. (Johanson et al. 2006)

Budgeting remains a vital tool for management control, even if it has gained an increasing amount of criticism through the years. It is perceived as a time-consuming process, with weak links to the strategy. It is argued that the budget stimulates manipulative behaviour and assumptions are outdated too quickly. It centralises decision-making, enforcing a vertical command-and-control structure which is incompatible with the modern organisational designs of flat networks. (Hansen et al. 2003; Bogsnes 2016) A study of Finnish firms shows that 61% of respondents are actively trying to develop their existing budgeting system, but only 14% are planning to abandon their budgets, or at least considering it. (Ekholm & Wallin 2000) In a study of North American budgeting practices, Libbey & Lindsey (2010) discovered that only 5% indicated a possibility of eliminating budgets for control, suggesting that budgets are still alive and well in organisations. Budgeting has many advantages when done right: it implements strategy, supports company operations through planning, coordination, and motivation, and communicates it to employees. (Drury 2015)

Bogsnes (2016) argues that the original purposes of budgeting, planning, target setting and motivating, are conflicting each other. The traditional budget is an effort to solve different problems with one tool. The easy solution would be to develop new tools for each purpose, but the challenge is to change the institutional budgeting mindset. Competitive advantage through innovation seems to be tied to product technology.

When it comes to management innovation, companies tend to be careful and seek answers in common best practice.

Why do organisations continue budgeting when there is a strong discontent with the process? Bogsnes (2016) claims that either they are unaware of options, or the budgeting problems are too small to justify the major changes that alternatives may entail. However, studies indicate that budgets are still widely used and crucial for internal efficiency (Ekholm & Wallin 2000; Libbey & Lindsey 2010; Shivabalan et al. 2009)

Østergren & Stensaker (2009) claim that accounting innovations have commonly been researched one innovation at a time, which further has built on the inconsistency of research results. This is supported by Malmi & Brown (2008) who claim that focusing research on separate practices might give misleading results, since a broader perspective is required for understanding how one practice affects others.

Organisations seem to be standing at a crossroad. Should they maintain the budgeting system despite possible discontent, or should they improve or even abandon their existing system? Investigating the alternatives for traditional budgeting and how these alternatives fit into the modern perspective of performance management is an interesting and contemporary phenomenon to cover, answering to a practical problem companies are facing.

1.2 Purpose of the study

This thesis considers the current budgeting process and its functionality through a broader perspective of performance management in a case company. The purpose is to gain an understanding of the budget's viability as an element of the performance management system and how alternative approaches might support or replace it. To achieve the purpose, the research problem is approached through three research questions:

1. What constitutes the current performance management system?
2. What is the budget's role in the performance management system?
3. Should the case company maintain, improve or abandon the budget?

1.3 Research method and contributions

The research questions are examined through a case study. The case company ECKES-GRANINI Finland Oy Ab is a manufacturing middle-sized company based in Finland, with its headquarters in Germany. The company participated in a study by Fredrika Salo in 2018 about the relevance of the annual budget, where it was perceived as relevant. Due to the everchanging business environment, the company still wants to explore alternative approaches. This study is grounded on an action research approach, since the company expressed a will to examine possible solutions to existing budgetary issues.

The thesis provides empirical insight into recent innovations within management control, by analysing the current state of affairs in order to gain an understanding of possible best practice. The conclusions made will assist the case company's directors in deciding whether to improve or abandon the annual budget.

Data are collected through interviews with three top-level managers to achieve a holistic understanding of the current performance management system. The research is then completed with additional interviews with respondents from different organisational levels and functions, in order to gain insight on possible differing assumptions. Gathered data are analysed in relation to the theoretical framework.

The budget's functionality has been an extensively researched topic in past decades, leading companies to speculate over whether to improve or abandon it. (Hansen et al. 2003; Hope & Fraser 2003; Ekholm & Wallin 2000) This thesis will contribute to the beyond budgeting debate from a practitioner's perspective, by investigating the budget's viability through a broader perspective of performance management. Prior research has focused on specific practices with inconsistent results, since taking a too narrow research perspective has failed to capture how other practices affects possible shortcomings of the budget (Malmi & Brown 2008; Østergren & Stensaker 2009). This research enables a deeper understanding of the budget's role in increasingly complex business networks, by investigating the perceptions of performance management from various organisational levels and functions. The insights gained provides a basis for future research of whether to improve or abandon the budget at the case company by considering the applicability of alternative approaches.

1.4 Structure and delimitations

The research is divided into seven chapters, starting with the theoretical framework consisting of performance management systems, budgets in their most traditional form and different alternative approaches. In chapter four the research methodology and methods are presented, followed by the empirical data obtained in the study. Chapter six reveals the analysis and the final chapter presents conclusions made during the research.

This thesis delimits itself from governmental budgeting, since the extensive political science research differ from issues in management accounting literature of the private sector.

2. Performance management systems

This chapter considers the concept of performance management systems and why it is crucial to take this broader perspective when evaluating the budget's viability. Two frameworks are presented in order to gain an understanding of how various systems are constructed.

2.1 Management control

Management control refers to what managers do to assure that a company performs well, adapts to its environment and reaches the goals set for different stakeholders. The process can be described as strategy implementation which consists of target setting, how to achieve the targets and how to align behaviour accordingly. (Merchant & Otley 2007) According to Bourne et al. (2014), performance measurement and management has seen a revolution during the last 30 years. Management control has progressed from formal, measurable financial information to a much broader scope that includes external information of markets, customers, competitors and non-financial information about internal processes, predictive information, and different mechanisms for personal and social control (Chenhall 2003). There is a stream of research emphasising the importance of studying accounting innovations in practice as an integrated part of a broader package of management control systems. Taking a broader perspective enables a deeper understanding of the impact of innovations and how to design management control packages. (Malmi & Brown 2008)

Management control is a broad topic, where terms are often used interchangeably. Chenhall (2003) separates in his research the term management accounting, management accounting systems, and management control systems. Management accounting indicates a set of practices, where budgeting can be included. A management accounting system inclines a systematic use of management accounting for reaching set targets. Management control systems include both management accounting systems and additional controls, such as personal and clan controls.

Malmi & Brown (2008) have further developed this idea by distinguishing decision-making and control. Control implies a set of mechanisms or processes used to

influence the behaviour of groups or individuals towards a pre-set target. The authors suggest that actions and procedures with the aim of directing employee behaviour should go under the term management controls. If a complete system of these exists, it can be referred to as a management control system. Accounting systems that support decision-making should belong under management accounting systems. The conclusion drawn is that the research must be clear about what kind of control it addresses.

Lately, the term performance management system (PMS) has been introduced, described as a set of different control mechanisms to assure that employee behaviour is consistent with organisational strategy. The term is quite synonymous to management control systems, as it has emerged from its research. (Franco-Santos & Otley 2018) Ferreira & Otley (2009: 264) view PMS as

...the evolving formal and informal mechanisms, processes, systems, and network used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change.

In their definition, they assume that targets are set by top level managers and include consideration of the expectations of key stakeholders.

A quite contemporary debate is whether to study management control as a system or a package. Malmi & Brown (2008) emphasise the importance of studying the management control system as a package, for various reasons. Firstly, prior research has focused on certain practices quite separate from other practices and the operational context they are used in, even though they clearly are connected. The links between various practices and contingency factors need to be recognised, in order to understand the broader package of management control. Secondly, research has focused on innovations in practice: their development, adoption, usage and impact. With a broader package perspective, the effects of an innovation on the existing management control system can be considered. Thirdly, according to the authors research has been focused on formal systems of control, leaving a limited understanding of how other types of control, such as administrative or cultural control, affect the package and whether they complement or substitute each other.

In more recent research, David Bedford (2020), clarifies the difference between studying management control combinations as a package or as a system. Both perspectives assume that interdependencies exist between different elements of control. If the management control practices work coactively and this is considered by management level, it is perceived as a system. The package perspective studies how different practices deal with control problems, regardless of interdependencies. Defining the possible causal relationships between various control practices is a good starting point for understanding how and why combinations of practices can solve different control problems.

This thesis defines budgeting as a tool for management accounting, which is a crucial part of performance management systems. The thesis follows the view of performance management systems according to Ferreira & Otley (2009). The concept includes both formal and informal controls that are used, such as mechanisms, processes, systems, networks and communication. The concept captures all the purposes management might want to steer towards. To tackle the research problem, a package perspective is taken on the existing performance management system.

2.2 Framework by Ferreira & Otley

The development in recent decades has led to reconsideration of accounting and management control. Traditional frameworks are commonly limited to the financial perspective of performance and therefore unable to provide a comprehensive picture of activities that construct the performance management system. In an effort to understand organisational performance and its multiple dimensions for designing performance management systems, Ferreira & Otley (2009) have developed a framework to assist in describing the structure and operation of performance management systems as an entity.

The framework is an extension of prior works of Otley (1999) and Simons (1995) and aims at providing an understanding of key aspects of performance management, to enable a basis for further development research. Their extended framework for performance management systems consists of twelve questions, cited below (Ferreira & Otley 2009, p: 266-267). Next, each question and its implication for gaining understanding is presented.

1. *What is the vision and mission of the organization and how is this brought to the attention of managers and employees? What mechanisms, processes, and networks are used to convey the organization's overarching purposes and objectives to its members?*

The organisational objectives are crucial for performance management. Targets are commonly set by executives, who try to answer to multiple stakeholder's assumptions. According to the authors, organisational objectives might be expressed in the mission and vision statements. The mission is the overall business purpose interacting with various stakeholders and the vision is more of an expressed desire of future state. The purpose of the question is to gain information of how objectives are set and communicated.

2. *What are the key factors that are believed to be central to the organization's overall future success and how are they brought to the attention of managers and employees?*

Key success factors refer to the critical activities or processes needed to achieve the mission and vision. The factors can be further extended to include competence and capabilities. Defining the key success factors is a way to translate the vision and mission to more specific actions within different timeframes and enables measurement of control accordingly.

3. *What is the organization structure and what impact does it have on the design and use of performance management systems (PMSs)? How does it influence and how is it influenced by the strategic management process?*

The organisational structure is an essential part of control, that strongly relates to the identification of key success factors. In general, the structure establishes and defines the roles and responsibilities of individuals within an organisation. Ferreira & Otley include structures, processes and relationships into the concept. These various structures are key for efficient performance, since they determine the motivation of employees, how information is communicated and how the current arrangements combine with identified key success factors. As organisations are part of broader networks and it might affect their control arrangements, these need to be considered.

4. *What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees?*

Strategy differs from mission by being more of a concrete direction that organisations decide to take, to achieve the overall mission. Plans are more short-term translations of strategy into operational objectives. The framework considers various typologies of strategy identified in prior research: defender, analyser, prospector, reactor, cost focus, differentiation, conservative and differentiation strategies. Identifying what kind of strategy the organisation applies, gives insight into how the company perceives itself and how strategy could or should be translated into the performance management system. How strategy and plans are generated and communicated is crucial for the outcome of the PMS, since it results in how individuals perceive their contribution to the overall outcome. The traditional approach is top-down, where managers both decide and communicate strategy and plans, whereas a bottom-up approach enables participation of all levels in the process.

5. *What are the organization's key performance measures deriving from its objectives, key success factors, and strategies and plans? How are these specified and communicated and what role do they play in performance evaluation? Are there significant omissions?*

Key performance measures are actual metrics to assess the achievement of various pre-set targets. Measures can be financial or non-financial and implemented at various organisational levels. The question emphasises whether the measures are generated from the objectives, key success factors or strategies and plans, since it enables evaluation of their suitability for implementing strategy. According to Chenhall (2003), the optimal performance measures should be a function of strategy, competitive environment and organisational structure. With this question, attention should be given to the amount of measures, what measures are taken and where measures might be limited or absent. Implementation of too many measures reduces the attention span.

6. *What level of performance does the organization need to achieve for each of its key performance measures (identified in the above question), how does it go*

about setting appropriate performance targets for them, and how challenging are those performance targets?

Question number six is strongly related to the previous question and has its focus on how to decide the appropriate level of setting targets for performance. Target setting in relation to motivation and rewarding is a continuous debate, but prior research is consistent with target-levels affecting the overall performance.

7. What processes, if any, does the organization follow for evaluating individual, group, and organizational performance? Are performance evaluations primarily objective, subjective or mixed and how important are formal and informal information and controls in these processes?

Evaluation of performance has a crucial relation to control practices, since individuals tend to emphasise tasks that are signalled to be important by managers, both formally and informally. Performance evaluation is an area, where subordinates' perceptions of the situation is more important than the formal situation. Individual evaluation is likely to be the easiest to observe, but a more collective evaluation is equally important. Prior research has identified, that how performance is evaluated affects the performance. Evaluations can be subjective, objective or relative.

8. What rewards — financial and/or non-financial — will managers and other employees gain by achieving performance targets or other assessed aspects of performance (or, conversely, what penalties will they suffer by failing to achieve them)?

Quite commonly, rewards are the outcome of performance evaluation. Rewards may range from expressions and recognitions to financial rewards and promotions. Prior research is consistent that rewards are being used for motivating individuals to align their behaviour into organisational goals.

9. What specific information flows — feedback and feedforward —, systems and networks has the organization in place to support the operation of its PMSs?

Question nine focuses on the essential mechanisms that enable any performance management system and binds it together. Regarding information, the framework separates between feedback and feedforward information. In short, feedback information enables taking corrective action when needed and feedforward

information is used to learn from experience. Systems refer to how the company organises their accounting- and other information. The infrastructure of information systems and information technology administer as a platform for information to flow, but may simultaneously limit the implementation of control. These infrastructures traditionally accommodate financial information, how they apply to non-financial information needs to be considered. Further, the scope, timeliness, aggregation and integration of information need to be assessed. Issues, such as relevance, detail, selectivity and orientation, need to be considered. Networks reflect how the organisation might arrange their system into networks, that are available to various sections of the organisation, and how there might exist informal networks between various individuals or groups.

10. What type of use is made of information and of the various control mechanisms in place? Can these uses be characterised in terms of various typologies in the literature? How do controls and their uses differ at different hierarchical levels?

How information and control are used, is a cornerstone of the performance management system. Prior empirical evidence has suggested it to be more important than the formal design of the system itself. The concept of *use* could be better defined. The framework considers diagnostic and interactive use, drawn from the prior Simons' levers of control framework, and a transactional and relational use, defined by Broadbent and Laughlin. Interactive control refers to the encouragement of learning and innovation, whereas diagnostic control monitors, evaluates and rewards key areas of performance. Both interactive and diagnostic use are important for the learning process, but the authors emphasise the need of strategic validity control, since it recognises strategic failures and needs of renewal. The transactional use of performance management systems is a broader perspective of what to achieve and how, with a more detailed specification of targets and measures. The relational use emphasises the perceptions of stakeholders in target setting and measuring.

