

Master Thesis

# Beyond Budgeting in Small and Medium-Sized Enterprises:

A Comparative Multi-Case Study of Equinor, Entra,  
Hurtigruten, and Tussa

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# Table of Contents

List of Figures .....	iv
List of Abbreviations.....	v
Acknowledgments .....	vi
Abstract .....	vii
1. Introduction .....	1
1.1 Background .....	1
1.2 Research Question.....	2
1.3 Relevance .....	3
1.4 Our Contribution .....	4
1.5 Shortcomings and Limitations .....	5
1.6 Outline of the Thesis .....	6
2. Literature Review .....	6
2.1 Present Knowledge and Core Research Literature References .....	7
2.2 Traditional Budgeting .....	9
2.3 Critiques of Traditional Budgeting .....	11
2.4 The Beyond Budgeting Model .....	13
2.5 Beyond Budgeting Challenges .....	30
2.6 Definition SMEs.....	32
2.7 General Characteristics of SMEs .....	33
2.8 The Management Control Systems Package.....	34
3. Methodology .....	37
3.1 Research Design.....	37
3.2 Comparative Multi-Case Study .....	38
3.3 Data Collection.....	43
3.4 Methodological Rigor and Validity Criteria .....	45
3.5 Reliability .....	51
4.0 Case Studies .....	52

4.1 Tussa.....	53
4.2 Hurtigruten .....	69
4.3 Entra .....	83
4.4 Equinor .....	94
5.0 Discussion .....	104
5.1 NVivo Findings of the 12 BB Principles .....	105
6.0 Conclusion.....	116
7.0 Suggestions for Future Research.....	120
8.0 References .....	122
Appendix A: The Case Study Protocol .....	147
Appendix B: General Interview Guide (In Norwegian).....	153
Appendix C: Collected Documents.....	155
Appendix D: Financial Information of Case Companies.....	156
Appendix E: NVivo Coding for the 12 BB Principles .....	157

## List of Figures

**Figure 1:** Motivational Model of Organizational Goal Pursuit

**Figure 2:** The 12 Beyond Budgeting Principles

**Figure 3:** SME Classification

**Figure 4:** Malmi & Brown's Management Control Systems Package

**Figure 5:** List of Interview Subjects/ Calendar Case Schedule

**Figure 6:** Contemporary Synthesis of Validity Criteria in Qualitative Research

**Figure 7:** Summary Table

**Figure 8:** Tussa Kraft and its Subsidiaries

**Figure 9:** The Owners of Tussa Kraft and Percentage of Shareholdings

**Figure 10:** Organizational Chart Tussa Kraft

**Figure 11:** Kotter's Eight Steps of Change

**Figure 12:** Tussa Marketing Campaign

**Figure 13:** Simplified Example of Strategy Map in Corporation

**Figure 14:** Simplified Example of Dashboard for a Strategic Goal in Corporation

**Figure 15:** The Hurtigruten Group and its Subsidiaries

**Figure 16:** The Owners of Hurtigruten Group and Percentage of Shareholdings

**Figure 17:** Organizational Chart Hurtigruten Group

**Figure 18:** Objectives in Hurtigruten Group

**Figure 19:** Simplified Example of a Dashboard in Microsoft Power BI

**Figure 20:** The largest Owners of Entra ASA and Percentage of Shareholdings

**Figure 21:** Organizational Chart Entra ASA

**Figure 22:** List of KPI categories

**Figure 23:** Illustration of the Strategy Pyramid

**Figure 24:** Example of an Activity Plan for Social Expenditures

**Figure 25:** The owners of Equinox ASA and Percentage of Shareholdings

**Figure 26:** The Election of Corporate Assembly and BoD

**Figure 27:** Organizational Chart Equinor ASA

**Figure 28:** Simplified Overview of Ambition to Action Dashboard

**Figure 29:** Simplified Action Dashboard

**Figure 30:** Evaluation and Feedback

**Figure 31:** List of the 12 BB Principles

**Figure 32:** Comparative Table of Findings Relating to Targets, Performance Evaluation, and Rewards

## **List of Abbreviations**

**BB** - Beyond Budgeting

**BBRT** - Beyond Budgeting Round Table

**BSC** - Balanced Scorecard

**CNK** - Customer Need Knowledge

**EM** - Ethnomethodology

**HRM** - Human Resource Management

**HSE** - Health, Safety and Environment

**IR** - Investor Relations

**KPI** - Key Performance Indicator

**MBO** - Management by Objectives

**MCS** - Management Control System

**MNC** - Multinational Corporation

**NPS** - Net Promoter Score

**OKR** - Objectives and Key Results

**PE** - Private Equity

**P&L** - Profit and Loss

**RCT** - Randomized Controlled Trial

**ROE** - Return on Equity

**SME** - Small and Medium-Sized Enterprise

**SOP** - Standard Operating Procedure

**VBM** - Value Based Management

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## **Abstract**

**Purpose** - The Master thesis aims to understand how Beyond Budgeting (BB) as a Management Control System (MCS) has been designed and used in companies of different sizes.

**Research design** - We apply an interview-based, multi-case study approach on four Norway-based companies, (2 SMEs vs 2 MNCs). The case descriptions follow Malmi & Brown's MCS-as-a-package (2008), while the Findings, and subsequent Discussion compare the four cases along the 12 BB principles of Purpose, Values, Transparency, Organization, Autonomy, Customers, Rhythm, Targets, Plans & Forecasts, Resource Allocation, Performance Evaluation, and Rewards.

**Findings** – ‘Autonomy’, ‘Transparency’, and ‘Resource Allocation’ are highlighted as the key BB principles. MNCs focus on ‘Autonomy’ and accountable teams to a greater extent than SME. As compared to SMEs, MNCs implement broader control spans by means of performance planning systems which, in turn, promotes a higher level of ‘Transparency’ in the MNCs due to higher accessibility of information. Additionally, MNCs use matrices of spending limits for ‘Resource Allocation’, while SMEs exhibit more centralized decision-making due to the higher financial risk of erroneous allocation decisions. We find that size is a non-determining factor in explaining differences in the use and customized design of BB principles while the scalability of BB is unproblematic. In practice, the use of BB is intertwined with both a change trajectory and the use of other control tools (Agile, Better Budgeting, OKRs, BSC), making any claims towards specific effectiveness difficult to support.

**Limitations** - The selected SME case companies are best approximations and resemblant of medium-size rather than small-size companies. Only a limited, existing research-based analysis of the 12 BB principles was provided.

Topics for future research include using an alternative MCS framework for analysis (Van der Stede & Merchant, 2017; Simons, 1995b) and the influence of corporate governance on BB implementation preferences and pathways.

**Originality/value** – The thesis is the only case study thus far which addresses the praxis of the BB principles from a configurational perspective, both theoretically (Malmi & Brown MCS-as-a-package) and practically (SMEs vs MNCs).

**Keywords** Beyond Budgeting, SMEs, MNCs, Management Control System, Beyond Budgeting Principles

# 1. Introduction

## 1.1 Background

*“Quickly obsolete numbers, endless revisions, ‘gaming’ of bonus targets – traditional budgeting is a poor guide to strategic decision-making”* (Player et al., 2019, p. 1).

Today, many businesses operate in an environment where a traditional budget does not have the flexibility to handle drastic changes in the market. *“Budgeting is described as the cornerstone of the management control process in organizations”* (S. Hansen et al., 2003, p. 1), where the purpose of a budget can be separated into four different groups: planning, accountability, process, and ritual (Anthony et al., 2014, p. 333) and is most often prepared once a year for the next year. Traditional budgeting has several negative arguments against its preparation and use, including being too time-consuming and costly (Anthony et al., 2014, p. 348). As a result, the ‘Beyond Budgeting movement’ arose, arguing not only against traditional budgeting but also proposing an alternative that was *beyond* budgeting, emphasizing the dynamics of management control.

*“Beyond Budgeting is the principle whereby companies need to move Beyond Budgeting because of the inherent flaws in budgeting, especially when used to set contracts. It proposes that a range of techniques, such as rolling forecasts and market-related targets, can take the place of traditional budgeting”* (CGMA, n.d., p. 1). The goal of Beyond Budgeting (BB) is not necessarily to eliminate budgets but to obtain better performance by means of agile and humane organizations that take reality seriously (Kontochristos, 2016). An important part of the BB line of argument is centered around the need for changes in management processes in order to respond flexibly to changes in the market environment.

We have chosen the Beyond Budgeting (BB) topic for our Master thesis because it answers critiques surrounding traditional budgeting. The basis for this criticism is that the traditional budget methods are counterproductive, prevent responsiveness to changes in market conditions, and serve no use for today's modern business management (Réka et al., 2014). As traditional budgets have proven to be too



static and focused on historical data amongst other criticisms mentioned above, the main objective of the BB management model is to increase organizational adaptability and flexibility (Daum, 2002). Daum (2002, p. 1) states that BB “*opens new possibilities with strategic enterprise management with the transition to flexible resource management*”. According to the Beyond Budgeting Round Table (BBRT) consortium of user companies, BB consists of 12 principles (Beyond Budgeting Institute, n.d.-a). Divided into two categories, the leadership principles focus on creating a flexible and decentralized organizational structure revolving around decision-making autonomy, while the management principles focus on designing an adaptive management process. However, existing research on how the principles of Beyond Budgeting articulate themselves in practical terms, uses predominantly large, multinational corporations. In contrast, there is a lack of research on the topic of BB in SMEs (Nguyen et al., 2018). The implementation in smaller enterprises is plausibly less cumbersome and time-consuming, and for that reason, BB should supposedly be more common amongst SMEs than MNCs. This Master thesis takes the latter as its core research domain: the working of BB within SMEs.

## **1.2 Research Question**

This Master thesis aims to contribute to the Beyond Budgeting literature by shifting the focus from Beyond Budgeting in MNCs to Beyond Budgeting in SMEs by means of a comparative case study. We aim to answer the following research question:

*How do SMEs use the Beyond Budgeting principles as compared to multinational companies?*

The term *Use* in this sense includes both the process of implementing BB, in addition to covering the process after implementation, addressing the companies’ adaptations and maintenance. By means of our comparative multi-case study, two companies in the early stage of implementation are compared and two companies with fully implemented BB in a mature phase are compared.

As part of the comparison, we expect to address both the characteristics and the prevalence of conventional and novel elements of Beyond Budgeting design in both sets of enterprises. (What is different?)

Moreover, as a consequence of the answer to our research question, we expect to comment on the scalability<sup>1</sup> of BB. Can we say that Beyond Budgeting is scalable from small to large and even multinational corporations? Which differences are attributed to size? (Does size matter?)

Furthermore, we expect to comment on the novelty of the Beyond Budgeting initial design in both SMEs and MNCs. Will the findings show that companies displace (fully or partially) existing budget design and process characteristics, and if so, with what is it displaced? Herein lies the largest difference between ‘Beyond Budgeting’ and ‘Better Budgeting’: the focus on novelty and displacement vs. the focus on incremental adjustment and improvements. (Is BB new?)

Last but not least, we expect to address the practical management issue of the implementation approach to Beyond Budgeting within SMEs. (How to do BB?)

### **1.3 Relevance**

Within the European Union, 99% of all businesses are SMEs which account for more than half of Europe's gross domestic product (GDP) (European Commission, 2016a). In total, SMEs employ around 100 million people and are viewed as the backbone of Europe’s economy and constitute the vast majority of economic activity (European Commission, 2016a; JPMorgan Chase & Co, n.d.). SMEs are acknowledged to play a key role in economies worldwide, generating not only employment, but also act as a key driver for economic growth, environmental sustainability (OECD, 2017), and the general health and welfare of economies (Morrison et al., 2003). Moreover, SMEs are central to the EU’s transition to a sustainable and digital economy by means of their “*innovative solutions to challenges like climate change, resource efficiency and social cohesion*” (European Commission, 2016a, p. 1). Similarly, SMEs are important to the Norwegian economy, acting as an inclusive umbrella term for startups and entrepreneurial activity in general (Skarbøvig, 2020). All start-ups, innovative or not, initiate life as an SME, and scaling their innovative potential requires attention to how the start-ups are controlled and steered towards maturity. Since SMEs make up a substantial part of the European and Norwegian economy, the management control of SMEs is a relevant issue for the country's economic

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<sup>1</sup> Scalability focuses on a system’s ability to decrease or increase in response to changes in demands and application (*Definition of Scalability - Gartner Information Technology Glossary*, n.d., p. 1).

growth, and its employment and industrial policy incentives as a whole. Hence, the argument is two-step: first, SMEs are of prime importance, and second, how SMEs are managed and controlled matters as a consequence.

Additionally, small enterprises are relevant for a country's competitiveness, in terms of innovation bringing new products or techniques into the market (Robu, 2013). In a world that constantly changes, SMEs possess an advantage in terms of globalization, as their size allows for rapid adjustment to market fluctuations (Robu, 2013). Similarly, the size of SMEs allows for rapid experimentation with flexible and innovative organizational structures and management processes that, in turn, enable the adoption and use of new technologies (Erdirin & Ozkaya, 2020).

