



# From comfort to stretch zones: A field study of two multinational companies applying “beyond budgeting” ideas

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## ABSTRACT

This paper explores how change in the design principles of management control systems (MCSs) based on implementing the beyond budgeting (BB) ideas has influenced the transition of decision-makers from “comfort” to “stretch” zones and how this transition changed the supply of and demand for managerial information. This paper’s starting point is based on the research evidence showing that there are many organizational problems associated with using budgets. Thus, this paper puts forth a previously neglected research context of companies that claim to have abandoned budgeting. In two cases, we illustrate how changes in the design of the MCS can create new management practices based on new ideas of information needed for decision-making. In particular, this paper illustrates how the use of new information provided by the MCS design, which is based on new principles, move decision-makers into the “stretch zone” characterized by new characteristics of decision-makers’ mindset and behavior. We also demonstrate how unbundling target setting, forecasting, and dynamic resource allocation enables better forward-looking and strategy-oriented decisions in situations requiring negotiation and learning.

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## 1. Introduction

“Budgeting is [an] unnecessary evil” – this is how Wallander (1999) emphasized the management control problem in modern organizations, and therefore identified the need for rethinking the way management control systems (MCSs) based on budgeting are designed and function. Today, with increasing environmental turbulence and organizational dynamics, many organizations confront a seemingly difficult challenge: how to manage the tension between the need for predictable goal achievement

on the one hand, and the pursuit of strategic adaptation and change on the other (Simons, 1995a,b, 2005). The traditional budget-coupled MCS is claimed to be incapable of providing the type of information individual decision-makers need to handle increasingly complicated organizational dynamics (e.g., Hope and Fraser, 1997). One solution to this problem is to widen the scope of the MCS (Chenhall and Euske, 2007; Ferreira and Otley, 2009; Otley et al., 1995) so that the dysfunctional effects of budgeting can be repaired (e.g., Frow et al., 2010). The multiple facets of budgeting and diversity of purposes that the budget serves can also explain why budgets are still being widely used in most organizations (Hansen and Van der Stede, 2004).

Nevertheless, budgets are heavily criticized for being too internally oriented, an obstacle to creativity and innovation, and incapable of providing the dynamics necessary to organizations to compete in the new information age (Hope and Fraser, 1997). It is argued that the new

*Abbreviations:* A2A, Ambition to Action; IT, information technology; KPI, key performance indicator; MIS, management information system; MC, Market Council; MCS, management control system; BB, beyond budgeting.

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management techniques, which have been developed in response to the changing organizational environment, cannot be successfully implemented when management behavior is “snapped back” into its old shape by the invisible power of the budget. Despite the fact that budgeting is probably the most studied phenomenon in business administration research (Covaleski et al., 2003), little has been done to find solutions to this problem in practice (Østergren and Stensaker, 2011). Thus, it is not surprising that many companies have experimented with a radical solution – to replace budgeting with other MCS, or the trend referred to today as beyond budgeting (BB) (Bogsnes, 2009; Hansen et al., 2003; Hope and Fraser, 1997).

Despite the fact that many years have passed since the pioneering introduction of BB in *Svenska Handelsbanken* in the 70s (Wallander, 1999), we still know very little about how BB concepts function in practice and especially how replacement of the annual budget with other information tools has improved the abilities of decision-makers in facing increasing environmental uncertainty. However, research on the topic is normative, e.g., explaining the logic behind the BB paradigm (Hope and Fraser, 2003a; Waal, 2005), or descriptive, with the focus on a search for why BB is not widespread in management practice (e.g., Becker, 2011; Ekholm and Wallin, 2000; Libby and Lindsay, 2009), or on how organizations are coping with negative aspects/consequences of budgeting (e.g., Frow et al., 2010), or even on defending the use of budgets in particular circumstances (e.g., Greenberg and Greendberg, 2006). However, little attention has been given to in-depth studies of organizations that claim to have implemented BB practices and for which BB is a reality. Even though there are some publications about experiences and models for how BB is implemented in some organizations (see e.g., Wallander, 1999; Bogsnes, 2009), there is little research done regarding how introduction of BB has changed the way information is produced and used by managers in the organization in new and maybe different ways.

This especially concerns the companies that perceived budgeting to be such a problematic practice that they made a formal decision to abandon an annual budget and replace it with a new MCS. There is relatively little known about how these organizations are managed, e.g., in terms of how the flexibility of resource allocation is provided, what performance criteria are used in evaluations, how potential self-interest behavior is minimized in the system without budgets, etc. (see e.g., Frow et al., 2010). We also know little about whether and how articulated benefits of “budgetless MCS” are achieved in these organizations and whether and how these may result in superior organizational performance. This study seeks to contribute to filling this knowledge gap by analyzing the experience of two large multinational companies (hereafter, OilCo and TelCo) that have applied the ideas of BB in management practices. In doing this, we aim to develop a more nuanced view of the change process from the perspectives of the managers involved.

The point of departure for our study is that the most important problem of budgeting is establishment and maintenance of “comfort zones” of decision-makers (Bogsnes, 2009). Even though Bogsnes (2009) does not

explicitly define “comfort zone”, he discusses it in relation to the necessity of organizations to introduce stretch targets, which suppose to result in decision-makers leaving their comfort zones. Accordingly, the “comfort zone” is a mental state characterized by a decision-maker operating with a sense of comfort and security. Introduction of new MCS without budgets is expected to change the structure and nature of the information flow in the organization so that decision-makers are moved to “stretch zones”. A “stretch zone” is supposed to be a new and different mental state where a decision-maker can experience a new and different type of behavior. Therefore, we should expect changes in the ways information is used. Based on this expectation, the aim of this paper is to study the following questions: How has change in the design principles of MCS based on implementing the ideas of BB influenced transition of decision-makers from “comfort” to “stretch” zones? How has this transition changed the supply of and demand for managerial information?

This paper's starting point is based on research evidence that shows that many organizational problems are associated with using budgets. In those companies that abandoned budgeting practices and introduced new management control practices, the budget was no longer considered applicable and desirable, especially when trying to accomplish both predictable goal achievements and the pursuit of strategic initiatives. Thus, this paper puts forth a previously neglected research context of companies that claim to have abandoned budgeting. We analyze the consequences of departing from a budget-based MCS through the prism of establishing, maintaining, and changing the “comfort zones” of decision-makers.

In two cases, we illustrate how changes in the design of the MCS can create new management practices. In particular, this paper illustrates how use of new information provided by the MCS design, which is based on new principles, move decision-makers into the “stretch zone” characterized by new characteristics of decision-makers' mindset and behavior. We also show how this transition improves managerial decision-making abilities as well as why and how use of the supply of and demand for information is different from the previous budget-coupled practices. In the “budgetless” organization, information in the “stretch zone” is supposed to be used in order to be proactive, more forward-looking, and externally and strategically oriented; but how is it done in practice, in what way, and with what consequences for individual decision-makers and their previously established “comfort” zones?

First, this paper suggests that abandoning the budget is a result of “discomfort” with the “comfort” role of budgeting where the business-driven and entrepreneurial mindset of decision-makers collides with the ritualistic and gaming behavior induced by budgets. Transition toward a “stretch” zone manifests the intention to remove previously established decision-maker “comfort” zones that characterized the use of information in the budgeting regime. Second, based on empirical evidence from two companies, this paper argues that moving decision-makers out of their previously established “comfort” zones required a new information supply. Unbundling target setting,

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