11. How have the PMSs altered in the light of the change dynamics of the organization and its environment? Have the changes in PMSs design or use been made in a proactive or reactive manner?

The framework includes consideration of change and dynamics of the performance management system, since the environment is fast-changing and the system also should be, to sustain its relevance and usefulness. Change and dynamics refer to both the infrastructure of the system and the control of information. The question emphasises the causes and outcomes of change, rather than the change process itself. This is illustrated with why a measure is introduced and what the effects of it are.

12. How strong and coherent are the links between the components of PMSs and the ways in which they are used (as denoted by the above 11 questions)?

Understanding how the various components of a system combine and coordinate is crucial for understanding its overall operation. If various components are ill combined, control failures might occur.

The framework by Ferreira & Otley (2009) can be used to investigate the current state of affairs, of the use and design of a performance management system. The authors describe the output as a snapshot of current control practices. The questions need to be asked at various hierarchical levels, since differences between assumptions are likely to occur. For this particular study, the framework is used for obtaining and systematising data for analysis.

2.3 Framework by Johanson, Almqvist & Skoog

Performance management systems are continuously changing and becoming more multi-dimensional, when forced to adapt to the modern business environment. Johanson, Almqvist & Skoog (2019) have extended prior research, including the framework by Ferreira & Otley, to enable a categorisation and consideration of how multiple elements, components and processes integrate within an organisation.

The framework emphasises understanding integrational challenges and tackles four of them: integration of financial and non-financial measures; integration of measures, targets and processes; integration of management and reporting content and processes; and integration of different internal stakeholder perspectives. The framework gives a rich understanding of how to translate performance into coherent measures, how to avoid trade-offs between conflicts of interest between various dimensions, and how to manage and assure a mutual understanding of the measures. The framework is illustrated in figure one.

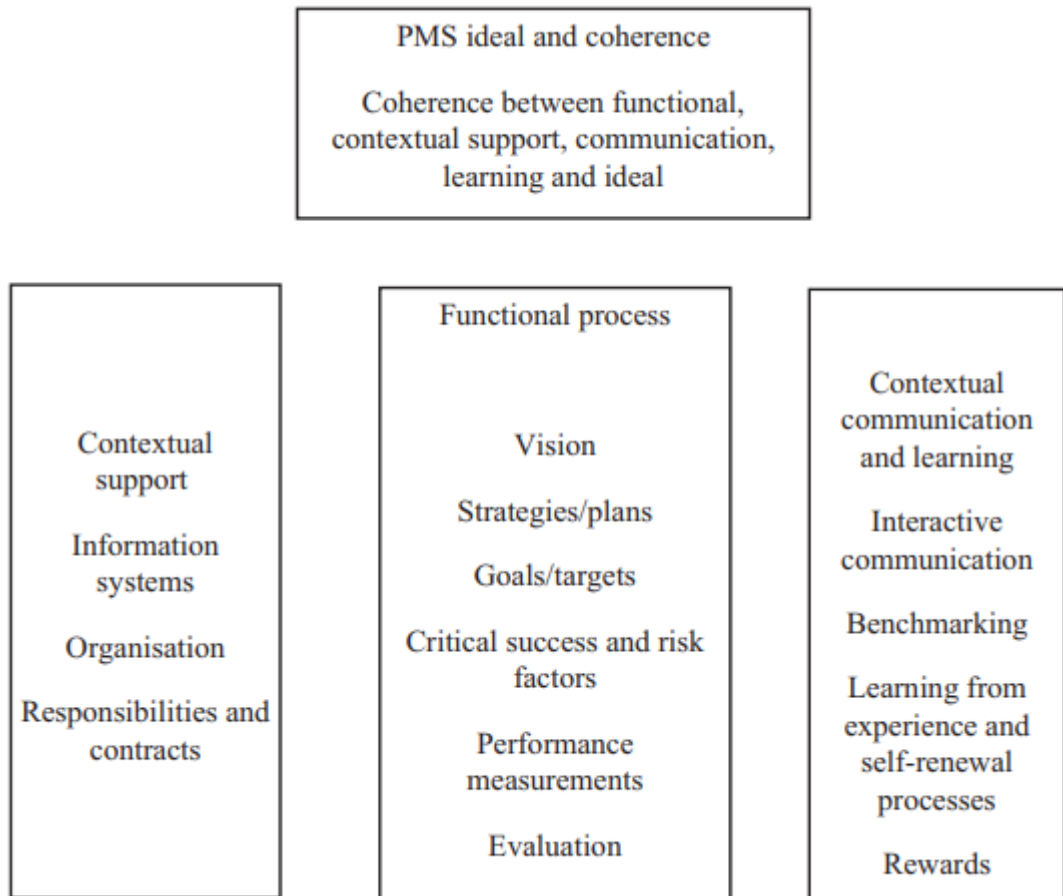


Figure 1. Framework for analysing integrated performance management systems. Johantson et al. (2019) p. 315

In their conceptual framework, the *ideal and coherence* of the performance management system is placed at the top. Ideal refers to a set of basic, collective assumptions that set the background for the use of other performance management structures: the contextual support, the functional process, and the contextual communication and learning. If the other constructions are unsupportive of the ideal, the system remains ineffective. The relevance of the ideal, is to understand how basic values exist at different levels, and how unconscious values might differ from expressed views. This is a development of the Ferreira & Otley framework, since the unconscious values may differ from the expressed vision, mission and strategies.

Johanson et al. (2019) further distinguishes between functional and contextual support, as opposed to the prior framework by Ferreira & Otley. The *functional processes* include the organisation's vision, strategy, plans and concrete targets. Vision is more of a written statement of guiding principles, while the ideal is a set of basic expressed views and assumptions. The functional processes contain what the company should achieve and if the targets are met, characterised by both financial and non-financial elements.

The *contextual support processes* should support the functional processes. These consist of information systems, organisation and responsibilities, including contracts. The framework emphasises formal expression for contracting responsibilities. These contracts should be based on an interactive communication process, since a one way top-to-bottom allocation of responsibility might alter the common ideal and coherence.

The *contextual communication and learning* comprehends interactive communication, benchmarking, learning from experience and self-renewal processes and rewards. The interactive communication is unmentioned by Ferreira & Otley, but Johanson et al. (2019) state that it reflects the continuous adjustment of the PMS and the development occurring by learning from experience. Benchmarking is a crucial process related to both learning and rewards, that reflects not only bonuses, but also the demands of management.

The framework enables a categorisation of the elements in a performance management system, gives a rich understanding of performance management systems and tackles the challenge of integrating various dimensions within the organisational context. The framework excludes the external environment, even though it might affect the

performance management system in profound ways. However, this thesis focuses on the national organisation and its internal processes, so the framework can still be considered as sufficient enough.

3 Traditional Budgeting

Budgeting has been described as a cornerstone of management control, since it is a versatile tool widely used by organisations. Practically every aspect of management accounting is implicated in budgeting, making it a widely researched topic. (Covaleski et al. 2007) Lately, the traditional budget has been viewed in a critical light, leading to a debate of whether to improve or abandon the traditional process. This chapter considers budgeting, its multiple purposes and the lately debated budgetary criticism.

3.1 Purposes of budgeting

The budget can be described as a tool for expressing detailed strategic plans in financial terms, for a specific time period, usually the next year. The operational budget has multiple functions, including planning, coordinating, communicating, motivating and evaluating. (Hansen et al. 2003) Sivabalan et al. (2009) roughly divided the budget's key functions into *planning*, *control* and *evaluation*. Next, these main functions are further elaborated on.

3.1.1 Planning

The planning function is a future-oriented process, that includes communication, coordination, plan formulation, capacity management and price determination (Sivabalan et al. 2009). The starting point of budgetary planning should be in the strategy of the organisation and what they want to achieve on a long-term basis. The budget is a refinement of that strategy, converted into operational targets for the following year. (Drury 2015) Planning requires management to consider alternative scenarios when making decisions and the budgetary process is key for risk reduction (Stringer et al. 2011).

The planning process provides information for coordinating activities and communicates future performance expectations. Different sections might have different objectives and the budget coordinates these differences for the good of the organisation as an entity, rather than gaining an individual section. (Drury 2015)

Stringer et al. (2011) illustrate the elements of budgeting for a manufacturer: the organisational objectives set the frames for sales planning, that is further linked to production and capacity planning, inventory policies, purchasing planning, labour costs and so on. The budget communicates and coordinates resource allocation horizontally. The vertical communication and coordination is equally important, where budget-participation is an extensively researched topic. Participating managers in the target setting process, is likely to increase their commitment to targets, while targets set by top executives may feel unrealistic or unachievable. (Merchant & Van der Stede 2007)

3.1.2 Control

The budget is a widely used tool for control in organisations. The control function refers to defining accountabilities and monitoring performance. (Stringer et al. 2011) The budget defines accountability, by communicating the targets that must be met and the managers held responsible for achieving them. (Ax et al. 2001; Drury 2015) In order to be accountable, the person must have the ability to affect aspects in the process. Quite commonly, the organisational structure communicates responsibility centres that define the activities a unit is responsible for. (Stringer et al. 2011)

The budget is a tool for monitoring performance, enabling control of behaviour. By comparing actual outcome with budgeted targets, managers can concentrate on the reasons behind possible deviations, find inefficiencies within the business processes and take appropriate action to repair the situation. (Drury 2015)

3.1.3 Evaluation

The evaluation function is tightly related to the control function, since performance is evaluated in relation to set targets in an objective or subjective manner. Objective evaluation focuses on measurable targets, such as return on investment, or more non-financial targets, such as accidents per year. The subjective approach allows consideration of changed circumstances and context. (Stringer et al. 2011) Merchant

& Van der Stede (2007) divide the budget's evaluation function into staff evaluation and business unit evaluation.

Incentives are commonly included in budgeted targets for motivating improved performance (Drury 2015). Merchant & Van der Stede (2007) emphasise the importance of incentive systems in tying rewards to the evaluation process. Rewards, monetary or non-monetary, remind and motivate employees to achieve the set targets and aligns individual interests to organisational objectives.

3.2 Criticism of traditional budgeting

The business environment is in a period of change, where competitive pressure is added through globalisation, digitalisation, big data, and management innovations. The marketplace has become more volatile, complex, and unpredictable, and the focus has shifted from supplier-driven to customer-driven orientation (Bunce et al. 2003). Hope & Fraser (1997) claim, that the functionally-based budget was supportive of organisational hierarchies during the industrial age, but fails to meet the challenges of the information age.

A report by Neely, Bourne and Adams (2003), collects twelve most cited weaknesses of budgeting in literature and divides them into three categories of how they affect the organisation through competitive strategy, business process and organisational capability (p. 23):

- Competitive strategy:
 1. Budgets are rarely strategically focused and are often contradictory.
 2. Budgets concentrate on cost reduction and not on value creation.
 3. Budgets constrain responsiveness and flexibility and are often a barrier to change.
 4. Budgets add little value – they tend to be bureaucratic and discourage creative thinking.
- Business process:
 5. Budgets are time consuming and costly to put together.
 6. Budgets are developed and updated too infrequently – usually annually.
 7. Budgets are based on unsupported assumptions and guesswork.

8. Budgets encourage gaming and perverse (dysfunctional) behaviour.
- Organisational capability:
 9. Budgets strengthen vertical command and control.
 10. Budgets do not reflect the emerging network structures that organisations are adopting.
 11. Budgets reinforce departmental barriers rather than encourage knowledge sharing.
 12. Budgets make people feel undervalued.

Hansen et al. (2003) claim that these points all relate to three different issues: the reduced value of the budget, the budget's unsupportiveness of modern management, and organisational and people-related budgeting issues.

Drury (2015) and Bogsnes (2016) claim that the several purposes of the budget may conflict one another. For instance, planning and motivating: an easier to reach target is a realistic plan but fails to motivate into achieving more. The planning and evaluation purposes also conflict: a plan is set in advance based on assumptions related to circumstances, while the performance evaluation should be based on actual outcome related to an adjusted budget, to reflect possible changes in the operational circumstances.

According to Hansen et al. (2003), the budgetary criticism has led companies to decide whether to maintain, improve or abandon the traditional budget. There are those, who consider the annual budget to be fundamentally flawed and thus should be deserted to the past, and then there are those that believe the budget can be improved to solve its shortcomings. This is referred to as the Beyond-Budgeting debate. (Henttu-Aho 2016) Next, approaches for improving or abandoning budgets are considered.

3.3 Better budgeting

Better budgeting refers to a continued use of budgets, but different approaches for improving the process have been taken. This thesis considers the concepts of the Balanced scorecard and rolling forecasts, since they are the most occurring approaches in practice to replace or support the traditional budget. (Ekholm & Wallin 2000; Neely et al. 2003)

3.3.1 The balanced scorecard

The balanced scorecard (BSC) is a strategic framework for performance management systems, developed to answer to the need of integrating financial and non-financial measures for performance evaluation. (Drury 2015) It was developed by Kaplan & Norton in 1992, described as a tool for identifying, communicating and implementing strategy. (Kaplan 2009) The approach has been proposed as an alternative to either replace or support the annual budget (Henttu-Aho & Järvinen 2013; Malmi 2001)

The basic idea of the concept is to identify key performance indicators for achieving strategy through four different perspectives: financial, customer, internal business and learning and growth. (Drury 2015) An underlying assumption is, that to be able to improve something, it needs to be measurable. With the BSC the financial measures remain the core indicators of success, but they are completed with measures from other perspectives. (Kaplan 2009)

A basic assumption of the BSC is, that all the perspectives have causal relationships, with linkage to strategy formulation and financial outcome. (Drury 2015) Strategy formation and definition is crucial for finding the appropriate measures. Kaplan illustrates this with a causal chain of how training employees in quality management tools, reduces process cycle times and defects, which further leads to improve on-time delivery and customer satisfaction, which results in higher revenues. The starting point of a BSC should be a strategy map, with company objectives and a visualisation of the causal linkages, before the performance metrics are chosen. (Kaplan 2009)

The advantage of the balanced scorecard is, that it brings together four different perspectives of performance into one report. It allows converging company strategy into measurable targets and processing them altogether, to see if improvements in one section occurs on the expense of another. However, the balanced scorecard has been criticised for its lack of time dimension. The absence of a time dimension makes it impossible to establish the successfulness of strategic implementation with financial measures. Other criticisms are that the links between measures and strategy are difficult to establish and the causal relationships between perspectives are hard to explain. (Drury 2015) A common question the developers receive, is how to define the metrics used for the balanced scorecard, as the theorised metrics are perceived as too generic. According to Kaplan (2009) the key is to define strategy first and gain

knowledge of the chosen perspective. The metrics for a cost-conscious strategy differs from a strategy focused on customer relationships.