## **1.4 Our Contribution**

The previous literature on Beyond Budgeting shows a focus as well as empirical evidence on large, resource-rich corporations. Few studies, if at all, have explored the possibilities of using BB in less resource-rich, small and medium-sized enterprises. Our initial review of BB literature resulted in identifying a research gap related to Beyond Budgeting; there exist literally no publicly available studies that address how SMEs use BB, if at all. Bjarte Bogsnes, chairman of the Beyond Budgeting Institute, argues that the Beyond Budgeting methods are just as relevant in SMEs as in larger corporations (Ledernytt, 2016). However, when looking at companies that have implemented Beyond Budgeting historically, very few of them are within the definition of SMEs.

We plan to fill this gap by means of a comparative multi-case study of two large corporations versus two SMEs, with both sets of firms using Beyond Budgeting, so as to identify the relative differences in the design and use of its overall approach and constituting instruments. Both SMEs and MNCs used in this Master thesis are Norway-based companies. While the SMEs solely operate in Norway, the MNCs are also operating overseas. Additionally, we will contribute with one case study of firms in a mature phase of their BB implementation, and another case study of firms in an introductory phase.

## 1.5 Shortcomings and Limitations

An essential part of the thesis is to highlight the shortcomings and limitations presented by this research paper. The number of interview respondents is limited, due to the selection of four companies in this comparative multi-case study. This has been amplified by the current pandemic, which caused busy schedules for some interview subjects, leading to a tight interview schedule and a lack of variations in employee occupation. Thus, employees in finance positions and leaders with decision-making authority ended up being the majority of interviewees. However, some interview subjects in operational positions are included to obtain a broader and more balanced view of the actual use of BB in the case of companies.

In addition, this multi-case study focuses on organizations in different phases of their implementation process. Two companies are in their introductory phase, *Hurtigruten* and *Tussa*, and two organizations are in a mature phase, *Entra* and *Equinor*. Therefore, this thesis takes into account that parts of the answers gathered from the interviewees in the introductory phase are plans for the future and the actual end result might change once the companies have implemented and examined their ideas in practice.

Furthermore, the case companies selected are of different sizes, both SMEs and MNCs. However, it was difficult finding companies that were small enough to meet the criteria for SMEs in terms of sales revenue and employees, which resulted in a lack of potential case companies. The companies chosen to represent SMEs in this multi-case study do not meet both criteria to be considered SMEs as the sales revenue exceeds the limit in the consolidated financial statements. However, both companies fit the definition of SMEs concerning the number of employees and sales revenue in the parent companies. Additionally, the chosen companies operate in different organizational sectors and might not be generalizable as some companies work under stricter regulatory compliance regimes than conventional private firms (*Equinor* and *Tussa*).

Finally, the time frame used on this Master thesis has to be taken into consideration. For a longer study, it would be possible with multiple rounds of interviews and an increased number of interview subjects. It is also worth mentioning that as students, a lack of research experience is expected, which could have influenced the answers received from our interviews.

## **1.6 Outline of the Thesis**

Our thesis consists of seven chapters, where the introductory chapter is included as the first chapter. The second chapter consists of a literature review where the focus has been on Beyond Budgeting and SMEs. Further, the third chapter revolves around the methodology used and the research design. Chapter four presents the companies used in this thesis and the focus lies on BB as a management control system, where Malmi & Brown's (2008) framework is used as a guideline. Following this, chapter five presents the main findings gathered from this multi-case study, analyzing the 12 BB principles using NVivo. Throughout the discussion in chapter five, the Beyond Budgeting principles are used to discuss the usage of BB in the different case companies in the light of the theoretical framework. Chapter six concludes this thesis and provides an answer to the research question. Lastly, in chapter seven suggestions for future research are provided.

## **2. Literature Review**

The purpose of this chapter is to present the theoretical framework for this thesis, where definitions and existing literature form the basis for the analysis. First, the chapter introduces previous literature on the topic of Beyond Budgeting. Following this, the chapter will focus on traditional budgeting and the related criticism. Thereafter, Beyond Budgeting is introduced as a solution to the issues related to traditional budgeting, followed by an identification of related risks and disadvantages. At the end of the literature review, SMEs will be defined, which is where the gap in recent literature exists, and the characteristics of smaller enterprises are introduced.

## 2.1 Present Knowledge and Core Research Literature References

Volatile and dynamic market conditions have contributed to adaptable management control systems that focus on innovation and flexibility (Bogsnes & Kaplan, 2016). In a world where uncertain events happen regularly, e.g., the coronavirus outbreak, there is an obvious need to respond in kind and increase organizational adaptability (Brown et al., 2020). Our core research references focus on dynamic management tools, such as rolling forecasts, that provide that necessary flexibility. More conventionally, we rely on previous research on Beyond Budgeting in general, on management control in SMEs, and on articles addressing the instrumental aspects of Beyond Budgeting.

The topic for our Master thesis found its original inspiration in the textbook *Management Control Systems: European Edition* (Anthony et al., 2014) which provides an overview of the criticism of traditional budgets, the main principles of Beyond Budgeting, and its instrumental aspects such as rolling forecasts.

A second core research literature reference consists of the book *Implementing Beyond Budgeting - Unlocking the Performance Potential* (Bogsnes & Kaplan, 2016) which addressed the implementations of Beyond Budgeting in a number of large corporations such as *Statoil* (now called *Equinor*) and *Borealis*. One of the book's authors, Bjarte Bogsnes, went on to set up the Beyond Budgeting movement (the Beyond Budgeting Round Table mentioned above), focusing on the implementation of the Beyond Budgeting principles and its related tools.

An overview of the available research on Beyond Budgeting is provided in *Beyond Budgeting: Research and Review Agenda* (Nguyen et al., 2018). This literature review article indicates there is little research done on several topics of Beyond Budgeting and directed the problem area of this Master thesis to Beyond Budgeting in SMEs. Although the literature review noted that Beyond Budgeting has received increasing scholarly attention in recent years, it suggests that the full picture of the theory has not evolved and is incomplete. One of the gaps in our present knowledge of Beyond Budgeting is on how it works in SMEs, if at all.

An empirical article that studies the implementation of the Beyond Budgeting principles in practice is *Management Control without Budgets: A Field Study of 'Beyond Budgeting' in Practice* (Østergren & Stensaker, 2011). This empirical

field study is based on a large multinational company with 30,000 employees worldwide, which implies that the focus of Beyond Budgeting is primarily on large MNCs. But is it? Are the BB principles and tools not equally applicable to smaller firms?

One of Beyond Budgeting's instrumental alternatives is the intensive use of rolling forecasts. Following up on our consideration that BB might also be applied in SMEs, a key research reference became the article *Rediscovering Rolling Planning: Controller's Roadmap for Implementing Rolling Instruments in SMEs* (Rickards & Ritsert, 2012). It discusses research on rolling forecasts in the settings of SMEs. When combining the BB field study with the instrumental focus on rolling forecasts, a possibility to advance on the current knowledge status is located in the application of Beyond Budgeting in SMEs.

But what does existing budgeting practice actually suggest? Is there no innovation, adaption, or flexibility? Is Beyond Budgeting actually needed according to the situation in practice? A research study that surveyed the budgeting practice in both the US and Canada attempts to answer that question; *Beyond Budgeting or Budgeting Reconsidered? A Survey of North-American Budgeting Practice* (Libby & Lindsay, 2010). It presents several counterarguments to the arguments provided by the co-founders of the Beyond Budgeting Round Table, Jeremy Hope and Robin Fraser. For example, North America-based companies did not fully agree with the statements that traditional budgets were too time-consuming and did not bring value to the company. As the study's authors underline "... we do not possess a robust understanding of budgeting that is capable of explaining the mechanisms or processes giving rise to satisfactory or unsatisfactory consequences of budgeting systems" (2010, p. 57). This statement we have to take into account in our further thesis research as implying that more field studies are needed.

More counterarguments can be found in the 'Better Budgeting' approach, which argues for the continued use of traditional budgets. 'Better Budgeting', for example, states that traditional budgets might be the correct approach for some companies, as well as that conventional budgeting can bring value to companies. Both opposing perspectives of budgeting and Beyond Budgeting were presented at a 'Better Budgeting Forum' in London in 2004 (CIMA & ICAEW, 2004). Out

of the clash of the arguments from both camps, it was observed that “*Financial managers say that budgets are important - and most report changes to the process in the last five years*” (CIMA & ICAEW, 2004, p. 11). In addition, improvements to the continuing of budgeting were put forward, such as: “*greater involvement of junior management in budgeting processes; more detailed analysis; and intensification of the use of budgets*” (CIMA & ICAEW, 2004, p. 11). Valid and strong as the arguments are, there is a strong likelihood that existing budgeting processes have developed further since this forum of 2004.

## **2.2 Traditional Budgeting**

The traditional budgets are viewed as the most powerful tool for management control systems, and it has been defined as the performance management process that leads to and executes a financial plan (Hope & Fraser, 2003; Réka et al., 2014). This process revolves around coordination and implementation of targets, rewards, action plans, and resources for the following year, and then systematically measuring and controlling performance against the factors (Réka et al., 2014). The budget is viewed as a forecast and a plan usually allocated for the forthcoming calendar or fiscal year, and the estimates are less reliable the longer the budgeting period (Shim et al., 2011; Wallander, 1999). Primarily, the focus of the highly structured budgeting process is to support management's implementation of strategies, in addition to planning and controlling of operational measures (Rickards, 2006).

According to Marquette and Fleischman (1992), the budgeting methods were initially introduced by municipal reformers of the ‘progressive era’ and were thereafter embraced by businesses for planning and control purposes. The authors focused their studies on budgeting and cost accounting in the US from the 1890s to the 1920s and concluded that the budgeting method is a relatively new innovation that was introduced and refined during the first three decades of the twentieth century as a result of business- and governmental synergies. However, it was not until the 1920s that budgeting became common practice for American businesses (J. R. Edwards & Walker, 2009; Marquette & Fleischman, 1992). The introduction of budgeting came to the US by McKinsey which published a series of articles on the topic of business budgeting including a book called *Budgetary*



*Control* (McKinsey, 1922) that attempted to present the topic of budgeting as a whole (Marquette & Fleischman, 1992).

Ever since the 1920s when budgets emerged to control costs and cash flows, it is considered to hold key positions in organizations planning and control (Hope & Fraser, 2003; Rickards, 2006). Today, most organizations continue the use of traditional budgets as a planning tool and there are several reasons as to why budgeting remains popular (Anthony et al., 2014). Organizations use budgeting to fulfill different purposes, and the meaning of the tool is specific for each organization and arises in different contexts (Anthony et al., 2014; Asogwa & Etim, 2017; S. C. Hansen & Van der Stede, 2004). It is difficult to cover every purpose an organization has to use budgeting, but the purposes of budgeting are generally separated into the following groups: planning, accountability, process, and ritual (Anthony et al., 2014). Even though the above-mentioned purposes can be accomplished by using other tools besides budgets, the focus in this section will revolve around the purpose of traditional budgeting.

### *Planning*

Planning involves a process of deciding the organization's actions during the budgeting period, and resource distribution and coordination are important aspects involved in the planning role of budgeting (Anthony et al., 2014). An estimate of the number of resources needed to follow the plan will be allocated to each business department. Budgeting will also serve the purpose of ensuring that all parts of the organization are aligned on the same goals and follow the same plan.

### *Accountability*

Budgeting also has an accountability role as managers prepare budgets for their respective parts of the organizations and are expected to comply with their budgets (Anthony et al., 2014). The role includes monitoring and motivation where managers need to make sure the subordinates are working in accordance with the budgets at all times and have specific goals to strive for. Both roles might be in conflict as too much monitoring might decrease the motivation to reach company-specific goals.

### *Process*

Traditional budgets are tied to the budgeting process and the initial budget itself might be limited, as circumstances may change after the preparation of budgets (Anthony et al., 2014). Even though the budget is of less value, useful activities that might have been performed during the preparation of the budgets such as reflection and communication might prove to be extremely valuable.

### *Ritual*

The final role of the budget is the ritual, which means that the budgets itself are not used for management control but for reasons such as habits and legitimacy of existing decision-making powers (Anthony et al., 2014). When budgeting for a substantial period, one can forget the purpose of budgets. The budgeting process has become an activity that is taken for granted and might be done just to be viewed as a professional and serious organization. Often, the management team and the owners are used to having a budget and are pushing the continuous use of it, as the management wants to know how much money to receive at the end of the calendar year.