Teemu Malmi (2001) has researched the use of the balanced scorecard in Finnish companies, with the purpose of mapping why they were adopted and how they are used. Interview respondents include organisations such as Alko, Fazer Confectionary Oy, Kesko Oy and Valmet Oy. The study revealed mainly two ways of use: for a management-by-objectives approach and as an information system. Management-by-objectives is realised through setting targets for the balanced scorecard measures and defining individuals held accountable for reaching them. The BCS is perceived to help in identifying what needs to be improved, by a larger perspective of information. In practice, the respondent companies used the BSC to divide strategy into convenient pieces, according to responsibilities on a business unit level. Most respondents used the four recommended perspectives, but two added a fifth perspective of employees to the scorecard. Only two out of 17 companies relied on previously used performance measures, whereas all the others developed and adopted new ones.

Ax & Bjørnenak (2005) cover in their research the usage of the balanced scorecard in Swedish companies. The BSC was adopted by 27% of the major Swedish companies in 2000. Their study reveals, that the original framework by Norton & Kaplan has been completed with other administrative innovations, such as non-budgeting and the intellectual capital model. In the first package observed, the balanced scorecard serves as a substitute for the traditional budget. The intellectual capital model emphasises valuation of intellectual capital such as human, structural, customer, innovation and process capital. In the third package, a fifth employee perspective is added. The original framework by Norton & Kaplan is a shareholder model, where the owner's values are placed on top. Adding an employee perspective enables a stakeholder model, that is perceived as more suitable for the Scandinavian stakeholder economy. The success of the management processes in companies, such as Handelsbanken and Scania, have gained international reputation and added to the attractiveness and promotion of the BSC. Ax & Bjørnenak (2005) illustrate the attraction of the BSC with the fact that budgetary criticism is a widely accepted phenomenon, that lacks accepted solutions, and the promises of the balanced scorecard may opportunistically increase the amount of potential users. The concept of the balanced scorecard, as well as other

administration innovations, are open to various translations and therefore lack a step by step instruction for implementation.

Johanson et al. (2006) state that the traditional tools for accounting and management control fail to address value-creating aspects, such as intangible assets, which increases the interest for alternative approaches in companies facing management control change. In their paper, they debate over critical issues in implementing the BSC to clarify whether the approach helps to overcome the shortcomings of traditional accounting practices, such as the budget. An implementation dilemma discussed, is the concept of implementation itself. According to the paper, implementation refers to incorporating a specific idea, with clear intentions of what to do. A challenge with the implementation of the BSC, is to derive the appropriate measures that capture the complexity of drivers, such as relationships and values. Too many measures reduce the flexibility of the concept, as it reinforces the traditional command and control culture, instead of encouraging innovation and empowerment.

The conclusions made, is that a balance in management control practices is difficult to keep. The pros with the BSC are the possibilities to promote connectivity, regularity and stability in management control processes. Connectivity is described as the clarification of cause-and-effect relationship and regularity refers to the consistency of measuring and reporting of results. Promoting stability refers to balancing the change in management control, with past experience and learning processes. Value creation, productivity or profitability are not promised with the BSC, but it redirects resource allocation towards the internal and external activities that are important for the control agenda. The BSC increases the understanding of all related processes within various time-frames, in both financial- and non-financial terms. (Johanson et al. 2006)

3.3.2 Rolling budgets and forecasts

The traditional budget is usually an annual procedure, where the budget is prepared for one year and revised during the period. Continuous budgeting, or rolling budgeting, is an approach where the budget is broken down by months or quarters and the next time interval is developed on as the year proceeds. For example, during the first quarter the budget for the second and third quarters are prepared. (Drury 2015) The terms

rolling budgets, rolling forecasts and continuous budgets are often used interchangeably.

As planning is a key managerial task, rolling budgets are effective in providing more accurate targets and forecasts. Information might quickly become outdated, especially in uncertain environments, and the approach enables a more dynamic way of incorporating information from different sections in a timely manner. (Jordan & Messner 2020)

An advantage with rolling budgeting is that a twelve month budget is always available, by adding quarters as ended quarters are dropped from the system. It makes planning a continuous process, instead of an annual procedure. Performance evaluation is based on more realistic targets as new information is regularly considered in the updating process. However, the approach might be perceived as uncertain for managers, as it is constantly changing and requiring resources to constantly administer. (Drury 2015)

3.4 Beyond Budgeting

The concept of beyond budgeting (BB) implies management control without budgets. (Neely et al. 2003). The Beyond Budgeting institute is a non-profit organisation, hosting an international network of beyond budgeting promoters. They have systematically researched the shortcomings of traditional budgeting, concluding that it is fundamentally flawed and thus should be abandoned for a new management model.

The Beyond Budgeting institute describes the budget's fixed targets as an annual performance trap, that reinforces a command-and-control-culture. The main element of BB is leaving the institutionalised budgeting mindset behind, which refers to abandoning fixed targets for planning and evaluating reasons. A radical decentralisation of decision-making is key, otherwise the budgeting mindset keeps undermining the efficiency of any other tools. The beyond budgeting promoters have developed twelve principles to guide in adopting the concept, seen in figure two. (Hope & Fraser 2003; Bogsnes 2016; BBRT.org 2021)

Leadership principles	Management processes
1. Purpose - Engage and inspire people around bold and noble causes; <i>not around short-term financial targets</i>	7. Rhythm - Organise management processes dynamically around business rhythms and events; <i>not around the calendar year only</i>
2. Values - Govern through shared values and sound judgement; <i>not through detailed rules and regulations</i>	8. Targets - Set directional, ambitious and relative goals; <i>avoid fixed and cascaded targets</i>
3. Transparency - Make information open for self-regulation, innovation, learning and control; <i>don't restrict it</i>	9. Plans and forecasts - Make planning and forecasting lean and unbiased processes; <i>not rigid and political exercises</i>
4. Organisation - Cultivate a strong sense of belonging and organise around accountable teams; <i>avoid hierarchical control and bureaucracy</i>	10. Resource allocation - Foster a cost conscious mind-set and make resources available as needed; <i>not through detailed annual budget allocations</i>
5. Autonomy - Trust people with freedom to act; <i>don't punish everyone if someone should abuse it</i>	11. Performance evaluation - Evaluate performance holistically and with peer feedback for learning and development; <i>not based on measurement only and not for rewards only</i>
6. Customers - Connect everyone's work with customer needs; <i>avoid conflicts of interest</i>	12. Rewards - Reward shared success against competition; <i>not against fixed performance contracts</i>

Figure 2. Twelve Beyond Budgeting principles. www.bbvt.org (2021)

The principles guide in how to adopt the right mindset but lacks descriptions of applicable techniques, as all companies have different needs and qualifications for management.

Østergren & Stensaker (2009) have researched how these principles are implemented and how companies move towards Beyond Budgeting. In their research, they investigated how the three key activities of planning, target setting, and resource allocation are altered with the absence of budgets. According to their study, the beyond budgeting approach has similar activities as budgeting, but the processes are differentiated in time. They suggest the concept to be a whole system of control, as described by Malmi & Brown (2008).

Beyond Budgeting requires change in perceptions of control and performance measurement. Theirs study revealed, that companies formed new rules of action in the absence of budgets and addresses how it affected the interaction patterns. Firstly, goals should be linked to strategy. Separating target setting from planning and resource allocation, enables setting ambitious targets irrespective of available resources. The idea is to emphasise value creation and strategic objectives rather than controlling costs. Secondly, a greater focus should be on the big picture. Key issues with budgeting are the time it consumes, and the level of detail involved. A focus on the big picture indicates importance of big numbers instead of detail, and a holistic perspective on the organisation rather than focus on the own business unit. This enables investment-

decisions to be made across sub-units in a flexible manner throughout the year. Thirdly, focus on possibilities and flexibility should be increased. This refers to the traditional annual resource allocation process (the budget) being replaced by a more dynamic process, where projects receive needed resources regardless of budgetary constraints. (Østergren & Stensaker 2009)

Østergren & Stensaker (2009) identified four new patterns of interaction emerging, when budgets are removed. Removing the budget most likely leads to a more horizontal integration, since the dynamic resource allocation requires more interaction between sub-level managers. This reduces the vertical interaction between division managers and sub-managers, since the horizontal interaction is key and the sub-managers interact more with the controller regarding formerly budgeted issues. Controllers get a more strategic role, where the focus shifts from accounts towards controlling implementation of strategy. This requires more capabilities and forecasting skills to enable ad hoc analysis for division- and sub-managers. Introducing Beyond Budgeting is further likely to affect the power balance. Top management gets increased power in target setting, since these should be based on internal and external assumptions. Lower levels of management get increased power in deciding how to achieve the set targets.

Finally, the researchers point out three challenges with removing budgets. Firstly, targets should be set to be ambitious, but this might lead to unrealistic targets and pushing division managers too much. Secondly, the new interaction and resource allocation process might lead to new kinds of gaming behaviour. This is illustrated with a situation where the criteria for resource allocation is open for interpretation. Thirdly, the organisational context needs to be considered, when assessing performance management systems. Different ideologies may conflict when interpreting control mechanisms and how they should be implemented in the organisation.

4 Prior research

This chapter presents prior research of budgetary use, the relevance of its criticism and how budgetary change has occurred in practice.

The relevance of the budgetary criticism has been researched by Ekholm & Wallin (2000), by investigating budgetary use in large Finnish companies. The study revealed that the budget is still alive and well, used *by 85,7%* of respondent companies. However, the respondents agree with the criticism and as many as *60,7%* indicated that they are already trying to improve the budget, or at least intending to. The budget is still needed, in especially manufacturing companies, to assure internal efficiency, but it fails to achieve external efficiency for its inability to signal changes in the environment. This implies that the budget's role as a tool for management control is changing, since external efficiency must be achieved by other means. The study observed, that a hybrid system that uses both budgets and other instruments, such as rolling forecasts or the balanced scorecard, was the most common practice. The intention of abandoning budgets was as low as *14,3%* of all responding companies. The budget was perceived as allowing a systematic reaction to environmental turbulence, since it enables a fixed base for alternative action to be developed on. The budget communicates information and is used for comparisons, but other more short-term plans are more important as steering mechanisms.

Libbey & Lindsey (2010) have in a similar way investigated budgetary practice in North-America and Canada. The results indicated that the budgetary criticism is in a way over-generalised. Companies spend less time on budgeting than stated and the majority of organisations perceive the budget as relevant. As many as *80%* of Canadian and *77%* of the American respondents, continue to use budgets for control reasons. Of all the budgeting companies, *46%* planned on improving their process within two years. The main criticism driving change, was the time budgeting consumes, its inflexibility, the possibility of related dysfunctional behaviour, the lack of meaning with budgetary reporting for front-line employees, and the budget's unsupportiveness of strategy. The research further revealed that problems with budgeting, are related to how they are used and which roles they are asked to play. The budgetary process is more likely to be highly criticised, when it is used to assign responsibility, to reward and motivate, or to define commitment between employees and management. In

organisations with higher budgetary involvement, the budgetary process is less likely criticised.

Robert Rickards (2008) summarises multiple studies of how budgeting is perceived in practice by managers: budgets are time-consuming, while also irreplaceable. He elaborates on budgetary issues observed in practice and how companies have dealt with these. The top issues observed, were the amount of detail required in planning and the missing linkage between operational and strategic planning.

Figure 3 illustrates the most important development proposals identified in the survey research to answer to budgetary issues. The percentage illustrates the portion of respondents supporting the proposals.

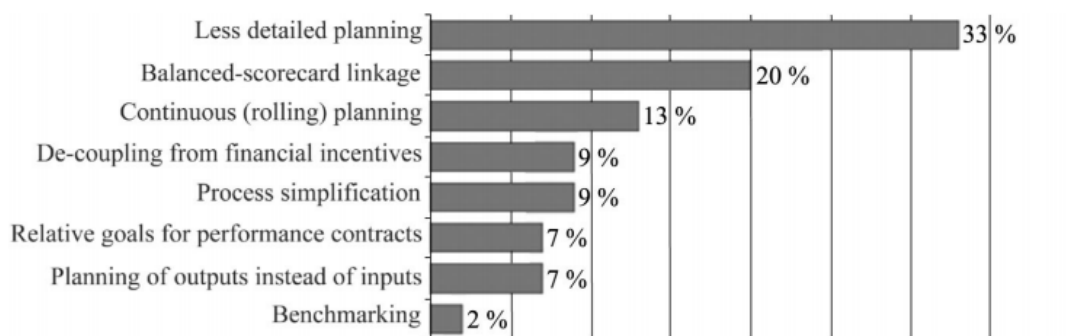


Figure 3. Development proposals in planning and budgeting. Rickards (2008) p. 572

Regarding too detailed planning, Rickards (2008) discovered that over 50% of the respondents budget at least 50 cost centres and 25% budgets more than 100 cost centres. It is suggested that a large amount of detail is more connected to executive's efforts for increased control and security, rather than managerial value. The proposed solution is calculating the planning costs relative to the managerial benefits gained. This is illustrated with 20% of cost accounts commonly reflecting 80% of company expenses, which should be an adequate amount for control reasons in companies that use supporting practices.

The second issue driving budgetary change, is the integration of strategic and operational planning. Most of the respondents perceive these as separate processes, which has two major consequences: the strategy is analysed too infrequently and the organisations fail to derive operational actions from strategic goals. The balanced

scorecard is proposed by respondents as a means to integrate operational and strategic planning.

A majority of respondents (57%) assess the budget as fairly realistic, but only 6% of the examined budgets proved to be moderately accurate. Rolling budgets are mentioned as a solution, as they enable addressing the fast changing business environment. According to the study, introducing rolling forecast and budgets results in more accurate planning outcomes and a lowering of related costs compared to an annual process. Focusing on shorter time intervals enables more concrete plans and measures for strategic implementation. Over 90% of respondent companies mention efficient IT-support as a key success factor for implementing rolling budgets.

Sivabalan et al. (2009) present in their study ten operational reasons to budget, that are roughly divided into planning, controlling and evaluating. Their survey research, of over 330 accountants in medium to large companies, suggested that planning and control reasons for budgeting are regarded as more important than the evaluation reason. The authors state this as an important finding, since the budgetary criticism is largely related to the budget's evaluation function. According to Sivabalan et al. (2009), companies are increasingly using rolling forecasts for management control. Prior research has suggested the practice as a substitute for the annual budget, but their study revealed that a parallel use of the traditional budget and rolling forecasts is common. This is supported by a study of Ekholm & Wallin (2011). Their research revealed, that rolling forecasts are perceived as more useful in uncertain environments. However, all findings indicate towards a parallel use of fixed and rolling budgets, indicating that fixed and flexible budgets support each other. Strategically focused organisations are committed to fixed budgeted targets, while also flexible for grasping forthcoming opportunities.

Prior research is consistent with the budget still having a strong position within management control. Henttu-Aho & Järvinen (2013) have researched five Finnish industrial companies, that either abandoned their annual budget or radically simplified it. Their study revealed that the key functions of planning, controlling and evaluating remains, even if budget change occurs. All five companies abandoned the budget in its most traditional form, and the budgetary process was fragmented into a collection

of various tools, such as rolling forecasts, fixed-cost budgeting, annual plans, benchmarking, balanced scorecards and value-based management.

Drawing on the management control system as a package framework by Malmi & Brown (2008), they managed to picture a suggestion of how parts of a system substitute or complement the key functions of budgeting in practice. The observed practical implications of either abandoning or improving the budget are seen in figure four.

Planning	Control	Evaluation	Company
		Balanced Scorecard	C D
		VBM	D
		Benchmarking	B C
	Cost budgeting		A B D
	Target setting		A B D
Annual plan			C E
Rolling forecast			A B C D E

Figure 4. Functions of alternative approaches. Henttu-Aho & Järvinen (2013) p. 776

Companies A, B and D found it important to separate target setting and evaluation from planning. Planning is related to more realistic assumptions, whereas targets set for evaluation should be challenging. The companies introduced rolling forecasts for acquiring more realistic plans, while the process of target setting became more linked to the strategy. Henttu-Aho & Järvinen (2013) implicate this to be a Beyond budgeting approach. The companies were able to strengthen the target's link to the strategy, by separating evaluation from planning. Target setting was mainly used for control purposes, by analysing variances and linking incentives to set targets. Company D used a value-based-management philosophy in cascading the targets throughout the organisation. All the companies continued to budget fixed costs, since it had relevance as a form of cost control within the companies.

In companies C and E, the key functions planning and target setting remained relatively coupled. The traditional budget was replaced with an annual plan and rolling forecasts. The authors suggest this to be an approach of simplified budgeting. Company C aspired to shift from a build-up budgeting process, towards a more strategically linked target setting process. The budget was replaced with an annual plan, closely linked to the balanced scorecard. Annual targets were derived from the strategy and cascaded down the organisation. The focus was on implementing strategy and monitor commitment to strategic goals. Rolling forecasts were introduced for more realistic planning processes.

In conclusion, the study revealed that what distinguishes the approaches of Beyond budgeting and simplified budgeting, is the decoupling of key functions. A stronger pursuit for realism in planning, led companies to distinguish between planning and target setting (beyond budgeting), while target setting and planning remained relatively coupled in simplified budgeting. The study supports prior research by Østergren and Stensaker (2011), Ekholm & Wallin (2011) and Sivabalan et al. (2009), by demonstrating how companies move gradually towards Beyond Budgeting and that budgetary change is related to the functions it serves in specific companies. Further, the study illustrates how various practices may constitute a performance management system.

In her recent dissertation, Henttu-Aho (2016) claims that from a perspective of performance management systems, there seems to be a mix of different control mechanisms comparable to the budgeting process, but they are clearly split into separate processes. She describes this as a new concept, the fragmentation of budgeting, which is an arrangement of different controls replacing the multiple purposes of budgeting. The concept refers to situations, where the budget is either replaced or complemented with other control mechanisms, answering to the growing demand of managerial information. The fragmentation smudges the boundaries of the budgetary process but provides an understanding of how to integrate flexibility into the system.

5 Methodology

In this chapter, the research perspective and chosen method for the study are presented. The chapter starts with the reasoning behind chosen perspective and continues with describing the actual research process.

The purpose of the thesis, is to examine the budget's viability in managing performance and its opportunities for development. A qualitative research strategy enables an interpretive perspective of a social environment, where context and processes can be emphasised. The research is grounded on an action research approach, which is suitable for identifying a problem and its alternatives for solution or change. Action research is an iterative approach, that allows gaining an understanding of underlying patterns and deriving theory from obtained data or testing theory during the course of research. The aim of action research is to improve practice. The results of an effective research should be applicable and useful in practice. (Bryman & Bell 2019)

The case study became an appropriate method for developing an understanding of the investigated phenomenon holistically. A general research question, of whether to improve or abandon the budget, was developed, when the case company expressed a will to explore alternatives for the annual budget. The thesis provides empirical findings of budgetary issues and the possibilities for improvement in an organisation. The research will not result in a new applicable solution to the problem, as expected of action research but will rather provide a basis for future direction for the case company.

5.1 Case study

The case study enables answering to questions of "how" and "why" in an explanatory, descriptive, or exploratory manner. A general description of the method is, that it tries to illustrate a decision: why it was taken, how it was implemented and its consequences. Robert Yin (2014) has developed a twofold definition of the case study method, that efficiently describes the research settings for this study. Firstly, it investigates a contemporary phenomenon in dept within its context, especially where

the boundaries between context and phenomenon might be blurred. Secondly, it technically enables research, where multiple variables from various sources of evidence are of interest and needs to be converged.

Case studies can be conducted as single-, multiple-, or comparative case studies with data from various sources. Yin (2014) mentions five general rationales for justifying the single case study as an appropriate method. The case is a critical, unusual, common, revelatory, or longitudinal case. A critical case is convenient, when the circumstances are clearly defined and the case can be used for validating theoretical propositions. The unusual case, reflects an unusual setting that deviates from theoretical norm. On the contrary, a common case might provide insight into everyday situations and processes. The revelatory case enables research of phenomenon previously inaccessible to research. The longitudinal case captures the case at two or more different points in time.

For this research, the single case study is a justified method for providing in-depth descriptions and analysis of the phenomenon under scrutiny. The case study approach enables addressing “why” the organisations budgets and “how” they could manage their performance measurement system in a “common” case. The method allows emphasising the importance of context, in a situation where the boundaries between studied phenomenon and context are blurred.

A common concern regarding case studies as a research method is, if it is rigorous enough? Other research methods have numerous methodological texts, with specific procedures to be followed, whereas case studies are covered by a few texts. The researcher needs to be systematic in the procedure to be uncompromising. A second concern is, can the findings be generalised? Case studies are generalisable to theoretical propositions, with the aim of expanding and generalise theories, as opposed to hypothesise statistical probabilities of a sample. (Yin 2014)

5.1.1 The case company

Eckes-Granini is one of the leading European producers of branded fruit beverages, with national organisations covering twelve European countries. Eckes-Granini Finland Oy Ab has been a part of the international group since 2001, with production

in Turku for over 150 years. The company is a middle-sized manufacturing company, with known brands, such as Marli, Mehukatti and Granini.

The case company participated in a study by Fredrika Salo in 2018, about the relevance of annual budgeting, where the annual budget was perceived relevant. However, due to the ever changing business environment E-G Finland would want to exploit the possibilities of using an alternative to the annual budget. This thesis answers to their call for further research, by considering different controls in management accounting.

5.2 Interviews

Interviews are quite common and important sources of information within case studies. Well-informed interviewees provide valuable insight into actions and processes within the organisation. Yin (2014) stresses the importance of open and unbiased questions. Bryman & Bell (2019) present two main forms of interviews: structured or semi-structured. Semi-structured interviews are guided by certain themes to address, but the interviewer may deviate from the guide with additional questions or by changing the order of questions.

The advantage with interviews is the possibility of targeted questions focused on study topics. It provides insight through both explanation and personal views. However, it is open to bias, due to both poorly articulated questions and responses. There is a risk of reflexivity, where the interviewee gives the interviewer what she wants to hear. (Yin 2014)

The data collection for this research was done through interviews in two rounds. The first round was conducted with three top-level managers in the case company. All three respondents have multiple years of experience within the organisation. They were chosen for their capability of depicting the organisational life in a holistic manner, from various perspectives. The data obtained was analysed in order to identify underlying patterns, to further specify the research perspective.

The interview questions were derived from the framework by Ferreira & Otley (2009) and the questions regarding the budgeting process, were extracted from the case study by Fredrika Salo (2018). The questions were structured as follows:

- Background questions
- Questions based on the framework by Ferreira & Otley (2009)
 - o Strategy, key success factors and organisational structure
 - o Performance measurement, evaluation and rewards
 - o Information flows and the business environment
- The budgetary process
- Concluding questions

The interview guide can be found in appendix 1. The respondents received the questions in advance, to have time to get acquainted with the subject and the questions. Due to the ongoing pandemic, the interviews were conducted remotely through Microsoft Teams. One interview was conducted in Swedish and the other two in Finnish. All interviews were voice-recorded.

The interviewees from the first round, recommended respondents from other organisational levels and functions to participate in a second round of interviews. The aim of the second round was to gain an understanding of possible differing assumptions on the current state of affairs within different organisational levels.

The second round of interviews followed the structure of the first interviews, but the questions were less numerous. The questions are found in appendix 2. Four respondents were included in the second part of obtaining data. All interviews were conducted in Finnish. A compilation of all conducted interviews is found in appendix 4.

5.2 Analysis of data

The data obtained from the first round of interviews, was used to further specify the research questions and redirect the theoretical framework towards a more practically useful perspective. For the presentation of empirical findings, all the data collected was systematised and presented according to the framework by Ferreira & Otley (2009).

The data was analysed in three parts, structured as the research question. First, the framework by Johanson et al. (2019) was used to analyse the current performance management system. Second, the budget's role in the performance management

system was analysed in relation to the theoretical framework of the budget's key functions and criticism. The budget's key functions were identified with the prior work of Sivabalan et al. (2009) and Henttu-Aho & Järvinen (2013). Possible budgetary discontent was analysed in relation to the twelve most commonly discussed budgetary issues by Neely et al. (2003). For the third part of the analysis, the main issues and topics observed in the first parts were put in relation to the advantages and disadvantages of each alternative approach.

5.3 Research reliability and validity

To assess the quality of a research, the reliability and validity of it must be determined. Reliability refers to the accuracy and consistency of information gathered, while validity considers the relevance of the information for the study and the conclusions made. (Bryman & Bell 2013)

Reliability and validity will be achieved by interviewing top-level managers, with the capability of providing holistic descriptions of the business environment, the budgeting process and the performance management system. The data will then be extended, by interviewing additional respondents from various organisational levels and functions, to capture possible differing assumptions and perspectives. If the answers are consistent between interviewees, reliability can be confirmed. The interview questions are based on prior research, making them feasible for use. Validity can be assessed by comparing how empirical findings correspond to prior research.

6 Empirical findings

This chapter starts with a presentation of the interviewees and continues with their responses. The obtained data is structured according to the interview guide. Due to a confidentiality agreement, a certain level of abstraction will remain, where e.g. specific strategic targets or measures are unmentioned. The recordings and transcriptions of the interviews remain with the researcher. All quotations are translations by the researcher, from Finnish or Swedish to English. The respondents were given the opportunity to revise used quotations.

6.2 The interviewees

The chief financial officer (CFO) has been employed at Eckes-Granini Finland Oy Ab since 2010, with a few years of experience abroad. The current position is held from 2020. The financial organisation consists of accounting, controlling, demand planning, ledgers and IT. The CFO initiated the research, by uttering the company's interest in exploring alternatives and was therefore a natural choice to participate. The financial organisation plays an important part in integrating information from various functions and levels.

The manager of human resources (HRM) has been working at Eckes-Granini since 2014 and a few years in the current post. The manager is a member of the board of directors and has a good understanding of organisational structures and the related rewards and recognitions processes. The HRM was chosen to participate to gain an understanding of the social perspective of the organisational structure and performance evaluation.

The supply chain director (SCD) was chosen to participate for the ability to describe the complexity of integrated networks involved in the process of manufacturing, from raw materials to product delivery. The SCD has multiple years of experience both at local company level and at group level. The SCD has been engaged with the current position since the end of 2019. The supply chain organisation consists of five areas, with three designated managers: the quality organisation, production and production planning, purchases and logistics. Normally, the technical department is included in

the organisation, but due to an ongoing project the technical department is excluded from the responsibility area and there is a separate technical director in the organisation.

The production manager (PM) is responsible for production planning, production and its related operational processes, that range from receiving raw-materials to packaging and storage. The production is included in the supply chain organisation, consisting of a team of supervisors and shift managers that direct the production and its employees. The PM has 20 years of experience at the company and almost ten years in the current role.

The service engineer (SE) has over ten years of experience working in the technical department, which is included in the supply chain organisation. The main responsibilities are maintenance and calibration of equipment and systems, organising the related training, formalising procedures and instructions, and currently also supervision of the employees installing automation.

The senior key account manager & head of sales team (here on after sales team), has been employed in the current position since 2018. The sales team consists of three persons, that are responsible of their own key accounts and channels.

The controller has been employed at the organisation for almost 30 years and has seen its ownership change, first in a bookkeeping role and the last almost 20 years within the controlling function.

6.3 Strategy, key success factors and organisational structure

The vision for Eckes-Granini was expressed in various ways by the respondents. The HRM defined it as *“for a healthy and enjoyable life, with respect and responsibility for people and planet”*, while the CFO and SCD expressed it through descriptions and common principles of the company, such as leading fruit beverage company, sustainability, performance-oriented organisation, strong brand oriented supplier, responsibility and closeness to consumers and customers. The websites of Eckes-Granini declare the vision as

We are the leading European fruit beverage company, creating sustainable company and category value with strong and unique brands. We inspire consumers and customers with the best of fruit for all relevant needs and occasions. Our highly motivated, performance-oriented organization is characterized by a dynamic entrepreneurial culture

- Eckes-Granini.com, 2021

However the vision was expressed, all respondents described the same mission and strategic agenda. The main focus is on producing quality products in an environmentally friendly and cost effective way. The overall strategic plan is generated by group level management and currently consists of seven main areas to emphasise. The CFO describes how the process has developed towards a more iterative approach, by participating local management to influence strategy generation, with more on site knowledge. The controller supports this, by describing how they the past three years have organised yearly events, where propositions for the strategic agenda are discussed, creating a feeling of participation.