## **2.3 Critiques of Traditional Budgeting**

Budgeting is viewed as the cornerstone of the management control process, but despite its widespread use, the traditional budgeting approach is far from perfect (S. Hansen et al., 2003). Traditional budgeting is reliant on the past, and critiques of traditional budgeting state that it cannot keep up with the changes in the market and serves no use for business management (Réka et al., 2014). Critics claim that budgets quickly get outdated, making them a less useful tool in uncertain market conditions (S. Hansen et al., 2003). For example, during the mid-1970s, changes in oil prices and inflationary pressures changed the organizational competitiveness which caused a need for a management control tool that takes volatile market fluctuations into consideration (CIMA, 2007). To stay aligned with this modern business environment, alternatives to traditional budgeting have emerged that encourage planning beyond months and years (Hope & Fraser, 2003; Réka et al., 2014). In recent years, Beyond Budgeting, better budgeting, rolling forecasts, and activity-based budgeting are viewed as the most suited alternatives to traditional budgeting (Réka et al., 2014). Even though our Master thesis will focus mostly on

Beyond Budgeting, it is important to mention that other alternatives have emerged as critiques and alternatives to the traditional budgeting method.

Complaints about the budgeting process are problems rooted in the entire management model (Bogsnes, 2013). Common complaints are regarding the work involved with traditional budgeting, the budgets being meaningless and a yardstick for performance, while others worry about how the management tool prevents a fast response on value-adding opportunities. Typically, the budgeting process absorbs a huge amount of time and resources and is viewed as an annual ritual that is deeply embedded into the organization (Hope & Fraser, 2003). This ritual turns business decisions into unethical exercises in gaming the numbers, provides poor value for companies and often leads to dysfunctional behavior (Hope & Fraser, 2003; Jensen, 2001). All of the complaints are consequences of a management approach that ignores the dynamic and unpredictable business reality (Bogsnes, 2013).

Amongst the critics of budgeting, Robert S. Kaplan and Thomas H. Johnson (1987) were the first ones in the late 1980s. The authors claimed that the use of management accounting systems, where the key component is the budget, was inadequate in an environment with rapid changes, and that the use was not providing management with useful and timely information (H. T. Johnson & Kaplan, 1987). Since then, critics against the traditional budgets itself started in the late 1990s where researchers called for an end of the budgeting process and suggested alternative concepts to the current procedure (Rickards, 2006).

Wallander (1999) argues that traditional budgeting is outmoded as the conclusions are based on assumptions that reach into the future, which are either commonplace or wrong. The traditional budgeting process has been viewed as broken (Jensen, 2001), a thing of the past (Gurton, 1999), or an unnecessary evil (Wallander, 1999).

Jan Wallander has an important role in the critiques to traditional budgeting and was the CEO of the Swedish bank called *Handelsbanken* for eight years and a board chairman for thirteen, starting in 1970 (BBRT, 2016c; Handelsbanken, n.d.). He introduced a unique and radical management model to the bank in the early 1970s, where he removed all budgets and decentralized the organization

(BBRT, 2016c; Libby & Lindsay, 2006). Wallander believed that the budgeting process prevented management from understanding factors influencing the future, and by scrapping the budget and decentralizing the organization, *Handelsbanken* performed better than competitive banks during the banking crisis in the 1980s (Bjørnenak, 2010). The 12 Beyond Budgeting principles introduced later in this paper (Figure 2) were inspired by *Handelsbanken*'s management model (BBRT, 2016c). Bjarte Bogsnes, chairman of Beyond Budgeting Round Table Europe, is also a vocal critic of traditional budgeting (Bjørnenak, 2010). In his contribution, one is not only concerned with the inability to say something about the future but argues that budgets do not contribute to value-creating management.

It is important to mention that the majority of organizations still use budgets as a planning tool until this day, devoting a substantial amount of attention to both the preparing and the follow-up of budgets despite the critique (Anthony et al., 2014).

## **2.4 The Beyond Budgeting Model**

The Beyond Budgeting concept is attributed to Jeremy Hope and Robin Fraser, as both are considered to be the founding fathers of the BB model and the Beyond Budgeting Round Table (referred to as BBRT) (Réka et al., 2014). In recent years, several professionals have contributed to the evolution of the model, including Bjarte Bogsnes (Bogsnes, 2016) (Bogsnes & Kaplan, 2016). Hope and Fraser (2003) believed that traditional budgeting was fundamentally flawed at a time where few shared similar views, and argued that the radical decentralization philosophy of Jan Wallander in *Handelsbanken* was their greatest source of inspiration in the creation of the Beyond Budgeting model. Based on companies' own experiences and frustration with traditional budgeting, a set of common principles were identified as a solid foundation that has later become the Beyond Budgeting model (BBRT, 2016a; Réka et al., 2014). This alternative model is an adaptive and more decentralized way of managing organizations compared to the traditional budgeting method, and the principles introduced are meant to guide organizations rather than providing a checklist to follow (Réka et al., 2014).

Instead of putting a new management control tool into the business, Beyond Budgeting is unique in the sense that “*it involves the process of taking something powerful out to make room for something even more powerful*” (Hornngren, 2003,

p. xi). The purpose of Beyond Budgeting is not necessarily to eliminate all budgets but to create more agile and human organizations, which require a radical change in the existing management culture and performance management systems (BBRT, n.d.; Réka et al., 2014). The main goal is to eliminate needless bureaucracy and liberate organizations from the command and control of traditional management approaches (BBRT, 2016a; Bogsnes, 2016). Organizations that have implemented the Beyond Budgeting philosophy have made their information systems more forward-looking, by adopting tools such as rolling forecasts that are more open and transparent as compared to traditional budgets (Hope & Fraser, 2003).

In 1997, the BBRT was established as a response to the growing dissatisfaction with the traditional budgeting method (Réka et al., 2014). At the time, 33 companies joined the BBRT to find out if the Beyond Budgeting model was more suitable than traditional budgeting and the BBRT has evolved ever since (Hope & Fraser, 2003).

The goal of the BBRT is to improve the firm's overall performance by implementing global best practices in planning and control. Beyond Budgeting consists of a set of guiding leadership and management principles that will help organizations manage their performance without the need for traditional budgets and are separated into leadership and management principles (Réka et al., 2014).

The overall purpose the principles serve is to guide and inspire organizations to implement the Beyond Budgeting journey, as it represents a management philosophy rather than a management recipe to follow (Bogsnes et al., 2016). Alignment between the 12 BB principles enables transferring autonomy to lower-level employees which, in turn, leads to increased motivation, higher productivity, and better customer service. Organizations that adhere to the principles are stated to transform their management model and convert it into adaptive and empowered organizations that are more agile and perform better (BBRT, 2016a). In the following sections, the principles will be introduced that suggest changes in the way organizations lead and manage, and we will use existing research to try to elucidate the principles as well as verify if any scholarly research exists that corroborates either the claims or any of its constituting arguments. This is

necessary to show critical reflection and distancing ourselves from the topic, thus avoiding any form of evangelism or blind adoption of claims.

#### **2.4.1 Purpose**

*“Engage and inspire people around bold and noble causes; not around short-term financial targets”* (BBRT, 2016b). ‘Purpose’ is promoted by the BBRT as one of the most important requirements for employee engagement as a shared purpose provides meaning and excitement (BBRT, 2016a). Instead of seeing purpose as a bold and noble cause, which is difficult to grasp, purpose can be defined as *“a concrete goal or objective for the firm that reaches beyond profit maximization”* (Henderson & Van den Steen, 2015, p. 327). Looking at Gartenberg et al.’s (2019) study on the relationship between corporate purpose and financial performance, the authors found no relation between the two. When looking closer at high-purpose companies, two types of firms were discovered, one type showing high camaraderie among workers and one type with high clarity from management. Findings from the study showed that high-purpose affected financial performance when combined with high clarity. *“These results suggest that firms with midlevel employees with strong beliefs in the purpose of their organization and the clarity in the path toward that purpose experience better performance”* (Gartenberg et al., 2019, p. 2). One can therefore say that purpose has little effect if there is no clarity from management on how to reach this goal or objective. When relating this to the bold and noble cause definition of purpose, it can be difficult for managers to provide clarity on the path towards that definition of purpose. Therefore, it is important to maintain a high degree of communication within the organization. The importance of communication is also highlighted in other principles where it is important both in the communication of targets and values further down into the organization. Additionally, communication is important to avoid conflicting interests with customers and in the resource allocation process to ensure that sufficient resources are used to create value. Hence, and as far as the BBRT’s ‘Purpose’ principle can be interpreted in terms of bold and noble causes, existing scholarly research rejects the claimed relationship with performance. However, combined with high clarity in communication, there exists a relationship between purpose and performance.

## 2.4.2 Values

*“Govern through shared values and sound judgement; not through detailed rules and regulations”* (BBRT, 2016b). Connected to the principle of ‘Purpose’, the BBRT suggests directing employees to a common cause by means of shared values with a focus on autonomy and freedom rather than being controlled by rules and regulations (BBRT, 2016a). Value based management (VBM) creates the need of aligning employee values with company values and involves the transformation of making employees think and act in a way similar to the owners (Martin & Petty, 2001). *“Our findings suggest that strategic values are motivating to employees to the extent that they reflect employees’ internal affective, normative, and task-oriented values, a zone of existing values”* (Paarlberg & Perry, 2007, p. 387). This claim is further supported by Liedtka (1989), who claims that the most frequent type of conflict occurs in situations when organizational values are clear but are not consistent with the employees’ personal values. Research supports that being comfortable with personal values seems to mitigate the negative consequences caused by conflicts between personal and organizational values (Posner & Schmidt, 1993). Hence, having an understanding of personal values is of great importance. Additionally, when feeling a sense of commitment to the organization, employees are able to experience a higher degree of stress without being weakened by them (Maddi & Kobasa, 1984). Therefore, it is important to align company values with personal values.

Today, several organizations develop value statements that are hard to translate into specific job behavior and can be viewed as ambiguous and even irrelevant to motivate employee behavior in reaching the objectives (Miller & Yu, 2003). Therefore, having clear, understandable, and relevant organizational values is of importance to bring people and resources together to achieve common goals. Miller and Yu (2003) also highlight the importance of different values in different industries and sectors, and the desired values for an employee are different depending on which job position the employee fulfills. It is equally important to mention that the values can be shaped by interacting with other employees and managers, and are dynamic and not static (Bourne & Jenkins, 2013; Paarlberg & Perry, 2007). Hence, existing scholarly research does not confirm the claimed relationship between performance and governing employees by means of shared values. However, academic research highlights the importance of aligning

personal values with company values that are clear and relevant to achieve common goals, hence, highlighting the importance of the ‘Values’ principle.

### 2.4.3 Transparency

*“For all that transparency does to drive out wasteful practices and promote collaboration and shared learning, too much of it can trigger distortions of fact and counterproductive inhibitions”* (Bernstein, 2014, p. 60). A high degree of transparency in a company is related to trust, which generally leads to more productivity, creativity, and overall boosting the business performance (Done, 2019). Transparency is rarely used in a negative context; however, it is relevant to consider the side effects of having too much transparency (Bernstein, 2012). For example, a study conducted by Bernstein (2012) expected to find that transparency improved performance, however, the relationship showed itself to be more complex, giving rise to the ‘transparency paradox’: a high level of transparency can make employees feel exposed, resulting in employees actively concealing work activities by means of codes, thus reducing both productivity and transparency. As a result, Bernstein (2012) proposed to strike a balance between privacy and transparency, by creating company zones of privacy where employees can test new ideas and approaches. This has shown to increase employee performance, when introducing *“four types of boundaries: around teams of people (zones of attention), between feedback and evaluation (zones of judgment), between decision rights and improvement rights (zones of slack), and for set periods of experimentation (zones of time)”* (Bernstein, 2014, p. 60). This creates areas where employees expect and want transparency, while still allowing for a level of privacy. BBRT recasts transparency into a guideline that states *“Make information open for self-regulation, innovation, learning, and control; don’t restrict it”* (BBRT, 2016b). Transparency, or accurate use of observability of lower-level employees and their behavior and routines, provide a foundation for learning and control that drive productivity within an organization (Bernstein, 2012). However, as far as the BBRT’s ‘Transparency’ principle can be interpreted in terms of the non-restricted flow of information, existing scholarly research rejects the claimed relationship with performance, and suggests introducing four different types of boundaries.



#### **2.4.4 Organization**

*“Cultivate a strong sense of belonging and organise around accountable teams; avoid hierarchical control and bureaucracy”* (BBRT, 2016b). The purpose of BB is to create more agile and human organizations with agile organizations defined as organizations that *“can detect and respond to environmental threats and opportunities”* (Tallon & Pinsonneault, 2011, p. 473). In terms of scholarly validation, Lehn (2021) proposes in his study on corporate governance and corporate agility, that there is an inverse relationship between agility and centralized decision-making power, such that avoidance of hierarchical control and bureaucracy might be a natural part of an agile organization. The inverted relationship between agility and hierarchical control is corroborated by Tallon & Pinsonneault (2011) who found support for the idea that performance will be more directly affected by agility in organizations operating in more volatile settings. Furthermore, Cegerra-Navarro et al. (2016) study the role of organizational agility on structured knowledge processes and firm performance, and conclude that *“organizational performance strongly depends on pre-existing organizational agility and on the previous implementation of a serial linear knowledge process facilitating acquisition, conversion, and application”* (Cegarra-Navarro et al., 2016, p. 1548). Hence, and as far as the BBRT’s ‘Organization’ principle can be interpreted in terms of organizational agility, existing scholarly research confirms the claimed relationship.

#### **2.4.5 Autonomy**

*“Trust people with freedom to act; don’t punish everyone if someone should abuse it”* (BBRT, 2016b). Autonomy *“can be considered an arena that nurtures exploration as a source of change and adaptiveness”* (Espedal, 2017, p. 156), where exploration is loosely defined as the search for new knowledge. However, we found little existing research linking autonomy in organizations with organizational performance. Aharoni et al. (1978) specify that *“achievement of autonomy may be advanced by organizational performance”*, such that if a manager identifies and concentrates efforts on ‘dominant environmental components’, there will be a spillover that affects autonomy. Thus, identifying that the relationship between performance and autonomy exhibits a reversed causality, meaning that performance drives autonomy, and not the other way around. ‘Autonomy’ is closely related to the BBRT principle of ‘Organization’,

where the focus lies on decentralization of decision-making to teams with employees having more autonomy to act, reducing bureaucratic rigidity, and increasing organizational flexibility.

Decentralization of decision-making to teams requires accountable teams. Being accountable is defined as *“having liability for ensuring a task is satisfactorily done”* (McGrath & Whitty, 2018, p. 702) while being responsible refers to *“accepting an obligation to satisfactorily perform a task”* (McGrath & Whitty, 2018, p. 701). Accountable teams depend on interrelationships between teams and between individuals. A ‘collective mind’, which *“results in individual actions converging in joint action aimed at meeting the overall interest”* (de Leede et al., 1999, p. 207), is necessary for teams to be held accountable. The article argues that a team can carry responsibility for outcomes, which never could be carried by individuals. Certain organizational and individual factors must be present to be able to hold a team accountable. On the organization level: *“norms and values of the organization, procedures for decision making, training and selection, and availability of resources”* (de Leede et al., 1999, p. 209) are mentioned as preconditions for team responsibility. Norms, as a precondition, draw certain similarities to Merchant’s concept of action accountability, which is a *“feedback control system by which employees are held accountable for their actions”* (1982, p. 45) involving work rules, policies and procedures, and codes of conduct. However, action accountability is a more formal level of control of actions. Hence, and as far as the BBRT’s ‘Autonomy’ principle can be interpreted regarding performance, existing scholarly research disconfirms the claimed relationship, specifying that performance drives autonomy, and not the other way around.

#### **2.4.6 Customers**

*“Connect everyone’s work with customer needs.; avoid conflicts of interest”* (BBRT, 2016b). By constantly providing customers with a better experience and understanding customers’ needs, companies will experience long-term organic profit growth and improved customer solutions as an outcome (Barwise & Meehan, 2011). Research shows that there is a significant correlation between satisfaction of customers on both the financial and market performance (Williams & Naumann, 2011). Customer Need Knowledge (CNK) describes how frontline

employees can identify a customer's needs, and it is confirmed that the CNK increases with longer relationships with the customers which is beneficial for both parties. Further, higher levels of CNK are associated with higher customer satisfaction and an increased willingness to pay. Therefore, frontline employees develop a high understanding of customer need knowledge which is related to the customer-employee interface.

Customers are not *owned* by the interfacing sales function in organizations, but by all employees delivering services and completing tasks. Hence, customer satisfaction is considered a driver that is located and owned across the organization, turning customer satisfaction into a communication platform across otherwise silo-ed functional domains. A silo occurs in an organization when departments or groups withhold information and knowledge from other departments and lack cross-unit communication, thus creating conflicts of interest within the organization. This creates a ripple effect, which, in turn leads to dissatisfied customers, failure to meet customer requirements and affects innovation, customers, teams and departments (Mohapeloa, 2017). Hence, and as far as the BBRT's 'Customer' principle can be interpreted in terms of organizational agility, existing scholarly research confirms the claimed relationship.

#### **2.4.7 Rhythm**

*“Organise management processes dynamically around business rhythms and events; not around the calendar year only”* (BBRT, 2016b). The principle of 'Rhythm' refers to business cycles rather than the reporting cycles driven by the calendar and used for external reporting. Previous research suggests that disruptions in organizations are associated with uncertain business cycles, which suggests that companies must recognize business cycles in their risk management decisions (Tang, 2006; Wagner et al., 2017). The main focus of research has been on the relationship between business cycles and credit risk (Koopman & Lucas, 2003) or market risk (Whitelaw, 2000) as two subsets of cycles - credit cycles and event cycles (Wagner et al., 2017). The first is related to monetary policy and inserting liquidity into the national economic system. The latter relates to disruptive events that tend to be covered as part of risk management. As far as we are aware, there is no specific study that shows an advantage of business cycle

reporting over traditional calendar reporting, and empirical studies do not support that business cycle reporting is increasing a company's performance. However, it can be argued that regular investor relations (IR) phone conferences insert much of particular events cycle and business cycle information into the periods between quarterly reports, thus precluding the need for separate business cycle reporting. Hence, and as far as the BBRT's 'Rhythm' principle can be interpreted in terms of business cycles, existing scholarly research does not confirm the advantage.

#### **2.4.8 Targets**

*"Set directional, ambitious and relative goals; avoid fixed and cascaded targets"* (BBRT, 2016b). As an organization itself cannot have any goals on its own, goals and targets are related to owners or other stakeholders (Anthony et al., 2014).

Targets can assist organizations to clarify their goals, strategies, and expectations, and are often used to motivate employees in the form of incentives, as targets are linked to performance evaluations (Van der Stede & Merchant, 2017). There is a consensus that the use of plans without well-formulated targets lacks *"rationale, strategies lack relevance, actions lack direction, projects lack accountability, and organisations lack purpose"* (Ogbeiwi, 2017, p. 324). Thus, for a goal to be effective the target must be formulated properly using a clear and logical structure.

Targets focus on how to translate strategic goals into lower-level goals and targets. Kruglanski et al. (2002) describe the interconnection of an organization's goals as a goal system. *"In a goal system, some goals sit at a higher level of abstraction (superordinate, reflecting the 'why'), while others may be more concrete (subordinate, reflecting the 'what'), together forming goal hierarchies"* (Gagné, 2018, p. 85). Gagné's (2018) motivational model of organizational goal pursuit (Figure 1) focuses on goals on an organizational level and how the goals are translated to an individual level. While this model does not focus on team and unit levels, there is an underlying assumption that similar processes that affect the cross-level influence in the initial version of the model, applies to team and unit cross-level influence as well. Self-determination theory is an underlying factor in this model, which emphasizes that the effort people put into their work is based on different reasons (Deci, 1985). Therefore, for employees to understand and adopt an organization's goal, it is necessary for the individual employees to translate or

adapt strategic goals into goals and targets on an individual level by means of the deliberation and implementation phases. “*The goal deliberation phase deals with the what and why, while the implementation phase deals with the how, when and where of goal pursuit*” (Gagné, 2018, p. 99). Further, this translation of goals is also relevant on a team level, where each team and unit focus its efforts on goals and targets that states how employees can contribute to the overall company strategy.

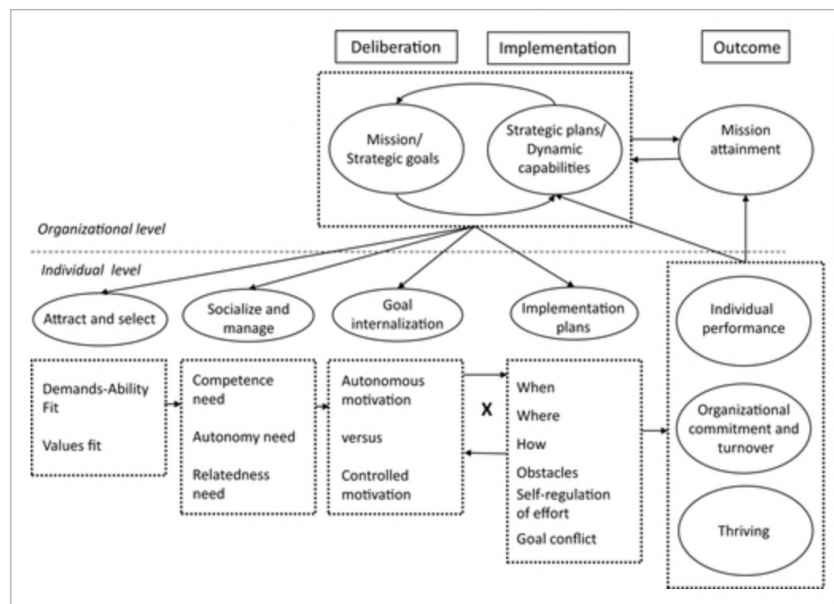


Figure 1: Motivational Model of Organizational Goal Pursuit (Gagné, 2018)

Different frameworks exist on how to create goals and targets. One approach is the SMART framework, where the goals are stated to be: Specific, Measurable, Assignable, Realistic, and Time-related (Doran, 1981) in order for the goals to be effective. Having clear goals that are achievable can lead to an increased performance compared to the *just do your best* mindset (Franco-Santos et al., 2010). Lately, non-financial measures such as customer loyalty are included in addition to financial targets, which is considered to ultimately affect profitability positively and provide an improved view of the firm’s performance as it also includes a firm’s intangible value (Ittner & Larcker, 2003). However, there are side effects to using goals. For example, a problem occurs when employees pursue multiple goals simultaneously, and participants prioritize quantity goals over quality goals when the goals are difficult to achieve (Ordóñez et al., 2009). Moreover, the goals can be defined too narrowly which might result in employees

being blind to important issues that are not directly related to the goal, also known as ‘myopia’.

The Balanced Scorecard (BSC) is a well-known framework that includes the use of goals and targets. Key Performance Indicators (KPIs) are measurements used to measure the achievement of strategic objectives. *“The measures represent a balance between external measures for shareholders and customers, and internal measures of critical business processes, innovation, and learning and growth... The measures are balanced between the outcome measures - the results from past efforts - and the measures that drive future performance”* (R. S. Kaplan & Norton, 1996b, p. 10). While the BSC separates the strategic objectives as goals from the measures (KPIs) with targets, a known problem is that targets become the goals, and in turn, the goal reduces to a series of metrics/KPIs, also known as means-end reversal, where the means of measuring the achievement of strategic goals end up as the goals themselves. Hence, and as far as the BBRT’s ‘Targets’ principle can be interpreted in terms of translating strategic goals into lower-level goals and targets, existing scholarly research confirms the claimed relationship. Additionally, the importance of having clear goals is supported by academic research, however, the dangers of means-end reversal and myopia are emphasized as important to be aware of.

#### **2.4.9 Plans and Forecasts**

*“Make planning and forecasting lean and biased processes; not rigid and political exercises”* (BBRT, 2016b). Forecasting is *“predicting the future as accurately as possible, given all the information available, including historical data and knowledge of any future events that might impact the forecasts”* (Hyndman & Athanasopoulos, 2018, p. 14). The purpose of using forecasting is to get a realistic outlook of the future to reduce uncertainty, while the forecasts as such are intended to link the short-term plans with strategic goals (Lamoreaux, 2011). Rolling forecasts are forecasts that are adjusted quarterly and are advocated to be the main substitute for the annual budgets (Ekholm & Wallin, 2011). It is argued that flexible methods like rolling forecasts provide better decision-making in terms of more informed decisions regarding capacity and use of resources for future value creation (Leon, 2012). Research suggests that forecasting has an impact on both customer satisfaction and cost efficiency (Kalchschmidt et al.,

2010), which might incentivize companies to start using forecasting. However, there are also drawbacks to the use of forecasting as it can counterintuitively introduce a perception of uncertainty as the forecasts are changed regularly (Ekholm & Wallin, 2011).

In the BB line of argument, forecasting replaces budgets and the budgeting process. When removing the budgets, a company also impacts the power dynamic present in budget negotiations. Who holds the power now that the budgets are gone? The Principal-Agent theory exists within the budgeting process (Hagen, 1997), where agents and principals can have diverging interests. With the removal of budgets, the finance department will lose its powerful role as the arbiter next to its role as generator and owner of the budgeting tool. Thus, the political nature of the budgeting process is affected with a power vacuum being created that needs to be filled, and a new coalition of tool owners will arise. Certain actors may therefore resist BB implementation as the change to BB may affect the power dynamics within the company. Boonstra & Gravenhorst (1998) present five perspectives of power dynamics that are related to organizational change. In the third perspective, the focus lies on “*the power of interdependent groups working in organizations*” (Boonstra & Gravenhorst, 1998, p. 104). The dimension of centrality, which is the degree to which other departments depend on that actor, will change, and the authors suggest ‘conflict management and negotiation’ as a solution to support the change process within this perspective. Hence, and as far as the BBRT’s ‘Plans and Forecasts’ principle can be interpreted in terms of flexible methods, existing scholarly research confirms the claimed relationship with customer satisfaction and cost efficiency. However, changes require consciousness regarding Principal-Agent theory and power dynamics.