Normally, a strategic plan is prepared in five-year-cycles. Due to changes at the group executive level, the current strategy is a prolongment of the prior and a new strategy will be available at autumn of 2021. Every year a strategic dialogue is conducted, where the mid-term strategy (3-5 years) is discussed. The strategy is concretised through a management-by-objectives process, where targets are set for each area and function. The targets are cascaded throughout the entire organisation, through directors and managers who are held accountable for their area. The objectives are communicated actively to the whole organisation, through presentations whenever strategy is renewed at global or local level. Every two to three months, an activity review is held for all employee groups, where the set targets, focus and current status are discussed. Each sub-organisation has their own monthly or weekly meetings. More recently, static guides have been published on the intranet and as rolling presentations on screens in the production department. Empowerment has been a driving guideline in developing the process of communicating strategic and budgetary targets. More actors are involved in the process and efforts are made to increase the level of understanding of key figures throughout the entire organisation. The SE and PM consider employees having the opportunity to affect target setting and they recognise much improvement happening over the years.

The HRM indicates that the strategic typology is relatively unsettled:

We have always adapted our local strategy in relation to the market situation and financial targets. In relation to the circumstances, our strategy has been adaptive, but sometimes practicality has overcome vision. Focus has been on defending the market with reliance on the existing business and financial targets, while the strategy itself is expressed as being more predictive of business changes and including targets not easily measured financially.

- Human Resources Manager

The CFO describes that the strategic process has been quite conservative, as it was relatively formally directed and consisted of quite a lot of templates, that needed to be filled. This has changed during the process in 2021. The direction is now going towards more freedom to express the local strategies, without using too much predefined templates. The SE on the other hand, perceives the strategy as driving innovation, where efforts towards being forerunners are emphasised. The sales team and PM supports this perception, by mentioning efforts to find market growth, develop interesting new products and being overall innovative. The sales team described how the consumer behaviour is changing:

The customers' interest is shifting from the ambient product side towards the chilled products. This has required innovativeness in product design, production efficiency and efforts to defend the ambient product market share.

- The sales team

The organisational structure is described as a traditional production company, where operations are divided by function and the responsibilities accordingly, through a formal hierarchy of directors, managers, officers and employees. The HRM states that the organisational structure has a great impact on how business is conducted.

Targets are set top to bottom by the head-quarter. The (local) general manager, directors and managers assist the process, by suggesting and communicating what the realistic targets could be. The local organisation is relatively small, allowing flexibility in decision-making.

- The human resources manager

The CFO illustrates this with an increased cross-functional communication and the previously mentioned empowerment. The CFO, HRM and SCD all describe the effort

to involve more actors from various levels in setting the right targets and increasing the understanding of the driving forces. This is supported by the respondents from other organisational levels: new procedures have been implemented in the last years in order to increase information sharing and the understanding of key business drivers. The production manager acknowledges an issue related to this:

There are many time-consuming meetings that decreases the time available for other ongoing business duties during the budgeting period. For the most part, the same actors are involved in these meetings... There is some structure and regularity to these arrangements, but they could be scaled down.

- The production manager

The controller states that a large portion of actors within the organisation are some kinds of senior officers, that are included in the target setting and information sharing process. The informal relationships are crucial for information sharing. Activity reviews are held on a regular basis and each manager is responsible for sharing relevant information. Overall, formal information is shared for employees on the intranet.

6.4 Performance measurement, evaluation and rewards

The performance measures are set through the management-by-objectives process and it is the managers' responsibilities to implement the right actions. The respondents highlighted different key measures, since the organisational structure clearly defines the areas of responsibility.

The management-by-objectives process communicates key performance indicators and the targets are set at a realistic, but challenging level... Basically the budget is what matters.

– The Chief Finance Officer

Evaluation and incentives are strongly linked to the process. The bonus system consists of three components: an individual subjective part, a more objective part of group level results, and a third part of strategic contribution by E-G Finland. The production employees have the possibility of a monthly production premium. Overall, the process of setting targets and linking incentives is quite formal and concrete, which seems to

be appreciated by many. All respondents agree, that incentives are financial, and not reaching targets leads to decreased bonuses.

The SCD emphasised measures for assuring a certain level of smoothness in daily operations across the supply chain. This includes dealing with feedback and improving accordingly, ensuring implementation of projects and high performance, improving efficiency and responsibility. Achievements are mapped on a monthly basis. The target-setting process seems quite straightforward. For example, the efforts to improve efficiency are based on employee surveys and the target was set to decrease one constant disturbance each month. Other measures, especially the responsibility related, are derived from norms and regulations and benchmarked through databases with information about, for instance, energy consumption in other European manufacturing companies.

All the relevant aspects are measured, but there are some “older remains” that have lost some of their relevance on the local level and fails to illustrate the whole matter. The modern technology and reporting systems has made it difficult to filter away the smaller aspects from the group’s point of view, so the measures keep reappearing yearly.

– The Supply Chain Director

Overall, The SCD describes the same formal process as the CFO. The SE emphasises measures for technology and production.

...the department has clear formal lists of everything that needs to be monitored, such as the efficiency of the production line, the maintenance costs and maintenance efficiency... Targets are set to a slightly higher level than what is realistic in order to assure efficiency... the measures are appropriate and sufficient enough.

– The Service Engineer

The SE describes the same three folded rewards-system of individual objectives, company objectives and the group level strategic contribution and further clarifies the production premium for employees:

...it is connected to the productivity measure set at a certain amount of produced packages per working hour... Basically each employee has the ability to affect it by being more effective, flexible and brisk... Currently it is a collective system, but explorations are made about development towards a system that recognises the individual input on a monthly level.

– The Service Engineer

The PM characterises the performance measures and targets in a similar way.

The measures are strictly numeric and derived from the management-by-objectives process... Group level sets the overall targets and the local directors and managers 'chew' them into concrete, measurable targets suitable for the Finnish organisation... Each director and manager is responsible for cascading targets to all organisational levels... the closer the measure is to the actual production process, the easier it is to comprehend by involved actors... Clear, concrete and detailed targets that are monitored and openly communicated... are key for ensuring efficiency

– The Production Manager

The HRM is more engaged in how the employees are feeling and connecting the right persons, with the right knowledge for the right tasks. The important measures are those that evaluate the employee experience in various ways. Everything is measured in financial terms, but sometimes the actual advantages are results of more long-term efforts. The HRM emphasises the formality of the target setting process, since it translates the talk into action. However, setting the right targets is challenging, since the group level targets and the local priorities might differ and describes this with

The objective of being innovative might be accelerated with new external employees, but simultaneously internal promotions should be emphasised. The group level objectives are translated to fit the local context.

– The Human Resources Manager

The HRM states that there is always room for improvement, but there is also the risk of overmeasurement in a small organisation.

The sales team describes numeric, straightforward and concrete measures for the sales operations and acknowledges that measures for marketing, such as quality and consumer satisfaction, are trickier to set. The sales team perceives that the right things are measured, but would like to see more customer satisfaction measures in the overall group strategic agenda. Currently, the local department measures the customer satisfaction once a year and the team recognises some room for improvement in this aspect. In the larger organisational picture, the respondent states that for ensuring performance the whole staff should be committed to the targets, collaborating over functional borders and be more consumer-oriented.

The controller states that the individual yearly targets are set in a development discussion with a superior. For the controlling function, the process is quite straightforward and guided by the group: they direct the activities and targets are set accordingly. It is a relatively formal process, with clear descriptions for next year's actions.

6.5 Information flows and the business environment

The process of generating relevant information can be roughly divided into four categories, with the time-frame and amount of detail being the main nominators. There is the strategic dialogue, the management-by-objectives process, the budgetary process and the sales and operations planning (S&OP) process.

It is a bit like a patchwork quilt of different systems... The intranet is used on a more general level... A certain format that all countries within Eckes-Granini follows (within the ERP-system).

– The Chief Financial Officer

As previously stated, the strategy is set in five-year cycles and yearly revised, through the strategic dialogue. The management-by-objectives process translates the strategy to more concrete targets for the local context and is monitored with yearly private development discussions. The objectives are communicated through various channels, but mainly through the intranet, where traffic lights illustrate the ongoing progress. The budget is a more detailed, financial plan for the upcoming year, that is revised three times during the period. The S&OP process is a monthly meeting-cycle for making both tactical and operative plans. It is described as a rolling process, that considers information related to the set targets, both actual outcome and assumptions of future aspects. Some of the measures discussed are common to all national companies and results are benchmarked. All respondents clearly state the importance of the management-by-objectives process for strategy implementation, while the S&OP process gives the best overview of the current and the next year's business cycle. The S&OP process was initiated in 2018 and has been continuously developed.

...The S&OP meets once a month...all departments throughout the company go through the challenges and opportunities. Information can be shared and it flows between

departments... It has been a good development for learning and understanding. My knowledge regarding sales and marketing have significantly improved.

– The Service Engineer

The SCD and SE highlights how it has improved cross-functional information sharing and understanding. The process is completed with meetings within the functional organisations:

...Every other month we have meetings, where we go through ongoing projects and sharing information about where we are and where to go... We have tried to increase transparency by providing a forum where you can make a difference... For example, it used to be that there might have been a technical matter and the technical department took care of it, but without the involvement of someone from production who could estimate if it was needed for operational efficiency... It gives an opportunity to highlight what has been and what needs to be considered... It involves the whole team and network.

– The Supply Chain Director

The availability of information clearly differs between organisational levels. The intranet is open for all members of the organisation and gatherings were regularly organised before the pandemic, to communicate targets and how to achieve them. The SCD states, that some are more active in absorbing the information, while others might need some assistance in grasping the important aspects. Employees with more responsibility have access to more detailed information, while managers and directors have a separate information sharing system. An enterprise resource planning system supports the gathering and processing of information, which is supported by emailing and the use of the teams-platform. According to the HRM, persons responsible are assumed to understand the meaning of the gathered information. The sales team emphasise the importance of face to face communication, in giving and receiving feedback. Sure there is the SAP that gathers all the data, but the more detailed, financial information needed is still usually communicated through the controlling function. The intranet is described as sharing information on a more general level. The PM also emphasises face to face meetings and describes a norm of regular meetings between

managers, functions, supervisors and daily morning meetings with the production employees. The controller describes

We (the controlling function) receive a lot of information from both top and bottom and sometimes before others have access to the same information... We interpret and analyse the information and share it to relevant actors... The information sharing is reflected in the organisational hierarchy... but the face to face communication is really important in a small company like this.

– The controller

The information, and especially the budget, is used in a diagnostic manner: performance is monitored and measured and variances are analysed for. The amount of information has increased in recent years and the company is sharing it to more actors.

Last year they started gathering the performance information into presentations that are continuously rotating on screens, with the aim of increasing the understanding of key figures, share information and increase transparency by jointly monitoring the achievement of objectives. The SCD ponders if it should be further reduced or simplified to the most crucial points.

Overall, the juice beverage industry is described as relatively stable, even if the times are challenging and volumes are decreasing. Sales consists of two main segments, out-of-home and retail, that have been rather predictable. The company has their market shares of chilled and ambient beverages, with known competitors in certain sections. The ongoing pandemic has been an obvious external challenge and has required some adaptation, especially for the sales department. A more regular challenge is the increasing excise tax (the so called sugar tax), that directly affects both sales prices and profitability. The controller describes internal challenges, that relate to product complexity in a manufacturing company and the external challenge of using harvest products as raw-materials:

Raw materials are fresh and prices vary from harvest season to season a lot... Some raw materials go down and some goes up. A few years ago, the price of pineapple skyrocketed ...and a decision to stop the production of some pineapple products had to be made.

– The controller

Overall, the respondents all describe ongoing efforts to move towards a more agile business, with increased information transparency and empowerment. Different areas of responsibility describe different internal and external challenges. The supply chain organisation is affected by delivery smoothness, while the technical department has more mechanical challenges. All challenges are logged, in order to solve issues as soon as possible, both in a proactive and reactive manner.

6.6 The budgetary process

The budget process starts in August, with the definition of the budget assumptions and goals

The budget represents the operational implementation of the plans and strategies aligned in the strategic dialogue for the next financial year. The goal of the budget process is to define ambitious but realistic objectives in line with the strategic goals. The budgeted figures represent the goals for the next financial year and are used as the benchmark for the variable reward system

- The Chief Finance Officer

Gradually more actors (directors, managers, and senior staff) have been included in the budget kick-off, where basically half a day is spent focusing on commercial aspects and the other half on technical and investment issues. The organisation uses budget templates, with budgeting principles that are given by the headquarters. The budget is based on the sales forecasts and resources are allocated accordingly throughout the organisation. The first drafts are changed multiple times during the process. The final budget is returned to the headquarters in October. The budget is revised three to four times during the year (March, June, September and a light revision in December)

The sales team is responsible for budgeting the fixed costs of sales and the sales volumes for retail and out-of-home, that the rest of the budget is grounded on. The respondent jokes that forecasts are made with a crystal ball, but continues with stating that actually the Sales & Operational Planning process is the basis for all operational planning:

It allows a regular follow-up and a continuous updating of forecasts... The budget is necessary for giving the frames for conduct but works on a too big level to be functional for actual operational planning such as the purchasing function. The S&OP process gives the required details in a timely manner.

– The sales team

The SCD mentions time-scheduling issues that complicate the budgeting process.

Currently, the strategic dialogue and the budgeting process are the two main and relatively separate events that sets the operational frames, creating a lot of work twice a year... The budgeting process is separated into smaller sections were time-schedules cross... pricing contracts are negotiated while the budget is made.

– The Supply Chain Director

This has led to an increased cooperation between controlling and purchasing department, in an effort to improve the estimates and variance analyses, but still the estimates are made with caution. Budget templates are used to update responsibility areas, where the master recipes are a crucial responsibility area for the SCD. The concept is based on activity costing, where costs are controlled per litre produced and allows consideration of profitability by product type. There has been a lot of discussion over the cost allocation and whether produced litres are the most suitable driver. The company also calculates and follows production per packaging and format, since the costs of a smaller handmade batch are a lot higher than the more automated larger formats. The master recipes need to be calculated and checked prior to the budgeting process, since they recognise the resources required. The SCD describes the performance measures and the budget as a process to “*chew the same information from various perspectives*”. The group has announced an effort to reduce this, but the challenge is in deciding the relevant information for the group, that also benefits the local organisation and takes national differences into consideration. Empowerment and inclusion have been a positive development for information sharing, but have added to the complexity of responsibility sections. The SCD calls out for some cross-organisational refinements, structuring and perhaps marking responsibilities at a project level:

A clear & detailed local level timetable and the designation of responsible persons for each step would help the process to proceed smoothly, leaving out last-minute adjustments... That is, systematisation and descriptions of what the expectations are for each stage, what is used as input for each stage, and what should be obtained as a result of each stage, would streamline the process.

– The Supply Chain Director

A clear formal time-schedule, that illustrates the cooperation and responsibilities would further improve the transparency. The SCD perceives the budget as necessary for internal efficiency and an overall sharpening. However, the SCD ponders if budgeting could be made on a more general level with less detail, for example on cost centre level instead of an account-specific level. The SCD would appreciate a stronger linkage between strategy and relevant information and definitely a more systematic cross-functional process. Currently, the budget clearly is a realistic forecast, while the strategy is implemented in the separate management-by-objectives process.

The SE uses about a week in total for the annual budgeting process. The responsibilities are the maintenance costs and participating in the preparation of the investment budget. The process is relatively systematised and they have a yearly investment budget, that is allocated according to needs. The SE clarifies the need of a detailed budget:

A lot of the production costs are set by the marketing department, since new packages or formats directly affect the costs of the production lines. ... A huge amount of the budget and the fixed costs are directly affected by what the production lines are producing. Each production line has its own budget and a certain level of details is required for guaranteeing efficiency.

– The Service Engineer

In a similar manner, the PM describes a straightforward budgeting process, that requires about a week of work yearly. The production department's budgeting process is strictly numerical, since they are not concerned with any estimates in the process. The production budget is based on sales assumptions, with a margin for error. The PM budgets variable and fixed labour costs and assists in budgeting energy, these are all in direct relation to production volumes. The PM acknowledges that the directors

require much more time for budgeting, since it is their responsibility to prepare the estimates and their presentations. Overall, the budget is described as realistic but ambitious.

Budgeting the operational human resources is more concerned with the fixed costs, rather than the variable costs.

The actual operative budgeting process is made fairly easy for HR function, due to clear templates and competent controlling personnel. However, the whole business process is perceived as quite stiff... In many cases operational actions should be suggested as a budget figure before the actual targets are set.

– The Manager of Human Resources

There is a strategic dimension of monitoring and planning, which evaluates the need for e.g. recruitments and training. Including the strategic dialogue, the HRM evaluates about a months' time spent on budgeting. Creating the story line is more time-consuming than the actual number crunching itself. The HRM ponders if a more agile, continuous process, such as rolling budgeting, could be better and more dynamic. A challenge with the budgeting process is, that the group level targets are undefined, while the budget is prepared. This is further explained by the CFO:

The overall direction and objectives are set during the strategic dialogue in April-May. The budget is a step towards clarifying the targets and how to measure them, which then becomes new objectives during the next dialogue.

– The Chief Finance Officer

The budget is perceived as relevant by the CFO: it gives common frameworks and guidelines for next year's operations, but a lighter process would be appreciated. When asked about the differences between information in the sales & operational planning and the budgeting process, the CFO answers that

...the fixed costs and master recipes are handled in the budgeting process, but not so much and as detailed in the S&OP process. The budget has a crucial role in linking all the separate processes together.

Simultaneously, the budget is perceived as time-consuming by the CFO. There is some routine work that needs to be done, but time is also needed to develop and not just defend the current state of affairs.

The budget reinforces the department by department thinking, while everything flows together in reality... Everybody needs to be familiar with the objectives, share the information and why it is needed for projects that have different functions.

The CFO points out the importance of interaction and integration.

The controller states, that basically August to December is spent budgeting: preparing templates, creating the system for sales planning and organising the basic stuff for each function, then assisting in data collection and translation and participating in a back and forth process with the group. The budget is relevant for upkeeping a cost discipline and setting frames for action. The controller is open-minded towards other approaches, but states that the main functions of the budget, control and cost-consciousness, would have to be replaced somehow. When asked if the process could be less detailed due to the new sales & operational planning process, the controller states that

The Group gives the raw material prices in the autumn. The S&OP gives a snapshot of the current state of affairs for the budget, but then they continue on as separate processes...because of the product diversity it would be difficult to leave the details out...

This is illustrated with the story of the pineapple prices mentioned earlier. If the budget worked on a more generic level, those kinds of fluctuations would be really difficult to consider. The CFO explains that the budget considers the result with total costs, while the S&OP process enables reacting to variations in the variable contribution: actual product profitability is excluded from the S&OP process.

All respondents shares that there is some indication from headquarters for easing the budget templates for the next year. It remains to be seen what the actual outcome is and how it will affect the process.

7 Analysis

In this chapter, the performance management system and the budget's viability are analysed with the support of the theoretical framework and prior research. The framework by Johanson et al. (2019) presented in the second chapter, is used to analyse the constructs of the PMS and its integration challenges. The budget's role in the system is considered in relation to the prior research. Finally, the advantages and disadvantages of alternative approaches are discussed, in order to analyse, whether to maintain, improve or abandon the budget.

7.2 The integrated performance management system

This section analyses the various constructs of the current performance management system and how they support each other. In order for a performance management system to be coherent and effective, its individual components and basic values and beliefs must support each other. Before presenting the analysis, it is important to understand the organisational structures that direct the company: how performance is managed is largely affected by the group's headquarters. They give guidelines for the overall direction and sets the level for required performance.

7.2.1 Ideal and coherence

As stated above, the international group sets the guidelines for the overall shared values. The dominant shared assumptions identified, were responsibility, empowerment and quality. These are interpreted as the company's ideals, that are integrated into all organisational action and concretised through strategic focus areas for the national companies. The group has recently gained a new chief executive officer, which has accelerated a change in the common ideal towards becoming more agile and contemporary.

The contextual processes supports the functional process and the interactive communication has continuously been developed, with positive results identified by all respondents. However, the performance management system was described as a

patchwork quilt of systems and processes, where all the relevant pieces are available but could be more consistent. Empowerment efforts have included more actors into various processes and increased the cross-functional communication, while the PMS still heavily relies on the traditional organisational structure. This was observed through an increased amount of reporting and meetings. A further definition and structuring of responsibilities would improve the coherence of the performance management system. Johanson et al. (2019) emphasise formalising commitment routines.

7.2.2 Functional process

The ideal sets the background for the functional process, that consists of what the company should achieve, monitoring and evaluation of the performance. The five-year strategic agenda and an annual strategic dialogue enables the company to translate the group strategy into local context. The company sets strategic objectives with measurable KPIs and uses a formal management-by-objectives approach to further concretise these aspects into specific plans and targets, with assigned responsible actors. The budget is the main tool communicating the financial plans and targets for the upcoming year.

The plans and goals vary between organisational functions, since the company structure highly affects areas of responsibility. Overall, most of the targets are set by interactive communication processes on various managerial levels, by comparing past events with future assumptions. The company prefers straightforward financial, technical and mechanical measures for performance. The non-financial measures are not equally emphasised, but are considered by both human resources and the quality organisation. There is definitely room for some improvement. The evaluation process is strongly linked to the management-by-objectives process and the budget.

Critical risk factors identified, were the clear change in consumer behaviour and the business environment, which has forced the organisation to become more reactive and innovative. The company is in a phase to reposition strategically and possible routes of action are pondered on. A critical success factor mentioned by all respondents, is the continuous communication and cross-functional information sharing in order to

improve efficiency and various learning processes. Overall, the juice business was described as relatively stable, while simultaneously the changed consumer behaviour is affecting the industry. External uncertainties are the ever increasing excise tax and the unpredictable price development of harvest products. Internal risks identified, were related to a certain daily smoothness of operations, quite typical to manufacturing companies.

On a generic level, the achievement of organisational goals are communicated through the intranet, while the individual performance of managers is directly related to the management-by-objectives process and its yearly development discussions. The budget is a clear indicator of expected performance.

7.2.3 Contextual support

The company has an ERP system, that gathers, controls and communicates all information related to the business. The group sets the standards for reporting and the availability of information clearly differs between organisational levels. Upper management have access to more detailed information in a timely manner and they are assumed to understand its relevance. The controlling function has an important role in both translating and distributing information to various actors. The intranet is used to communicate more generic information throughout the organisation. Additionally, the local organisation uses various programs and channels to monitor performance, which enables giving and receiving feedback on all organisational levels. Continuous development has been done to share information to more actors and increase the overall understanding of key operational figures throughout the organisation.

The organisational structure is a traditional functionally divided manufacturing hierarchy. Responsibilities are divided according to function and various managerial levels are held accountable for achieving certain targets, through the formal management-by-objectives process. The budget is an annual update of responsibilities. The formality of the responsibility structure and the rewards systems were clearly appreciated by a majority of respondents.

7.2.4 Contextual communication and learning

The company has taken several approaches to increase interactive communication and engage more actors in various processes. The annual strategic dialogue, the management-by-objectives process, the yearly development discussions, the sales and operational planning process are all formal processes that work well. These processes enable a regular communication between functions and different organisational levels, about strategic, tactic and operative planning. The company is relatively small and informal interaction is equally important as the formal, allowing flexibility in decision-making. A speak-up culture is encouraged beyond the regular meetings with follow-ups and more anonymous possibilities for giving formal feedback.

One main driver of information sharing has been the implementation of the sales and operational planning process, which has increased the cross-functional communication and learning. It has undoubtedly increased the understanding of key drivers between functional organisations. Simultaneously, there are indications of an overflow of meetings, crossing time schedules for required information and last minute haste for fulfilling reports. Overall, the regular interactive communication has been key for learning and self-renewal at E-G Finland Oy.

Rewards are highly related to the evaluating and monitoring processes. Incentives consist of a three-folded system, that considers performance on group, local and individual level for all managerial levels. Reaching budgeted targets affects the amount of bonuses paid.

7.3 The budget's role in the PMS

At Eckes-Granini Finland, the budgeting process follows the illustration by Stringer et al. (2011): the sales and marketing budget sets the basis for other functions, so that they may budget accordingly. The budgetary sales assumptions were jokingly expressed as made with a crystal ball, but in reality, forecasts are strongly supported by the sales & operational planning process. The separate process provides the most recent information of actual outcome and more accurate up-to-date information of sales assumptions. The budget plays a key role in combining information from the process, with information from the so-called master recipes, in order to evaluate and

monitor profitability and translate strategy into operational financial measures. The financial targets are set at a realistic but ambitious level and they communicate the expected behaviour for the next financial period, for each function. Achieving budgeted targets affects the outcome of earned rewards from the bonus system. This indicates that the budget's key functions at the case company covers all three main functions of planning, controlling and evaluating, as described by Sivabalan et al. (2009)

The budget is the tool that combines information from various processes to enable efficient alignment of behaviour, suggesting that the budget is still necessary to ensure internal efficiency at the case company. All respondents pointed out the importance of budgetary control and none could consider controlling performance without it. The company has introduced a parallel process for improving forecast accuracy, indicating towards the budget's weakened capability of reacting to external changes. The sales & operational planning process signals if the budgeted expectations are at risk to be unmet and plans are revised accordingly. The budget is used as a fixed performance contract, to enable evaluation of performance on a collective level for the company. Budgetary targets are a part of a larger three-folded bonus system and evaluation is completed with the management-by-objectives process. These observations, of a parallel use of supporting processes, supports prior results of the changing role of the budget, in the research by Ekholm & Wallin in 2000 and 2011.

In order to evaluate the budget's viability, the documented criticism by Neely et al. (2003) is analysed in relation to observed budgetary issues at Eckes-Granini Finland Oy Ab. The analysis is structured according to how the criticism affects the categories of competitive strategy, business processes and organisational capability.

The budget has been accused of reducing competitive strategy, by rarely being strategically oriented, concentrating too much on cost reduction instead of value creation, hindering flexibility and adding little value. (Neely et al. 2003) In the case company, the overall direction and objectives are set in an annual strategic dialogue. The budgeting process is a step towards clarifying measurable targets, enabling a basis for the next year's strategic dialogue. The budget reflects a realistic financial target for the next year and is critical for upkeeping cost-consciousness. The relevant strategic implementation and value creation occurs through the management-by-objectives

process, as it permits more concrete targets to be made for each function, with both short-term and long-term effects. There is a clear relationship between budgeting and strategic planning, even if they are treated as separate processes. This may explain why cost reduction was not perceived as a major issue of the budget at the case company. The company has relied on a defender strategy, with the aim of defending existing products and their profitability. In that sense, the budget is more important for control reasons, than planning reasons. The criticism is interpreted as valid to a certain level, since the case company derives its budget from strategy, but the relevant strategic implementation and value creation occurs through a separate process.

According to Neely et al. (2003) the budget affects business processes, by being too time consuming, too infrequently updated, built on guesswork and encouraging dysfunctional behaviour. These were the main budgetary issues identified at the case company. The budgeting process is quite structured and systematised: a generic timetable is handed out and templates are used for reporting and defining responsibilities. However, the budgeting process requires more time from directors than from lower management. Lower management stated the usefulness of budget templates, which makes the process straightforward and easy. Upper management, however, is concerned with more detail and building a storyline for the assumptions, increasing the time used for budgeting. The upper management expressed that the time consumed by budgeting reduces the time available for development. Currently, the budgeting process requires a large amount of work twice a year. The budget is revised three times annually and described as too stiff for use. The sales and operational planning process is more flexible, consumed with less detail and used for accurate forecast and updated planning. Still, the budget was perceived as irreplaceable, supporting prior findings by Rickards (2008). The budget is the only tool that combines all the relevant information for efficient performance. The lighter S&OP process does not consider fixed costs or the profitability of specific products that are crucial for upkeeping a required level of cost-consciousness. This supports the criticism that the budget is time-consuming and too infrequently updated. The respondents acknowledged some dysfunctional behaviour related to budgeting, mainly postponing or advancing costs depending on forecasted results. This was interpreted as a minor issue, with irrelevant effect on target setting and evaluation.

According to Neely et al. (2003), the budget affects organisational capability by strengthening the vertical command and control culture, failing to reflect emerging network structures, reinforcing departmental barriers, hindering information sharing and making people feel undervalued. The company has relied on traditional structures and defined responsibilities accordingly. The budget was described as an annual update of responsibilities according to function, enabling cost consciousness. A strategic focus at Eckes-Granini Finland Oy has been empowerment, by participating more actors and increasing the cross functional communication. The increased cross-functional cooperation and empowerment have increased the amount of information shared, while simultaneously blurring the boundaries of responsibility. Empowerment indicates an increased freedom to control the own surrounding environment, but still a formality of processes was appreciated by all respondents. The CFO stated that the budget reinforces the departmental barriers, while in reality everything flows together. This was observed through an increased amount of reporting and meetings, and the increased importance of informal interaction. This reinforces the criticism of budgets relying on organisational structures and failing to support emerging networks.

In summary, the main budgetary issues observed in the case company were the time it consumes, the amount of detail required and the reinforcement of departmental barriers. According to Sivabalan et al. (2009), a majority of the budgetary criticism is related to evaluation reasons, while the budget is mainly used for control and planning reasons. This seems to be the case as Eckes-Granini Finland Oy Ab. The identified budgetary issues are related to how the budget is used. The expressed criticism varied between actors, depending on their function and organisational level within the organisation. Despite some expressed criticism, the budget was perceived as irreplaceable by all respondents, supporting prior results by Libbey & Lindsey (2010) and Rickards (2008).