#### **2.4.10 Resource Allocation**

“*Foster a cost conscious mind-set and make resources available as needed; not through detailed annual budget allocations*” (BBRT, 2016b). Resource allocation is a fundamental element in businesses and strategic management (Maritan & Lee, 2017). Previous research on resource allocation has focused on the resource allocation process, corporate capital allocation, and specific types of resource allocation. In a literature review, Maritan & Lee (2017) acknowledge that the developments of the research on resource allocation as a process have been

lacking in recent years. One of the most well-known models, created by Bower (1970), defines the resource allocation process as a multistage process.

*“The first stage, labeled definition, is cognitive in nature and begins with some trigger, such as a performance shortfall or a perceived opportunity that leads operating managers to initiate an investment project and characterize it in technical and economic terms. This is followed by the second stage, labeled impetus, in which social and political forces govern the actions of middle managers who decide whether or not to support a proposal and direct it through the organization’s evaluation and approval system”* (Maritan & Lee, 2017, p. 2412). Based on Bower’s model on the resource allocation process, Burgelman (1983) includes the strategic context for resource allocation. It is specified *“that the outcomes of resource allocation can subsequently change the intended strategy and, therefore, the strategic context for future allocation decisions”* (Maritan & Lee, 2017, p. 2413). Showing that resource allocation is an important factor that can impact the success rate of a company’s strategy.

A method for decisions on resource allocations is evaluations with the use of panels. Stauth et al. (1993) focus on the Panel Evaluation Method, which is a method developed for controversial and complex resource allocation proposals. This method uses a cost-benefit analysis, in addition to assessing the environmental impact of each proposal. Multi-criteria decision analysis is another method one can use for assisting with resource allocation decisions (Castro Jaramillo et al., 2016). The criteria will change depending on both company and industry but can be of assistance when comparing proposals against each other. Resource allocation panels can bring together people with different knowledge and experiences, which can also be referred to as cognitive frames (S. Kaplan, 2008). *“Predominant collective frames were not known a priori, but rather emerged as products of interactions”* (S. Kaplan, 2008, p. 737). Thus, outcomes of such resource allocation panels are decided using the collective knowledge and experience of the panel group utilizing the interactions facilitated by the panel and pre-decided criteria.



In organizations, the allocation of financial and human resources is one of the most important responsibilities of managers (Friebel et al., 2009). Organizations that reevaluate and regulate where resources are allocated frequently are shown to deliver more value to the company and higher returns (Atsmon, 2016). Such a dynamic resource allocation is defined as: *“shifting money, talent, and management attention to where they will deliver the most value to your company”* (Atsmon, 2016, p. 4). The dynamic reallocation of resources is crucial in good economic times, but even more essential during economic downturns (Hall & Kehoe, 2013). Organizations dynamically reallocating their resources performed better and experienced higher and less variable returns in both normal working conditions and when faced with uncertainty such as in the financial crisis of 2008 (Fruk et al., 2013). In the context of a company’s underlying barriers that block strategy, the need to delegate resource decisions to the relevant business teams that work closely to the action is similarly emphasized (Beer & Eisenstat, 2000). Thus, research highlights the benefits of allocating resources as needed with the allocation occurring by employees working close to the action, and close to the customer-employee interface, which is what the BBRT’s ‘Resource Allocation’ principle can be interpreted as.

#### **2.4.11 Performance Evaluation**

*“Evaluate performance holistically, and with peer feedback for learning and development; not based on measurement only and not for rewards only”* (BBRT, 2016b). Theory on performance evaluation and performance measurement has developed throughout the years (Innes, 2004). The critiques against financial performance measurement have been several, described as both inward-looking and backward-looking, in addition to short-termism and managing by the numbers, and focusing on just one stakeholder, the shareholder (Innes, 2004, pp. 813–814). Since the early 90s, several multidimensional<sup>2</sup> performance measurement models have been developed. Examples are The Result and Determinants Framework (Brignall et al., 1991), The Performance Pyramid (Cross & Lynch, 1992), and The Balanced Scorecard (R. S. Kaplan & Norton, 1992) each of which measure performance along several dimensions, focusing on both

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<sup>2</sup> Several dimensions of measurement, both financial and non-financial

the external and internal environment in which the business operates, as well as the business mission and strategy (Innes, 2004, p. 826).

When implementing a performance measurement system, three questions must be answered:

*“What measures? A balanced set of measures across ... the set of dimensions.*

*What targets? These should be set by ensuring they are owned by those held accountable; that they are achievable; that they are equitable between units.*

*What rewards? The bases for these should be clear; they should motivate those concerned; they should relate to matters controllable by those affected”* (Innes, 2004, p. 826).

In short, the three questions above and the answer capture the goal of performance measurement, managing or enabling performance. Performance measurement will therefore often be linked with the company’s strategy, such that the measures incorporated in the system are directly connected with the strategy and will steer the company in that direction (R. S. Kaplan & Norton, 1996a, p. 53). However, linking performance to a set measure creates an issue often mentioned as Goodhart’s Law, but simplified in Strathern (1997, p. 308): *“When a measure becomes a target, it ceases to be a good measure”*, meaning that people might optimize towards certain measures or even manipulate measures, especially when related to evaluation or rewards (Mattson et al., 2021). Emphasizing the means-end reversal, which is also a topic under the perspective of ‘Targets’.

An alternative method for performance evaluation is benchmarking.

*“Benchmarking is the practice of being humble enough to admit that someone else is better at something and being wise enough to learn how to match and even surpass them at it”* (APQC & Ctr, 1993; Rolstadås, 1994, p. 212). Jarrar and Zairi (2000, p. 739) found that consistent and common goals and aligning best practices to corporate objectives were the most critical factors for effective benchmarking. The heterogeneity of each company outlines a limitation when it comes to the transfer of best practices. In *Best Practice Transfer: Unleashing the Value Within*, Dehoff et al. (2001) takes a look at the transfer of best practices in large organizations and highlights that large organizations do not need to look further

than their doorstep to locate best practices and benchmarks, i.e., practice internal benchmarking.

Benchmarking also links to individual performance appraisal. Johnson (1998) emphasizes benchmarking as a method of making self-regulation credible, which tends to use rankings in homogeneous categories of jobs and work design. In the more recent years, several software programs have been developed for Human Resource Management (HRM), where companies can evaluate employee performance and give feedback, linking individual performance to company strategy. A case study by Sardi et al. (2020) found that the performance measurement/management systems *“analyzed reveal easily accessible and transparent performance measurements, which favour self-performance management. Furthermore, they respond to an actual challenge through a system to engage people”* (Sardi et al., 2020, p. 599).

Groen et al.’s (2017) study *High Job Performance Through Co-Developing Performance Measures with Employees* shows evidence that when employees participate in creating or developing their own performance measures, links to better job performance. Firstly, co-development leads to higher quality measures. Secondly, the employee feels in control over the performance measurements, which in turn leads to increased job performance. However, the co-developed metrics had no effect of using them for monetary or nonmonetary rewards (Groen, Wouters, et al., 2017). Thus, moving away from performance evaluation based on fixed targets only is validated by existing scholarly research, and as far as the BBRT’s ‘Performance Evaluation’ principle can be interpreted in terms of holistic performance evaluation, researchers recommend the use of benchmarking and co-development.

#### **2.4.12 Rewards**

*“Reward shared success against competition; not against fixed performance contracts”* (BBRT, 2016b). Rewards that are performance-dependent are a form of incentive systems that help align employees’ interests with the organization’s objectives and are often referred to as bonus schemes (Van der Stede & Merchant, 2017). Rewards and compensation systems are aiming at increasing motivation and performance by aligning company-specific goals and activities with personal

ones (Bonner & Sprinkle, 2002). Reward and incentive systems have become an overly dominant part of MCS because of Economics theory's '*homo economicus*', also referred to as Theory X by Douglas McGregor (1957), which implies that people only work for incentives, notably money. '*Homo economicus*' model of rational economic man assumes that humans act to maximize their own self-interests and utility; both utilizing monetary and non-monetary gains (Rankin, 2011). The diametric opposite of Theory X is Theory Y which implies that people hold desires to work and adopt responsibilities out of intrinsic motivation and interest. The concept of BB aims to rebalance Theory X with Theory Y by suggesting that companies might benefit from not controlling employees by incentives and stick-and-carrot approaches but rather create conditions that enable achievements of goals as propelled by people's own creativity and insight (Douglas M, 1957). To do so, the organization can facilitate an environment where "*people can achieve their own goals best by directing their own efforts toward organizational objectives*" (Douglas M, 1957, p. 207). One possibility is motivating employees by means of individual goals where the individual employee is involved in the process of setting targets. There is also a possibility of giving employees a higher degree of freedom to direct their own activities, motivating by means of interesting work assignments.

The concept of the gain-sharing approach in HRM literature has received a growing popularity as firms are working closer together in teams, and it is a form of incentive system that links financial rewards to performance of the organizational unit as a whole, thus by group outcomes (Welbourne & Mejia, 1995). It is proven that individual bonuses more often than not lead to unsatisfactory outcomes, and gainsharing is viewed as a superior approach to collaborative organizations. According to Pouliakas and Theodossiou (2009), there is a positive correlation between gainsharing and employee satisfaction, however, individual incentives did not have the same effect. Hence, and as far as the BBRT's 'Rewards' principle can be interpreted in terms of increasing employee motivation by means of collective bonus schemes, existing scholarly research confirms the claimed relationship. Therefore, a focus on Theory Y, the focus on intrinsic motivation, is more important than an incentive-focused Theory X.

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

Figure 2. The 12 Beyond Budgeting Principles (Beyond Budgeting Institute, n.d.-b)

## 2.5 Beyond Budgeting Challenges

As illustrated above, Beyond Budgeting claims to have several advantages compared to traditional budgets (Réka et al., 2014). However, the advantages are as yet too unconvincing to most organizations to adopt BB as a replacement of traditional budgeting, which continues to be dominant in most companies (Libby & Lindsay, 2010; Rickards, 2006). The main reason why the implementation of BB has not evolved to all organizations might be because the 12 principles are too generally formulated and offer too few operational cues for adoption and implementation. One might even argue that the BB principles combine already existing management principles and market them as bundled goods (Rickards, 2006). Hence, to assess the adoption and implementation of BB, reversing the argument might be needed, working from existing practical experiences with the implementation process towards substantiating the BB principles in a more specific and operational manner.

For the most part, the Beyond Budgeting movement and the BBRT have presented their founders as pioneers in the field (Bogsnes et al., 2016). However, how novel can one say that the concept of Beyond Budgeting is? Are the thoughts behind the concept groundbreaking, or is it in many ways, ideas used in other types of management control? For example, the concept of 'Business Agility' and 'Agile Management' contains certain similarities to BB, where the dynamic and

uncertain environment for business is an important focus (Weber & Wild, 2005). Weber and Wild (2005, p. 410) present workflow modeling and case-based reasoning and learning as important factors in 'Agile Management'. Workflow modeling holds certain similarities to the principle of 'Rhythm' in BB, where both focus on organizing management around a workflow/business process, although workflows are more abstract than business processes. The BB principle of 'Transparency' can in some ways be recognized in case-based reasoning. However, case-based reasoning and learning in 'Agile Management' focus on learning from former cases, while transparency emphasizes that information should be open and easy to access.

Further, BB has certain similarities with Objectives and Key Result (OKR). Based on the system called Management by Objectives (MBO) created by Peter Drucker, Andy Grove, the CEO of *Intel Corporation* adopted the system into *Intel* but adapted it into what is recognized as OKRs today (Niven & Lamorte, 2016). Niven & Lamorte (2016, pp. 7–8) break down the definition of OKR and explain OKRs as a critical-thinking framework that requires commitment to ensure that employees work together to focus their efforts on the critical business objectives. Results are often said to be measurable, and OKRs, therefore, focus on making measurable contributions in order to drive the company forward. "*An objective is a concise statement outlining a broad qualitative goal designed to propel the organization forward in a desired direction*" (Niven & Lamorte, 2016, p. 8), while results should measure the achievement of an objective. Provided this explanation of OKRs, there is some overlap with BB regarding metrics-based learning and improvement.

The Beyond Budgeting philosophy has been proposed as a significant concept in the budgeting advancement that will revitalize the management accounting contribution in operations and performance management (Goode & Malik, 2011). However, one of the greatest challenges of the Beyond Budgeting model, according to CIMA (2007), is that managing an organization without a budget can create several problems, as there will be no specified framework to follow for the planning, coordinating, and controlling of business activities. Without a plan or a road map to follow, organizations can lose their direction. Additionally, it might be difficult for organizations to eliminate budgets completely, as the budgeting

process has been ingrained in the business culture since the 1920s (Goode & Malik, 2011). Therefore, less extreme and radical shifts in the management systems can be favorable, such as the ‘Better Budgeting’ model.

It has been claimed that the traditional budgets are dysfunctional, and companies have been encouraged to use flexible budgets instead. However, a study conducted by Ekholm and Wallin (2011) indicates that there is a positive correlation between using both a traditional budget and a flexible budget, suggesting that the budgets should be seen as complements rather than rivals. Similarly, Libby and Lindsay (2010) argue that most organizations prefer to improve their budgeting process instead of eliminating it completely. Both findings advocate the use of the ‘Better Budgeting’ method and suggest that budgeting is not broken and merely needs a repair and/or more appropriate use.