The purpose of the budget at Eckes-Granini Finland Oy Ab was identified as planning, controlling and evaluating. A relevant conflict between its key purposes was not identified, as described by Drury (2015) and Bogsnes (2016), but the budget's capability as a tool for planning and evaluation has deteriorated. These functions are supported, or even completed, with the separate management-by-objectives and the sales & operational planning processes. The role of the budget has clearly gone through a change the last years, which largely explains the organisation's ongoing speculations

of its viability. However, the budget still has an important role in integrating information from various processes to ensure internal efficiency. The case company provides empirical evidence that a hybrid system, with a parallel use of complementing tools and processes is common, to support prior results of Sivabalan et al. (2009) and Ekholm & Wallin (2000).

7.4 Alternative approaches

Hansen et al. (2003) stated that the budgetary criticism has led companies to decide whether to maintain, improve or abandon the traditional budget. There have been relatively few accounting innovations in recent years and none of them offers a perfect solution for managing performance. This section discusses the plausibility of three commonly used alternative approaches for the case company, in order to analyse if it should improve or abandon the annual budget.

7.4.1 The Balanced scorecard

The general idea of the BSC is basically implemented in the management-by-objectives process at Eckes-Granini Finland Oy Ab. The process is applied on business unit level, meaning managers and directors, and targets for various functions are set with individuals held accountable for achieving them. The process enables cascading the strategy throughout the organisation. This follows the findings by Teemu Malmi (2011), about the use of the BSC in Finnish companies. Implementing the BSC philosophy would be an undramatic change for the case company.

The balanced scorecard is proposed as a tool to define, communicate and implement strategy and a solution to integrating measures and evaluation: it enables a systematic strategic learning process. Strategic formation and implementation were not considered as an issue at the case company. However, they could benefit from the BSC for integrating non-financial measures and mapping the causal relationships between perspectives, strategy and financial outcome. Further, the BSC framework could aid in a successful strategic change from a defender company towards an innovator strategy. Currently, the management-by-objectives process occurs between individuals

from various levels within the same function. According to Kaplan (2009) and Drury (2015), an integration of perspectives would allow processing them together and illustrating how changes in one function affects another. An integrated strategic mapping might clarify the time-scheduling issues observed and support the increased cross-functional interactive communication.

The balanced scorecard has been criticised for the difficulties related to identifying the causal relationships. The concept is open to various translations and lacks a step-by-step instruction for implementation: it would require the company to develop and define the relevant measures, that embrace the causalities. (Johanson et al. 2006; Drury 2015) Ax & Bjørnenak (2005) stated that the attraction with the balanced scorecard is its promised solutions to the shortcomings of the annual budget and strategic change. The case company could benefit from the “BSC philosophy”, especially with integrating perspectives in the management-by-objectives process. However, the balanced scorecard does not solve the main budgetary issues observed. According to Johanson et al. (2006), the budgetary criticism basically applies to the BSC as well. Replacing the budget with a BSC is an implausible option, but the case company could benefit from incorporating its philosophy to the management-by-objectives process.

7.4.2 Rolling budget

All respondents indicated an interest in rolling budgets. Currently, the traditional budget is revised three to four times annually and the sales and operational planning process has largely replaced the budget as a tool for accurate forecasts and timely information (Jordan & Messner 2020; Ekholm & Wallin 2011). Moving to a rolling system would be a plausible and undramatic change: new quarters could be added to the budget during its revisions and the budget could remain as the tool that combines the information from separate processes. However, the value gained from a rolling budget remains open for interpretation. Rolling budgets could distribute the budgeting workload more evenly over the year, but only if the budgeting templates are eased and the number of required details are reduced. The research by Rickards (2008) indicated that rolling budgets might reduce planning costs, as they become a more regular process, but only if supported by an efficient information system. He further questioned whether the need of detail is related to executives’ efforts for increased

control or actual managerial value. The findings indicate towards managerial value in details at E-G Finland Oy.

Currently, the budget has an important part in evaluating collective performance, where reaching budgeted targets affects the received bonuses. The evaluation is supported by the more individual management-by-objectives process. Moving to rolling budgets would require the company to reconsider the budget's role in performance evaluation. Rolling budgets have been criticised for their uncertainty in evaluation by managers, as targets are continuously changing. The targets could become more realistic, but the evaluation should be based on relative rather than absolute performance due to their constant change. (Drury 2015)

7.4.3 Beyond Budgeting

Beyond budgeting promoters state that the budget is fundamentally flawed and, thus, should be abolished for more agile management model. According to Sivabalan et al. (2009), the main budgetary criticism pointed out by beyond budgeters is based on the dysfunctional behaviour that stems from using the budget for evaluation purposes. The case company uses the budget for evaluation, but none of the respondents indicated any relevant problems relating to it. More attention was given to the time budgeting consumes, the number of details required and its unsupportiveness of cross-functional networks.

Hansen et al. (2003) simplified the beyond budgeting philosophy down to a radical decentralisation in decision-making and performance evaluation based on relative targets with hindsight. The case company relies on traditional formal organisational structures, which highly affects responsibilities supported by the budget. However, they are aspiring towards becoming a more agile organisation and the budget was perceived as reinforcing departmental barriers, requiring too much time and detail. In that sense, abandoning the budget would be an appealing approach. According to Østergren & Stensaker (2009), relative targets could enable a holistic organisational perspective of performance, rather than focusing on one's own business unit. Using relative targets, measured with key performance indicators, enables a top-down planning of operations on a more generic level, where all actor may direct their

contribution accordingly, rather than controlling behaviour by budgeting down to detailed accounts or cost centres.

Prior research demonstrates that companies move gradually towards beyond budgeting and the former budgeting process is fragmented into a collection of various tools and processes. According to Henttu-Aho & Järvinen (2013), what distinguishes beyond budgeting from other approaches is the decoupling of the key functions target setting and evaluation from planning. The case company has incorporated supporting processes and could go forward with distinguishing the key functions, but there was no observation of conflict to justify a need of separation. According to Bogsnes (2016), a radical decentralisation is key for effective control without budget. The thesis has emphasised budgeting issues and paid less attention to the possibility of decentralisation. The case company should evaluate, if the budgeting issues are large enough to justify the major changes required. The observations indicate that a simplification approach would be more plausible for solving the shortcomings of the budget, as the company appreciates formality and relies heavily on the organisational structure.

8 Conclusions and discussion

This thesis has given insight into the budget's viability as a part of performance management systems. Prior research of Malmi & Brown (2008) and Bedford (2020) stated that assessing the budget's functionality as a separate practice might give misleading results. Investigating the budget's role through a larger perspective, enables addressing how other practices and processes affects its functionality. The research was conducted as a case study, where data were obtained through semi-structured interviews, with questions derived from the framework by Ferreira & Otley (2009). The results were analysed with the framework by Johanson et al. (2019) and prior research considering the budget's functionality and approaches to either support or replace it. The research questions were: What constitutes the current performance management system? What is the budget's role in the performance management system? Should the case company maintain, improve or abandon the budget? In this chapter, these questions are answered with the support of prior research and the case study.

The performance of the case company is largely affected by its headquarters, that sets both the overall direction and the expected level of performance. The performance management system at local level was analysed through how the constructs of contextual support, functional processes and contextual communication and learning supports the common ideal. The prevalent ideals observed were responsibility, empowerment and quality. The research did not consider the driver for these shared assumptions, which could have affected the results.

Overall, the various elements of the performance management system work well, but some issues in its coherence were observed. The system was described as a patchwork quilt of processes, and separate processes have constantly been developed to answer to the changing demands of information. The company relies heavily on organisational structure and formality in defining responsibilities, while simultaneously striving for increased cross-functional interaction and agile performance. This has blurred the boundaries of responsibilities. The challenge of integrating various internal perspectives, management, targets and measures has resulted in an increased amount of reporting and meetings. The increased interaction has been positive for self-renewal and learning, but has complicated the appreciated formalisation of responsibilities.

The budget's viability in managing performance is still strong at Eckes-Granini Finland Oy Ab. The budget is used to translate strategy into a financial operational plan for the upcoming year, covering all three main functions of planning, controlling and evaluating. The budget is thought of as relevant and necessary for upkeeping cost consciousness and control: it is the tool that combines several processes. However, the budget is also perceived as time-consuming, too detailed and reinforcing departmental thinking. The budget strongly supports the organisational structure and is an annual update on responsibilities. The company has continuously taken steps to develop supporting processes, which has altered the role of the budget, supporting prior research by Ekholm & Wallin (2000), Rickards (2008) and Libbey & Lindsey (2010). It is clear, that the budget's importance as a tool for planning and evaluation has deteriorated due to complementing processes. However, the budget has an important role in the performance management system, as the tool that integrates the managerial information from separate processes, controlling the expected behaviour for the next financial period.

Hansen et al. (2003) state, that the budgetary criticism has led companies to decide, whether to maintain, improve or abandon the budget. Should the budget be replaced or improved at Eckes-Granini Finland Oy Ab? A fragmentation of budgeting is clearly observed at the company, as its key functions are completed with other mechanisms to answer to the changing need of managerial information. Prior research suggests that companies move gradually towards the beyond budgeting approach, when new tools and processes replace the key functions of the budget. What distinguishes the approach from improved budgeting, is the decoupling of target setting from planning. (Henttu-Aho & Järvinen 2013) If the decision is simplified down to this, both approaches are plausible. However, beyond budgeters perceive the budget as fundamentally flawed and emphasise the need of radical decentralisation, as the budgeting mindset otherwise undermines the efficiency of any alternative tools. The budgetary process in the case company is not fundamentally flawed, on the contrary, it is still perceived as a necessary tool for integrating the performance management system. Sivabalan et al. (2009) and Ekholm & Wallin (2011) stated, that accounting innovations rarely replace the budget, but rather a parallel use of various practices support each other. The case company has systematically tried to develop their supporting processes and gradually the role of the budget has changed, explaining the interest for alternative approaches.

Improving, or rather simplifying, the budget would be the most plausible approach for the case company. The budget's viability in managing performance is still strong, as it has a crucial role in integrating the various constructs of the performance management system.

This research has several limitations. A restricted number of employees were interviewed and the results are not generalisable, as the research was conducted as a single case study. The nature of the research problem required rich and deep inquiries of performance, making interviews an appropriate method. In order to increase the research validity, the budget's functionality was investigated from various perspective by including respondents from various functions and organisational levels. The broader research perspective of performance management enabled consideration of how various practices complete the budget's key functions.

8.2 Directions for future research

This study supports prior research, that the budget is still perceived as relevant for ensuring internal efficiency in manufacturing companies, but the role of the budget is changing as parallel processes are used to answer to the budget's shortcomings. There is no one-size fits all solution for substituting or supporting the budget. Instead of investigating the pros and cons of alternative approaches, it could be useful to study the patterns of interaction: what is the relevant information for various actors; how is the information used and interpreted by various actors; how does the information vary between time, situations and persons. Investigating the performance management system through an accountability perspective could be beneficial for integrating the informational needs at both local and international level.

The formality of responsibilities and processes was clearly appreciated in the case company. Another research direction could be to investigate how to formalise and routinise the accountabilities.

Swedish summary – Svensk sammanfattning

Budgetens livskraft i systemet för kontrollstyrning – en fallstudie av Eckes-Granini Finland Oy Ab.

Budgeten har en etablerad roll inom ekonomistyrning i de flesta organisationerna, där den fungerar som ett verktyg för planering, kontroll och utvärdering av verksamheten. (Drury 2015) De senaste åren har budgeten fått utstå en växande mängd kritik. I och med globalisering, digitalisering och utveckling av teknik har affärsmiljön blivit alltmer komplex och volatil. Budgeten anses inte längre vara värdeskapande och kapabel att reagera på förändringar tillräckligt snabbt. Som en följd har Beyond budgeting-debatten uppstått, där den ena parten hävdar att budgeten i grunden är bristfällig och bör avskaffas, medan den andra parten anser att budgeteringsprocessen går att förbättra. (Hope & Fraser 2003; Bogsnes 2016; Henttu-Aho & Järvinen 2016) Debatten har ökat intresset för alternativa budgeteringsmetoder. Hansen, Otley & Van der Stede (2003) påstår att företagen nu står inför ett val mellan att slopa och förbättra årsbudgeten.

Avhandlingens syfte är att undersöka budgetens livskraft och dess roll i styrningskontrollsystemet. I studien övervägs även rimligheten av tre alternativa tillvägagångssätt, för att antingen förbättra eller slopa budgeten. Problemområdet närmas med hjälp av tre forskningsfrågor: Hur är styrningskontrollsystemet uppbyggt? Vad är budgetens roll i systemet? Borde fallföretaget behålla, förbättra eller slopa sin budget?

Problemområdet är aktuellt för flera företag idag. Tidigare forskning visar att budgeten fortfarande upplevs som ett nyttigt och nödvändigt redskap för att garantera intern effektivitet, samtidigt som budgeten kritiserats för att vara tidskrävande, för detaljerad och inkapabel att stöda nätverksstrukturer. (Ekholm & Wallin 2000, 2011; Libbey & Lindsey 2010; Rickards 2008; Sivabalan, Booth, Malmi & Brown 2009) Tidigare forskning har även fokuserat mer på finansiell kontroll än styrningskontroller som en helhet, vilket lett till motstridiga resultat i frågor om budgetens nytta (Malmi & Brown 2008). Denna studie bidrar till Beyond budgeting-debatten genom att undersöka budgeten ur ett bredare perspektiv. Budgeten undersöks som en del av styrningskontrollsystem för att kunna beakta hur andra mekanismer möjligen påverkar

budgeten. Styrningskontrollsystem omfattar både formella och informella kontrollmekanismer, såsom mål och mätning, rutiner och social omgivning.

Hur budgetar används är starkt kopplat till företagssammanhanget. Avhandlingen utgörs därför av en fallstudie i ett medelstort producerande företag i Finland. En fallstudie möjliggör djupgående beskrivningar av hur budgeteringsprocessen upplevs och varför den möjligen inte längre anses nödvändig för företaget. Ett ramverk för styrningskontrollsystem av Ferreira & Otley (2009) används för att samla in empiri. Sju semistrukturerade intervjuer med respondenter från olika organisationsnivåer och funktioner genomförs, för att få en helhetsbild av problemområdet och en insikt i möjliga interna konflikter mellan styrningskontroller.