## 2.6 Definition SMEs

The research literature available on SMEs does not offer any universally accepted definition of SMEs, and a number of definitions of the concept coexist (Robu, 2013). For example, the Norwegian Employees Association NHO defines SMEs as organizations with less than 100 employees (NHO, n.d.), while the EU defines an SME as a mix of headcount, sales revenue, and total assets. More specifically, a firm is classified as an SME when it has a headcount of less than 250, a sales revenue of € 50 million or less, or a balance sheet total of € 43 million or less (European Commission, 2016b). This definition of SMEs is appropriate to use beyond the jurisdiction of the European Union and does not limit itself to the geographical scope (Berisha & Pula, 2015). For the purpose of this Master thesis, we choose to use the definition of small and medium-sized enterprises (SMEs) as defined by the EU recommendation 2003/361 illustrated in Figure 3 below (European Commission, 2016b). Adoption of this definition allows us to compare the SMEs against multinational corporations within the whole of Europe.

Company Category	Staff Headcount	Sales Revenue	or	Balance Sheet Total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Figure 3. SME Classification (European Commission, 2016b)

## **2.7 General Characteristics of SMEs**

We have previously mentioned that Beyond Budgeting on the topic of SMEs is inadequate. However, this is not the only area lacking from today's literature on SMEs. Despite the widespread importance and impact of SMEs in the global economy, literature regarding SMEs in practice is limited (Keats & Bracker, 1988; OECD, 2017). Furthermore, the available literature on the topic of SMEs tends to treat them as smaller variants of larger businesses (Keats & Bracker, 1988). However, Danridge (1979), Robinson and Pearce (1984) suggested that SMEs differentiated from larger corporations in many respects, such as the management characteristics, the number of resources available, and the range of strategic opinion (Keats & Bracker, 1988). Typically, SMEs possess certain characteristics that differentiate them from Multinational Corporations (MNCs), which we will introduce in the following (Mc Cartan-Quinn & Carson, 2003).

Even though SMEs are smaller in size compared to larger organizations, their operation cannot be categorized as simple or requiring less expertise (Patterson, 1986; Shrader et al., 1989). Patterson (1986) argued that the management of smaller businesses is even more challenging than the management of larger corporations, as SMEs must deal with limited resources in response to environmental constraints. Despite the disagreements of one universally accepted definition of SMEs, it is a widespread acceptance in the SME literature that organizations show common qualitative features; SMEs lack needed resources and have limited opportunities (Bocconcelli et al., 2018; Mulford et al., n.d.). Under resource constraints, SMEs tend to be more flexible and encourage creative and innovative behavior compared to larger resource-rich organizations (Evans & Moutinho, 1999). Typically, SMEs tend to be evolutionary, and generally face continuous uncertainty without formal plans (Bennett, 1993). The employees working in SMEs are viewed to be more motivated, provided with more autonomy, and work closely with the leader of the enterprise. Hence, SMEs tend to be more decentralized than larger enterprises.

Motwani, Jiang, and Kumar (1998) highlight how SMEs differentiate from larger corporations in terms of the operational priorities and the authors have synthesized related literature on the characteristics of SMEs. Smaller corporations have an advantage over the larger organizations in terms of flexibility, innovation, and



overhead costs, while being limited by the lack of resources, minimal market power, and capital (Motwani et al., 1998). Additionally, smaller organizations are associated with less extensive networks with a limited impact on their respective markets as well as having less tolerance for inefficiency compared to larger and more established firms (Dandridge, 1979; McGaughey, 1998).

## **2.8 The Management Control Systems Package**

Malmi and Brown (2008) structures management control systems around five groups: planning, cybernetic, reward & compensation, administrative and cultural controls, which shows that MCS are not just about control but rather the control of human behavior in organizations (Dobrowolski et al., 2021; Pagliarussi & Leme, 2020). There are several reasons as to why it is important to follow Malmi and Brown's typological framework and study management control systems as a package. The main reason to follow this typology is that MCS does not operate in complete isolation, and practices should be studied as a whole as control systems are part of a broader picture (Chenhall, 2003; Malmi & Brown, 2008). We will follow this typology of control categories as a guide for data collection and organize observations later on in the case analysis of the thesis. In the following, we will present the five controls presented by Malmi & Brown in the management control systems package separately in detail.

### *Planning Controls*

Planning is an 'ex-ante' form of control that first and foremost sets out the goals and plans for the organization and its future (Flamholtz et al., 1985). Utilizing the goals and plans aligns the direction in the functional parts of the organization (Malmi & Brown, 2008). In addition, it directs effort and behavior in the company and spells out the expected level of effort and behavior from employees. Planning can take part in an organization in the short, medium, and long run, and planning control is useful as it enables coordination between business functions. When researching this control, the background and process that form the planning processes are important factors to understand.

### *Cybernetic Controls*

Cybernetic control is defined as a “*process in which a feedback loop is represented by using standards of performance, measuring system performance, comparing that performance to standards, feeding back information about unwanted variances in the systems, and modifying the system’s comportment*” (Green & Welsh, 1988, p. 289). Malmi and Brown (2008) have argued that cybernetic controls are strongly connected with management control. The cybernetic controls are divided into four different types of systems: budgets, financial measures, non-financial measures, and a combination of financial and non-financial measures, and represent what we most closely recognize as the basic forms of control (Malmi & Brown, 2008). A common control is when employees are held accountable for financial measures that can be related to the budget. However, the non-financial measures are increasingly more significant in modern times according to Malmi and Brown (2008), as non-financial measures can be used to overcome limitations and problems that the financial measures imply. Lastly, the Balanced Scorecard is an example of a hybrid system that contains both financial and non-financial measures (Malmi & Brown, 2008).

### *Cultural Controls*

According to Malmi and Brown (2008), culture is viewed as a control when it is being used to regulate behavior, which is why managers can decide to use culture as a control system. In the following, we will consider three categories of organizational culture that are used as MCSs: value-based controls, symbol-based controls, and clan controls (Malmi & Brown, 2008). The value-based controls are used by senior managers to communicate value, purpose, and direction for the organization and the subordinates, and are based on Simons’ (1995a) belief systems. It is argued that the values have an effect on behavior on three levels where the first includes the recruitment of employees with values that match the organization. The second level is when employees adopt the company values by means of socialization and influence. Lastly, the third level has to do with values that are communicated to the employees, but the employees do not adhere to the values personally but behave in accordance with them. The symbol-based controls are visible expressions in the organizations such as workspace design and dress codes created to convey a particular business culture. Distinct subcultures in organizations can be labeled as clans, which leads us to the last group of cultural

control. Clan control revolves around the idea that individuals are exposed to socialization that establishes a set of skills and values in a person's mind. Central to this control is that values are established using ceremonies and rituals of the clan.

#### *Administrative Controls*

The administrative control system has the intention of directing employee behavior by monitoring employees and making them accountable for their actions (Malmi & Brown, 2008). In the Malmi & Brown (2008) framework the administrative controls are divided into the following groups: organization design, governance structures and policies, and procedures. Organizational design and structure are important control devices, as different structural types within organizations can encourage a particular type of relationship (Malmi & Brown, 2008). Numerous researchers have suggested that organizational design and structure should not be included as a part of organizational control, however, Malmi and Brown (2008) have included it as it is considered to be something managers can change. The authors of this framework described governance structure as a part of the broad structure and composition of the company, in addition to all the different management and project teams (Malmi & Brown, 2008). Further, Malmi and Brown (2008) define the governance structure as a way managers can direct employee behavior using formal lines of authority and accountability. Here, meetings and meeting schedules are significant to enable the coordination of organizational activities between different business units. Lastly, the use of policy and procedures is the bureaucratic approach to specify the wanted behavior in organizations and include rules and behavioral constraints.

#### *Reward and Compensation Controls*

Reward and compensation controls are systems focusing on increasing and motivating the performance of groups and individuals in the company (Malmi & Brown, 2008). Rewards are often related to cybernetic controls. When changing the cybernetic controls there is a focus on changing the reward system as well, as we see with the BB principle of 'Rewards' in Chapter 2.4.12. However, other reasons why organizations use rewards exist, and reward and compensation are therefore presented as their own element. Hearing the terms rewards and compensation will often direct our thoughts to monetary incentives like bonuses,

but rewards can be both extrinsic and intrinsic on an individual and group level (Flamholtz et al., 1985).

### **3. Methodology**

The purpose of this chapter is to describe the research design and the methodology used to investigate our problem statement. The research design is meant to guide the research, answering how to study the research questions, i.e., what questions to study, what data are relevant, what data to collect, and how to analyze the results (Philliber et al., 1980). Hence, the below chapter will explicate our proposed plan for answering our research question. In addition, this chapter clarifies the methods used for data collection and elaborates on the approaches used to ensure data quality, including our use of NVivo as an analytical tool.

#### **3.1 Research Design**

The research design acts as the bridge between the problem statement, literature research, and the theoretical positioning of the research question on one side, and the empirical data collection, analysis, and discussion on the other side.

According to Creswell (2014), research methods can be either qualitative, quantitative, and mixed. The qualitative and the quantitative research methods are not supposed to be polar opposites, but rather represent two ends of a spectrum. A mixed methods research incorporates aspects of both approaches and lies in the middle of the spectrum (Creswell, 2014, p. 4). A qualitative approach is chosen for this Master thesis, as it provides the flexibility of choice needed to answer the research problem. Unlike the quantitative approach, a qualitative research method relies primarily on human perceptions and understanding (Stake, 2010). There are several different types of qualitative research designs available to choose from, with the decision criterion being based on the research question; for example, does the research study require control of behavioral events, and whether the research study focuses on contemporary events (Saunders et al., 2016, p. 720).

The research can be designed to fulfill an exploratory, descriptive, explanatory, or evaluative purpose, or a combination thereof (Saunders et al., 2016, p. 174).

An exploratory research design *“is a valuable means to ask open questions to discover what is happening and gain insights about a topic of interest”* (Saunders et al., 2016, p. 174). Since there is little to no research done on the chosen research question, an exploratory design was elected to gain insight and familiarity with the topic of Beyond Budgeting in SMEs. However, as the comparative multi-case study of Beyond Budgeting in SMEs versus Beyond Budgeting in MNCs was conducted, the purpose of the research design became dual; it became evaluative as well as exploratory. *“The purpose of evaluative research is to find out how well something works”* (Saunders et al., 2016, p. 176). Looking at the use of BB in SMEs as compared to how it is used in MNCs, the scalability of the BB principles and novelty of BB in each enterprise might need to be evaluated. Therefore, the aim is a combination of exploratory and evaluative purposes when it comes to the research design.

For answering the problem statement, it was decided that the use of the multi-case study method was best fitted for answering the research question (Yin, 2009, p. 24). Yin (2018) emphasizes that the more a research question seeks to explain some contemporary circumstance, the more case study research will be relevant. Furthermore, case study research is best suited when asking *how* and *why* questions as compared to, for example, randomized controlled trials (RCTs) or survey questionnaires. Since previous research on the subject of Beyond Budgeting in SMEs is absent, an exploratory approach such as the case study research method is best suited.

### **3.2 Comparative Multi-Case Study**

Yin (2009) distinguishes between single or multiple cases and holistic or embedded case study strategies. As the research question is based on comparing several firms, the chosen research design is a comparative case study.

*“Comparative case studies involve the analysis and synthesis of the similarities, differences and patterns across two or more cases that share a common focus or goal”* (Goodrick, 2014, p. 1). According to Yin (2009), it is important to choose cases that highlight your research question.

*“You need sufficient access to the potential data, whether to interview people, review documents or records, or make observations in the “field”. Given such access to more than a single candidate case, you should choose the case(s) that will most likely illuminate your research questions” (Yin, 2009, p. 38).*

To increase the external validity of this study, two cases were chosen where Beyond Budgeting is used in SMEs and two cases where Beyond Budgeting is used in MNCs. Two cases are chosen in each category to strengthen the basis of ‘analytic generalization’ from the case studies (Yin, 2018). Analytic generalization explains the concept where the goal is to generalize and expand theories from a case study (Yin, 2009, 2018).

Yin (2018) defines external validity as showing how and whether findings from a case study can be generalized. The cases are selected on the basis that analytic generalization is a methodological goal for the study, creating a basic theory that is open for subsequent verification, thus giving the case study external validity (Eisenhardt & Graebner, 2007). As a basis, case studies are especially useful in exploratory research to provide understanding and recognize patterns in and across cases. Central in a multi-case study is replication logic; the research design allows for a replication strategy that increases the finding’s external validity. Here, each experiment in a multi-case study serves as a replication, contract, and extension to theory. Challenges with a multi-case study can be mitigated by means of the exact use of language and a well-considered research design, for example, interview techniques to limit information bias, and theoretical sampling of cases. Additionally, Eisenhardt and Graebner (2007) specify that arguments composed in comprehensible statements and well-presented evidence in tables and appendices are important to mitigate predictable challenges. When researchers can mitigate the challenges often connected with case study research, theories that cross over from qualitative evidence to conventional deductive research which quantitatively verifies a priori-developed hypothesis are developed.