Analysen av insamlade data struktureras enligt forskningsfrågorna. Hur styrningskontrollsystemet är uppbyggt i fallföretaget analyseras med ett ramverk för integrerade styrningskontrollsystem av Johanson, Almqvist och Skoog (2019). Tidigare forskning om budgetens funktionalitet, kritik och förändring används för att analysera budgetens roll i styrningskontrollsystemet. Slutligen diskuteras hur alternativa metoderna balanserat styrkort, rullande budgetar och Beyond budgeting kunde lösa budgetens möjliga brister i fallföretaget.

Studien avslöjar att fallföretaget kontinuerligt har utvecklat sitt styrningskontrollsystem för att kunna reagera på förändringar på marknaden. De senaste åren har systemet utökats med kompletterande processer för strategiarbete och tvärfunktionell planering. Processerna anses vara fungerande, men systemet i sig saknar en viss sammanhållning. Budgeten används för planering, kontroll och utvärdering. Årsbudgeten upplevs fortfarande som ett nödvändigt verktyg för att säkerställa intern effektivitet och kostnadsmedvetenhet mellan funktioner, i enlighet med Ekholm & Wallin (2000) och Libbey & Lindsey (2010). Samtidigt upplevs budgeteringsprocessen som tidskrävande, för detaljerad och inkapabel att stöda tvärfunktionellt samarbete. Budgetens roll har genomgått en förändring, där de nya kompletterande processerna har minskat på budgetens nytta som ett verktyg för planering och utvärdering. I dagsläge fungerar budgeten som ett viktigt integrerande verktyg som för samman relevant information för ledningen från de separata processerna.

Resultaten indikerar att budgeten fortfarande är det lämpligaste verktyget för kontroll inom fallföretaget och spelar en viktig roll som ett integrerande verktyg i styrningskontrollsystemet. De observerade budgeteringsproblemen skulle inte lösas av att införa balanserat styrkort, rullande budgetar eller Beyond budgeting. Enligt studiens observationer, skulle den lämpligaste lösningen vara en förenkling av kraven på detaljer i budgeteringsprocessen och en formalisering av ansvarsrutiner, som understöder det nya tvärfunktionella samarbetet.

References

Ax C., Johansson C & Kullvén H. (2001) *Den nya ekonomistryningen*. Malmö: Liber ekonomi

Ax C. & Bjørnenak T. (2005) Bundling and diffusion of management accounting innovations – the case of the balanced scorecard in Sweden. *Management Accounting Research*. 16: 1-20.

The Beyond Budgeting Round Table. The Beyond Budgeting Principles. Read 28.9.2020. <https://bbbt.org/the-beyond-budgeting-principles/>

Bedford D. (2020) Conceptual and empirical issues in understanding management control combinations. *Accounting, Organizations and Society* 88: 1-8

Bogsnes B. (2016) *Implementing beyond budgeting: unlocking the performance potential*. New Jersey: John Wiley & Sons

Bourne M., Melnyk S., Bititci U., Platts K. & Andersen B. (2014) Emerging issues in performance measurement. *Management Accounting Research* 25(2): 117-118

Broadbent J. & Laughlin R. (2013). *Accounting control and controlling accounting: Interdisciplinary and critical perspectives*. ProQuest Ebook Central

Bromwich M. & Scapens R. (2016) Management accounting Research: 25 years on. *Management Accounting Research* 31(2): 1–9

Bryman A. & Bell E. (2013) *Företagsekonomiska forskningsmetoder*. Stockholm: Liber Ab

Bunce P., Fraser R., & Woodcock L. (1995) Advanced budgeting: A journey to advanced management systems. *Management Accounting Research* 6(3): 253–265.

Chenhall R. (2003) Management control systems design within its organizational contest: findings from contingency-based research and directions for the future. *Accounting, Organization and Society* 28: 127-168

Chenhall R. (2007) Theorizing contingencies in management control systems research. *Handbook of Management Accounting Research*. Vol. 1

- Covaleski M., Evans H., Luft J. & Shields M. (2007) Budgeting research: Three theoretical perspectives and criteria for selective integration. *Handbook of Management Accounting Research*. Vol. 2
- Drury C. (2015) *Management and cost accounting*. China: RR Donnelley
- Ekholm B. & Wallin J. (2000) Is the annual budget dead? *The European Accounting Review* 9: 519–539
- Ekholm B. & Wallin J. (2011) The Impact of Uncertainty and Strategy on the Perceived Usefulness of Fixed and Flexible Budgets. *Journal of Business Finance and Accounting* 38 (1–2): 145–164
- Fahlén K. (2016) *Beyond budgeting i praktiken*. Stockholm: Liber Ab.
- Ferreira A. & Otley D. (2009) The design and use of performance management systems: an extended framework for analysis. *Management Accounting Research*. 20: 263-282
- Franco-Santos M. & Otley D. (2018) Reviewing and theorizing the unintended consequences of performance management systems. *International Journal of Management Reviews* 20: 696-730
- Hansen SC. (2010) A Theoretical Analysis of the Impact of Adopting Rolling Budgets, Activity-Based Budgeting and Beyond Budgeting. *The European Accounting Review*. 20(2): 289-319
- Hansen SC., Otley DT. & Van der Stede WA. (2003) Practice developments in budgeting: An overview and research perspective. *Journal of Management Accounting Research* 15(1): 95–116
- Henttu-Aho T. (2016) *The emerging practices of modern budgeting and the role of controller*. University of Oulu Graduate school, University of Oulu, Department of Accounting
- Henttu-Aho T. & Järvinen J. (2013) A field study of the emerging practice of beyond budgeting in industrial companies: an institutional perspective. *European Accounting Review*. 22(4): 765-785

- Hope J., & Fraser R. (1997). Beyond budgeting... Breaking through the barrier to 'the third wave', *Management Accounting: Magazine for Chartered Management Accountants* 75 (11): 20–24
- Hope J., & Fraser R. (2003). *Beyond Budgeting: How managers can break free from the annual performance trap*. Boston, MA: Harvard Business School Press.
- Johanson U., Almqvist R. & Skoog M. (2019) A conceptual framework for integrated performance management systems. *Journal of Public Budgeting, Accounting & Financial Management*. 31(3): 309 – 324
- Johanson U., Skoog M., Backlund A. & Almqvist R. (2006) Balancing dilemmas of the balanced scorecard. *Accounting, Auditing & Accountability Journal*. 19(6): 842-857
- Kaplan R. (2009) Conceptual Foundations of the Balances Scorecard. *Handbook of Management Accounting Research*. Vol. 3: 1253-1269
- Libbey T. & Lindsay R. (2010) Beyond budgeting or budgeting reconsidered? A survey of North-American budgeting practice
- Malmi T. (2001) Balanced scorecards in Finnish companies: a research note. *Management Accounting Research* 12: 207-220
- Malmi T. & Brown D. (2008) Management control systems as a package – opportunities, challenges and research directions. *Management Accounting Research* 19: 287-300
- Merchant K. & Otley D. (2007) A review of the literature on control and accountability. *Handbook of Management Accounting Research*. Vol. 2
- Merchant K. & Van der Stede W. (2007) *Management Control Systems, Performance measurement, evaluation and incentives*. Edinburgh: Pearson Education Limited
- Neely A., Bourne M. & Adams C. (2003) Better budgeting or beyond budgeting? *Measuring Business Excellence* 7(3): 22–28.
- Rickards R. (2008) An endless debate: the sense and nonsense of budgeting. *International Journal of Productivity and Performance Management*. 57(7): 569–592

Salo F. (2018) Är årsbudgeten ännu relevant? – en fallstudie om den upplevda nyttan av årsbudgeten på Eckes-Granini Finland Oy Ab. Fakulteten för samhällsvetenskaper och ekonomi. Åbo Akademi.

Sivabalan P., Booth P., Malmi T. & Brown D. (2009) An exploratory study of operational reasons to budget. *Accounting and Finance* 49: 849–871

Stringer C., Shantapriyan, P., & Pillai, P. (2011). *Setting performance targets*. Proquest Ebook Central.

Wallander J. (1995) *Budgeten – ett onödigt ont*. Kristianstad: SNS Förlag

Yin R. (2014) *Case study research: design and methods*. SAGE 5th edition.

Østergren K. & Stensaker I. (2011) Management control without budgets: A field study of ‘Beyond Budgeting’ in practice. *European Accounting Review*. 20(1): 149-181

Appendix 1. Information to the respondents

This thesis considers the viability of budgeting in managing performance in a case company.

The research is conducted through interviews in two separate rounds. The first round is a mapping of the current state of affairs of the performance management, with the chief finance officer, the supply chain director and the manager of human resources as respondents. The second round of respondents will be determined during the first interviews, with the aim of getting a deeper insight into how various organisational levels perceive the same aspects.

The interviews

The interview questions are divided into four parts:

1. Strategy, key success factors and organisational structure
2. Performance measurement, evaluation and rewards
3. Informational flows and the business environment
4. The budgetary process

These four parts contain a number of questions and sub-questions to provide a comprehensive understanding of the company's control and performance management system. The interview questions are attached as a separate file.

Other information

- The interview questions are given in advance, so that you have the time to get acquainted with the subject and the questions
- The interviews are conducted remotely through Microsoft Teams
- The interviews will be recorded
- The information will be used only for my master's thesis
- In my thesis, the company name and your title will be mentioned, otherwise you will remain anonymous
- The study is done as a part of my master's dissertation in the spring of 2021

Thank you for agreeing to participate!

Appendix 2. Interview guide 1

Respondent background

- Title and working tasks/responsibilities
- How long have you been employed at the company?

Strategy, key success factor and organisational structure

1. What is the vision and mission of the organisation?
 - a. How is this brought to the attention of managers and employees?
2. What are the key success factors that are believed to be central to the organisation's overall future success?
 - a. How are they brought to the attention of managers and employees?
3. Describe the organisational structure
 - a. What impact does the structure have on how performance is managed?
 - b. Does it influence the strategic management process?
4. What strategies and plans has the organisation adopted?
 - a. Which processes and activities are required to ensure strategy implementation?
 - b. Who are involved in generating the strategy and creating plans?
 - c. How are strategies and plans communicated to managers and employees?

Performance measurement, evaluation and rewards

5. Based on the company's objectives, which are the company's/your area's of responsibility most important performance measures?
6. Based on the previous question, what level of performance does the organisation/your area need to achieve for each of its key performance measures?
 - a. How are appropriate performance targets set for them?
 - b. How challenging are those performance targets to reach?
7. What processes does the company follow for evaluating individual, group, and organisational performance?
 - a. Are performance evaluations primarily objective, subjective or mixed?
 - b. How important is formal and informal information in this process?

8. What rewards — financial and/or non-financial — will managers and other employees gain by achieving performance targets?
 - a. Will there be consequences if the goals are not achieved?

Information flows and the business environment

9. What type of information system is available to support the performance management? (mainly to communicate questions discussed so far)
 - a. Does the information flow both ways or mainly top to bottom?
10. How is the information from various control mechanisms used?
 - a. How do controls and their use differ at different hierarchical levels?
11. What are the main operational challenges, both external and internal?
 - a. Do these challenges affect the performance management system?
 - b. Have you seen any challenges, where the performance management has been changed to adapt in a proactive or reactive manner?
12. How strong and coherent do you perceive the links between the questions discussed above?
 - a. Do you perceive them as an integrated system within the company, or are they treated as separate parts?

The budgetary process

- Describe the process, time spent and key purposes of the budget
 - o How is strategy considered in the process?
 - o How well can business development be predicted for more than a year ahead?
 - o Is the objective to create a realistic or motivating budget?
- How does the budget support decision-making?
- How flexible are targets once they have been set?
- To what extent are variances analysed and accounted for?
- Is the budget completed with other practices?
- How is the budget communicated to relevant actors?
- Is the budget used for evaluation and compensation?
- How do you perceive the budgeting process and its relevance for generating business value?
- How could it be improved?

Concluding questions

- For a broader organisational perspective of the performance management system, who would you recommend participating in further interviews?

Appendix 3. Interview guide 2

- Mikä on roolisi yrityksen toiminnassa?

Strategia, organisaatio ja menestystekijät

1. Mitkä ovat yrityksen keskeisimmät tavoitteet menestyksen kannalta?
 - a. Miten nämä viestitään työntekijöille?
 - b. Miten tavoitteet asetetaan?
 - c. Koetko pystyväsi vaikuttamaan tavoitteisiin?
2. Mitkä ovat menestyksen avaintekijät?
3. Mitkä ovat päivittäisen toiminnan suurimmat haasteet?
 - a. Millä aikataululla uudet havainnot haasteista tai mahdollisuuksista huomioidaan?

Palkitseminen ja toiminnan mittarit

4. Miten tavoitteiden saavutusta mitataan?
 - a. Ovatko tavoitteet saavutettavissa?
 - b. Mitataanko oikeita asioita?
5. Mitä palkkioita johto ja työntekijät saavat saavuttamalla tavoitteita?

Palaute ja kommunikointi

6. Mitkä tietovirrat ovat tehtäväsi välttämättömiä menestyksen kannalta?
 - a. Kulkeeko tieto ylhäältä alas voi molempiin suuntiin?
7. Mitkä järjestelmät tai menetelmät ovat käytössä palautteen antamiseen ja saamiseen?
8. Kuinka johdonmukaiset ovat komponentit ja menetelmät, millä taataan yrityksen menestys?

Budjetointiprosessi

1. Mikä on roolisi budjetointiprosessissa?
2. Kuinka paljon aikaa käytät vuosittain budjetointiin?
3. Mitkä ovat oleelliset syyt budjetointiin?
 - a. Tukeeko budjetti yrityksen tavoitteita?
4. Käytetäänkö budjettia suoritusarviointiperusteena kohdallasi?
 - a. Toimiiko budjettivertailu hyvin arviointiperusteena?
5. Luoko suuressa kuvassa budjetti enemmän hyötyä vai haittaa?

Appendix 4. Conducted interviews

Respondent	Place	Date	Length	Language
CFO	Microsoft Teams	2.3.2021	59 minutes	Swedish
	Microsoft Teams	3.3.2021	62 minutes	Swedish
	Microsoft Teams	5.2.2021	85 minutes	Swedish
SCD	Microsoft Teams	3.3.2021	121 minutes	Finnish
HRM	Microsoft Teams	1.3.2021	113 minutes	Finnish
	Microsoft Teams	10.3.2021	61 minutes	Finnish
PM	Microsoft Teams	24.3.2021	33 minutes	Finnish
SE	Microsoft Teams	23.3.2021	29 minutes	Finnish
Sales Team	Microsoft Teams	17.3.2021	52 minutes	Finnish
Controller	Microsoft Teams	26.3.2021	41 minutes	Finnish