Garfinkel (1967, 2002, 2006) contributed to the ethnomethodology (EM) - informed research approach which was taken further in *The End(s) of Ethnomethodology* (Pollner, 2012). Earlier work of Garfinkel (and others) is

described as EM 1.0, while more recent development in the field is referred to as EM 2.0 (Pollner, 2012, p. 10). The EM 2.0 perspective, which focuses on the core activities in a company and “*focuses on the “foreground” matters of interest to practitioners*” (Pollner, 2012, p. 10) is adopted by O'Grady and Akroyd (2016) in a single case study in a non-budgeting organization. Transferring this to our comparative multi-case study, a combination of the EM-informed research with the MSC package created by Malmi and Brown (2008) is used, further enabling a focus on the interviews and analysis on core activities and foreground matters in each case company due to time constraints.

The management control systems (MCS) package created by Malmi and Brown (2008) has previously been used by O’Grady & Akroyd (2016) as a typology for the case study on *Mainfreight*, a logistics company from New Zealand that was created without budgets. Ensuring a holistic view on the research process, it is emphasized that this approach to structure within a research methodology, allows the researchers “*to consider a wide range of control systems that managers and accountants ... could use to “support organisational objectives, control activities, and drive organisational performance” (Malmi and Brown, 2008, p. 288)*” (O’Grady & Akroyd, 2016, p. 5). Analyzing the MCS package used by each of the four companies in our comparative multi-case study ensures a similar base for analyzing our research question, without directly leading the interviews into covering all of the 12 principles of BB.

<b>Cultural Controls</b>						
Clans		Values			Symbols	
<b>Planning</b>		<b>Cybernetic Controls</b>				<b>Reward and Compensation</b>
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
<b>Administrative Controls</b>						
Governance Structure		Organisation Structure			Policies and Procedures	

Figure 4: Management Control Systems Package (Malmi & Brown, 2008)

Further ensuring the MCS package as an appropriate typology, is that the cases are selected to predict similar results, based on ‘configurational replication’.

Malmi and Brown in *Management control systems as a package - Opportunities, challenges and research directions* (2008) describe ‘configurational replication’ as companies that have the same configuration of MCS. Configuration, in this sense, is a package concept consisting of the elements illustrated in Figure 4.

“Therefore, two packages may have contrasting elements, yet do the same job, as a result of internal consistency between the chosen elements in each of the packages” (Malmi & Brown, 2008, p. 296). Organizations will have distinct designs and histories. However, since internal consistency exists between the elements in the packages, it will be possible to compare companies as long as the same model of configuration is shared. Two of the companies chosen, one MNC and one SME, have fully implemented BB and are in a mature phase, while the two others, one MNC and one SME, are in the early stages of implementation with 2021 being their first year without a budget. Researching by means of the package concept ensures that even if the companies have adopted some contrasting elements, the configurational replication that exists makes the comparative analysis possible.

### **3.2.1 The Case Study Protocol**

To facilitate a higher degree of reliability in case study research, a case study protocol should be prepared before the data collection starts (Yin, 2009, p. 80). In addition to containing the questions prepared for the cases, the protocol contains the general rules and procedures that should be followed (Yin, 2009, p. 80). The case study protocol is divided into four sections, each dedicated to a part of the case study. The first section, section A is dedicated to the background of the case study, containing the relevant background information, an overview of the issues, and the relevant literature. Section B covers the data collection procedures, while section C focuses on the protocol questions. Yin (2009, p. 86) specifies that “*the questions in the case study research protocol should distinguish clearly among different types or levels of questions*”. In section D, one presents a preliminary outline for the report or paper. Yin also comments on the fact that a case study protocol is essential if doing case study research that contains multiple cases (Yin, 2009, p. 80).



In Appendix A the outline and selected detail of our case study protocol are presented. To protect our sources, the logistical details of the interview process in section B have been removed. Section C contains our interview guide and protocol questions. Yin (2018) specifies that it is important to divide questions into five levels of questions.

*“Level 1: questions asked of specific interviewees;*

*Level 2: questions asked of the individual case (these are the questions in the case study protocol to be answered by the investigator during a single case, even when the single case is part of a larger, multiple-case study);*

*Level 3: questions asked of the pattern of findings across multiple cases;*

*Level 4: questions asked of an entire study—for example, calling on information beyond the case study evidence and including other literature or published data that may have been reviewed; and*

*Level 5: normative questions about policy recommendations and conclusions, going beyond the narrow scope of the study” (Yin, 2018, p. 86).*

Inspired by Yin (2018), we prepared some level-2 questions, which are questions that represent our line of inquiry (Unit of analysis). The level-2 questions are the ones we will use when analyzing the gathered material, to ensure that the information we collect from each case can be used to find the patterns or differences and similarities across the four cases. Further, the level-1 questions presented in the interview guide in Appendix A, are based on the MCS package. The initial inspiration of our questions was collected from an interview guide created by O’Grady and Akroyd used in: *The MCS package in a non-budgeting organisation: a case study on Mainfreight* (2016). We were fortunate to receive the interview guide used directly from the authors of the paper. To further validate our interview guide, it was sent to two experts, one CFO in a traditional budget-using company and one scholar in the field of BB, so as to triangulate<sup>3</sup> that the questions would not be guiding our findings in one direction and introduce response bias.

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<sup>3</sup> Triangulation, the use of more than one source of data, is a method for increasing the validity or authenticity of research studies or an interview guide (Saunders et al., 2016, p. 207)

This method of creating and validating the interview guide was inspired by the framework for the development of a qualitative semi-structured interview created by Kallio et al. (2016).

### **3.3 Data Collection**

The evidence collected in this Master thesis is mostly based on semi-structured interviews, as well internal documents retrieved directly from the interviewees and publicly available information online. However, the main method for data collection has been qualitative interviews.

#### **3.3.1 Qualitative Interviews**

Interviews are considered as one of the most important methods of data collection with regards to case studies (Yin, 2009, p.101), and qualitative interviews are used as an umbrella term for methods where the researchers learn information from participants by means of conversations (deMarrais & Lapan, 2003, p. 52). Each conversation is unique in a qualitative interview, where the researchers match the questions according to the research object's knowledge and what the interviewees are willing to share (Rubin & Rubin, 2005, p. 4). By means of a guided conversation involving follow-up questions, the goal is to construct a comprehensive understanding that reflects the participant's experiences and in-depth knowledge (deMarrais & Lapan, 2003). Even though we will use an interview guide as a basis for our interviews, it will not be used as rigidly as we want to maintain the possibility for probes and keeping the interview subjects uniquely tied to the interview conversation.

Qualitative interviews are categorized as: structured interviews, semi-structured interviews, and in-depth (or unstructured) interviews (Saunders et al., 2016, p. 390). This thesis use semi-structured interviews as a basis, which *“usually includes closed-ended and open-ended questions, is prepared; but in the course of the interview, the interviewer has a certain amount of room to adjust the sequence of the questions to be asked and to add questions based on the context of the participant's responses”* (Zhang & Wildemuth, 2009, p. 1). A list of themes and questions to be discussed needs to be prepared before the interview, and a semi-structured interview allows flexibility and the possibility to ask follow-up questions. The structure of our qualitative interview is based on a framework that

divides the interview guide and questions into the following categories: introduction, opening questions, core in-depth questions, and closure (Arthur & Nazroo, 2003).

### **3.3.2 Selecting Case Study Companies**

When deciding which companies to use for our case study we reached out to the BBRT and were provided with a list of potential companies that were known to use Beyond Budgeting. However, when searching for potential case companies we found that it was difficult to find companies that fit the selection criteria of being an SME. The two companies ultimately selected to represent SMEs in this case study, do fit the criteria of medium-sized companies when it comes to the number of employees; however, both companies have sales revenue above the EUR 50 million amount used as the definition of SMEs (see Appendix D). However, as smaller-sized companies knowingly using Beyond Budgeting were not available, the *Tussa Group* and *Entra Group* in this thesis represent the views of medium-sized companies and our best approximation of SMEs.

### **3.3.3 Conducting the Interviews**

The interviewees are employed in different positions in the case companies and cover both management positions as well as employees actively using Beyond Budgeting in day-to-day in operational practice. Including operational staff that are not in management positions, increases the validity of our findings as based on triangulation of evidence. We made sure that we had a wide range of interviewees in different positions with different perspectives to gain as much complementary information as possible. Each interviewee was selected using what is called a 'snowball technique', where the researchers find potential interviewees by means of other informants (Noy, 2008). In most cases, we obtained the contact information of the CEO/CFO from the BBRT and subsequently acquired the remaining interviewees from this point of entry.

For example, in the case of *Hurtigruten*, we were provided with a total of three interviewees, with a mix of employees in financial and operational positions. In the case of *Tussa*, we were provided with four interviewees, all in management positions within HR, IT, and Finance while *Entra* provided us with three interviewees in finance and HR positions, and *Equinor* provided us with four

interviewees. In the latter case, we interviewed employees in both performance management, HR and operational positions. We completed a total of 14 interviews as indicated in the interview calendar schedule as mentioned in Figure 5 below.

The interviews were conducted in the period between January to April 2021, depending on interviewee calendar availability. We tried to complete one case company before moving onto the next case company, so as to build an accumulatively rolling insight into the BB phenomenon. Ahead of the interviews, the interviewee received the interview guide to be able to prepare in advance and to gather any information ahead of time. Both researchers were included in all of the interviews, and we interviewed the respondents individually to ensure a high validity and avoid group dynamics.

Respondent	Company	Position	Duration (min.)	Date
1 & 2	Hurtigruten (MNC)	FP&A Manager and Analyst	30	29.01.2021
1	Hurtigruten (MNC)	FP&A Manager	59	19.03.2021
2	Hurtigruten (MNC)	FP&A Analyst	53	19.03.2021
3	Hurtigruten (MNC)	Manager Expeditions	53	07.04.2021
4	Tussa (SME)	HR-Manager/ Head of Organization	62	17.03.2021
5	Tussa (SME)	Financial and Digitalization Manager	65	18.03.2021
6	Tussa (SME)	CEO Tussa Subsidiary	52	18.03.2021
7	Tussa (SME)	CFO	45	22.03.2021
8	Entra (SME)	CFO	60	30.03.2021
9	Entra (SME)	Group Controller	62	07.04.2021
10	Entra (SME)	HR Manager	47	08.04.2021
11	Equinor (MNC)	Senior Advisor Performance Framework	67	09.04.2021
12	Equinor (MNC)	VP Exploration	59	14.04.2021
13	Equinor (MNC)	Senior Analyst Performance Management	56	14.04.2021
14	Equinor (MNC)	Senior Adviser Executive Leadership Development	45	16.04.2021

Figure 5: List of Interview Subjects/Calendar Case Schedule (Generated by Authors)

### 3.4 Methodological Rigor and Validity Criteria

*“A reconceptualization of the concept of validity in qualitative research is illustrated through the explication and differentiation of primary criteria, secondary criteria, and techniques”* (Whittemore et al., 2001, p. 529).

Krefting (1991) defines rigor as the assessment of trustworthiness, a term which in quantitative research has been recognized as assessing the validity and reliability of the research design and accompanying outcomes. The conventional scientific criteria of rigor used in quantitative research create concern when used in a

qualitative research design (Sandelowski, 1986, 1993). Quantitative research is deductive in nature, while qualitative research has an inductive approach using analytical exploration. It is therefore necessary to use other criteria of validity in qualitative research, as using the same criteria for both types of research design could cause issues (Sandelowski, 1993; Whitemore et al., 2001).

Several authors contributed to the debates on qualitative research and legitimacy in terms of criteria of validity and academic rigor (Bosk, 1979; *Issues of Validity in Qualitative Research*, 1989; Maxwell, 1992). While some replace the term validity and propose other alternatives, others change the definition of validity to one more befitting to qualitative research. For example, in *Validity in Qualitative Research* (Whitemore et al., 2001), the authors reconceptualized validity as a concept, including criteria combining some of the alternatives proposed in earlier-dated articles, see Figure 6 mentioned below.

### 3.4.1 The Primary Criteria of Validity

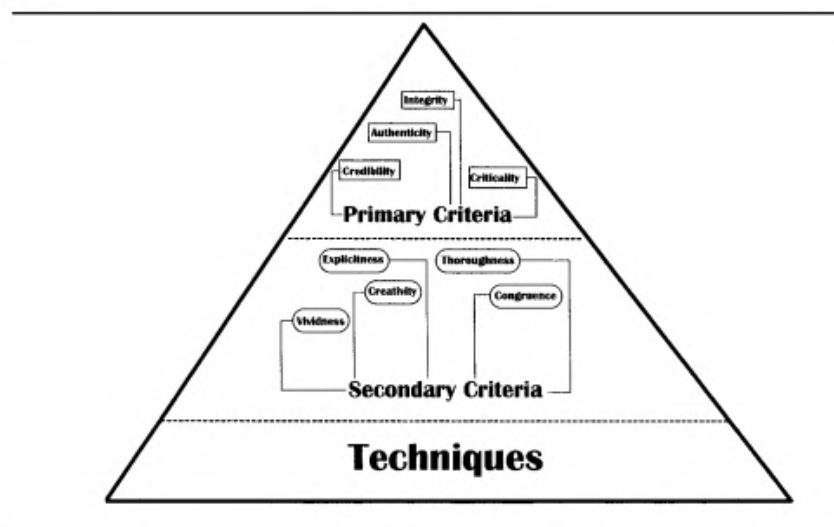


Figure 6: Contemporary Synthesis of Validity Criteria in Qualitative Research (Whitemore et al., 2001, p. 530)

This paragraph introduces the validity criteria created by Whitemore et al. (2001). Notably, the primary criteria for validity are considered to be credibility, authenticity, criticality, and integrity, while secondary criteria are explicitness, vividness, creativity, thoroughness, congruence, and sensitivity. The separation into primary and secondary criteria, although both are necessary for all qualitative

research, each one is insufficient in itself. Secondary criteria are included as further benchmarks to attain a higher credibility of research methodology and subsequent findings (Whittemore et al., 2001, p. 529). Our research design is created to include both the primary and secondary criteria for validity. Throughout the research design of our study, the focus has been on complying with the primary and secondary criteria. While all primary criteria establish a focus on the interpretation and analysis of data, the following three subchapters elaborate on how the primary criteria of validity was established throughout the research design and research process. The subsequent subchapter describes our use of the secondary criteria.

### *The Role of the Researcher and Researcher Error*

Whittemore et al.'s (2001) primary criterion on authenticity is defined as the effect and influence the inquirer has in understanding and explaining the experience of interviewees, while the criterion of integrity focuses on the critical reflection of the researcher. Both criteria relate to the role of the researcher and the term researcher error, defined by Saunders et al. as "*any factor which alters the researcher's interpretation*" (2016, p. 203). Researcher error is minimized by keeping a high degree of structure during the interview and preparing well in advance to reduce the chance of misunderstandings. The main issue of researcher error is looking for confirmation of pre-existing interpretations, which is close to confirmation bias. In general, there are six general abilities that are important for the role of the researcher: listening, asking good questions, knowing the topic of study, caring about data, doing parallel tasks, as well as preserving (Yin, 2011).

Listening includes judging the respondent's mood, expected friendliness or aloofness, body language, and intonations in the respondent's voice. It is important to listen to what the interviewee is saying, as opposed to dominating the conversation with our own words to gain insights. It is more difficult to analyze a respondent's body language when conducting a virtual interview as opposed to an in-person, face-to-face interview, but the use of video recordings makes it less challenging to analyze the interviewee's facial expressions and intonations. Throughout the interview process, we used video recording as a tool to ensure a higher level of validity, focusing on the primary criteria. Transcribing the interviews for further analysis gives another level of validation, as it introduces a

separate analysis by means of a thorough review of the interviews. It is, however, important to capture the contextual detail when transcribing interviews, as some non-verbal actions and features can change the interpretation (Bailey, 2008).

Research data has emerged from listening, transcribing, and asking good questions to the interview subjects. Without good questions, there is an increased risk of collecting extraneous information, while missing critical information. Implementing the frameworks by Yin (2018) and Kallio et al. (2016) ensures a higher quality of questions and reduces the risk of missing some critical information, while focusing all questions on the purpose of the interview, all though this can be challenging when using semi-structured interviews as a method of data collection. Thus, requiring knowledge about the topic to ensure that follow-up questions do not divert from the line of inquiry. Furthermore, a high level of knowledge reduces the risk of misunderstandings during the interview and misinterpretation of data.

Great care was taken of the acquisition, storage, and processing of our data in terms of privacy. Data collection procedures to ensure safety was implemented from the start, as the use of interviews requires the collection of some personal data. The detailed plan for this is presented in the Case Study Protocol (Appendix A), where we complied with the mandatory guidelines from BI Norwegian Business School and NSD on data privacy. When writing a thesis where personal data is collected and stored it has to be applied for at NSD, the Norwegian Center for Research Data, to ensure that the project is in accordance with the required regulations (NSD, n.d.). The research paper was written and saved in an online shared document to eliminate the possibility of losing the material.

#### *How to Handle Interview Bias*

Our interviewees represent one side of the budgeting discussion, and the interviewees all work for companies that have implemented BB; thus, making it likely that our interviewees will not provide non-supportive information regarding BB. Therefore, there is an underlying interview bias threatening the validity of our interviews. Hence, it is important to remove other types of bias, such as interview bias, interviewee bias, and participation bias, to reduce concerns about the reliability of our interviews (Saunders et al., 2016, p. 397). The mentioned biases

relate to the primary criteria of integrity and criticality, where it is important that the *“interpretation is valid and grounded within the data”* (Whittemore et al., 2001, p. 531). Saunders et al. (2016) define interview bias as situations where the interviewer affects the way interviewees respond, caused by nonverbal behavior, tone, or comments from the interviewer. Participation bias may result from the nature of the individual who agrees to be interviewed, while interviewee bias is bias caused by the interviewee’s perception of the interviewer. With the interviews being held as electronic interviews utilizing video conferencing and not in person, it reduced the amount of non-verbal communication and interview bias. Interviewee bias is harder for interviewers to reduce, as it is difficult to affect an interviewee’s perception of the interviewer. However, as the interviewees are willing participants in the interviews, we believe that there is a reduced chance of interviewee bias, although we are aware that companies always want to show their best side when speaking with persons outside the organization. Participation bias was reduced by letting the interviewee select the time for the interview.

#### *Coding of our Interview Data*

The coding of interview data relates to the primary criteria of criticality and integrity, where NVivo was used to implement a level of critical analysis (Whittemore et al., 2001). Coding *“comprises a range of actions for interacting with data across the span of a research project, through which names create links between data segments and ideas”* (Richards & Morse, 2013, Saldana, 2016). Drawing inspiration from Locke et al. (2020), our coding consisted of three different coding practices, loosely described as actions within the coding process: first, organizing the interview data to allow for coding, then constructing codes, before combining coding categories into causal patterns of understanding. The qualitative data analysis software program NVivo was used to organize the interview data for coding, importing the transcribed interviews into the software package. The initial approach was based on ‘open coding’, using the five levels of controls from the MCS-as-a-package (Malmi & Brown, 2008) to create the top dimension categories, and adding interview data to the categories. After this was completed, to highlight common themes from the interviews, we created word clouds in NVivo around each category of codes. Subsequently, the common themes were used for ‘axial coding’, consisting of shaping and reshaping our framework of understanding by means of mind-map-inspired visualizations of the



coding categories. In addition, ‘axial coding’ purports to add hierarchically structured subcategories to the five categories we began with during our open coding process (Scott & Medaugh, 2017).

The ‘axial coding’ process provided little to no tangible results in our case study, possibly due to either our data collection, lack of research experience, limited knowledge of NVivo coding, or a combination of the above-mentioned factors. As a result, the decision was made to use ‘interpretive research’ as a fallback option to arrive at analytical conclusions. In its most extreme form, interpretive research is often associated with a high degree of subjectivity, focused on reality as a socially constructed space including individual people’s interpretations of the world (Lukka & Modell, 2017). Nevertheless, while the results from our NVivo ‘axial coding’ provided little results, NVivo was used as a tool to back up our interpretive research conclusions. Provided NVivo’s role as a support, the Master thesis does not use ‘interpretive research’ in its most extreme form. As such, there is precedence from earlier studies on using a mixed version. For example, Vaivio & Sirén (2010) observed that researchers using mixed-method research often used the secondary method as support to triangulate findings and increase validity.

*“The idea of triangulation contains the notion that within some enterprise there is a kind of objective fact, which we do not know about. And then with different methods ... we, so to speak, get closer to that fact”* (Vaivio & Sirén, 2010, p. 135).

### **3.4.2 The Secondary Criteria of Validity**

The secondary criteria are described as ‘guiding principles’ that are used in addition to the primary criteria to contribute to the development of validity (Whittemore et al., 2001). Explicitness, thoroughness, creativity, congruence and vividness cover the entire process of research from the development of the idea to the description of our findings. Both explicitness and thoroughness refer to a line of thought and development in the entire investigative process and connection between ideas, in addition to accounting for decisions made. To ensure this we have, as previously mentioned, prepared a case study protocol and a transcript of our interviews, thus trying to limit potential biases and strengthen evidence of finding. Congruence refers to both external and local congruence. By means of the preparation of a literature review before the analysis, the hope is to create external

congruence such that findings connect with existing theory. To achieve vividness, it is important that the descriptions are both rich in data, but also contain artfulness, clarity, and imagination. The criteria of creativity involve novelty in methodology and research design, flexibility in the data gathering, and imagination in the analysis and description of findings. The final secondary criteria are sensitivity, which refers to research that is sensitive in one way or another. To ensure sensitivity both the design and conduct of research must be ethical, and the participants must be respected. In addition, the participants must benefit from the research.

### **3.5 Reliability**

The previous subchapters focus on how to increase the validity of this Master thesis by means of criteria of validity. However, the primary and secondary criteria focus on what can be done by the researchers and do not handle the issue of reliability that we will discuss in the following. LeCompte and Goetz (1982) explain external reliability as to which degree a study or findings in research can be replicated, which corresponds with the definition of reliability in *Understanding Reliability and Validity in Qualitative Research* (Golafshani, 2003). Reliability in qualitative research is a difficult criterion to meet. Focusing on case study research, the chance of replicating the exact same findings is close to impossible, as one cannot freeze the setting in which the case study was conducted. As previously mentioned, the search for liability may also threaten the validity of the research (Sandelowski, 1993).

Alternative literature introduces the term dependability as an alternative to the term reliability used in quantitative research (Bryman & Bell, 2011; Krefting, 1991; Lincoln & Guba, 1985). Ensuring dependability in qualitative research entails keeping complete records of all faces of the research process, such that peers can act as auditors, either during or at the end of the course of the research. This definition of dependability connects with what Spiers et al. (2018) say about reliability; “*Reliability in qualitative research is rooted in the idea of data adequacy, which makes it possible to show consistent support for one’s analysis across participants*” (Spiers et al., 2018, p. 1). Throughout the research process, our supervisor acted as our auditor on a level sufficient for a Master thesis, ensuring the dependability of our research. Looking further into the argument

about showing consistent support from Spiers et al. (2018), one can say that it is based on the same idea as dependability and that we, therefore, in this case, can ensure reliability in our research process as well.

## 4.0 Case Studies

This chapter describes the companies that are part of this multi-case study: *Tussa*, *Hurtigruten*, *Entra*, and *Equinor*. Each case description consists of an overview of the company ownership structure, its governance and organizational structure as well as an introduction to the companies' BB journey. Further, the companies' code of conduct principles, strategy and strategic planning, forecasting including tools similar to budgets, resource allocation, and incentive system are presented. The categories are inspired by the MCS package (Malmi & Brown, 2008), where the chosen categories are motivated by the five levels of controls, which are the basis of our initial NVivo coding. The five levels of controls have similarities with the 12 BB principles while creating some structure in the analysis, as several of the BB principles have overlapping coverage as discussed in Chapter 2.4. This chapter of our thesis serves as the base to discuss the use of each company's BB principles within the context of the SME vs MNC dichotomy.

The summary table in Figure 7 below has categories on the vertical axis that are inspired by the five levels of control as mentioned by Malmi & Brown (2008): administrative, cultural, cybernetic, planning, and rewards & compensation. The M&B framework was chosen as a basis for the case analysis in order to create the configurational replication that makes the comparative analysis possible (see Chapter 3.2). However, to describe the cases coherently, the five levels of controls have been reformulated into six different analytical categories. Some controls are relatively interrelated and were either combined or separated into new case categories to provide a more comprehensive description. As a result, the following case descriptions represent the following six descriptive case categories illustrated in the top of the Summary table in Figure 7.

Case Categories Comparison with Malmi & Brown (2008) Framework					
Ownership, Governance & Organizational Structure	Code of Conduct Principles	Strategy & Strategic Planning	Forecasting	Resource Allocation	Incentive Systems
Administrative Control	Cultural Control	Planning Control & Cybernetic Control	Cybernetic Control	Planning Control & Cybernetic Control	Reward and Compensation Control

	Tussa Group (SME)	Entra Group (SME)	Hurtigruten Group (MNC)	Equinor Group (MNC)
<b>Short Company Overview</b>	<ul style="list-style-type: none"> <li>Energy and digital communication company</li> <li>Early phase of BB implementation</li> </ul>	<ul style="list-style-type: none"> <li>Real estate company</li> <li>Operates office buildings</li> <li>Listed company</li> <li>Mature phase of BB implementation</li> </ul>	<ul style="list-style-type: none"> <li>Expedition cruise company</li> <li>Early phase of BB implementation</li> </ul>	<ul style="list-style-type: none"> <li>Energy company</li> <li>Listed company</li> <li>Mature phase of BB implementation</li> </ul>
<b>Key Financial Information</b>	<ul style="list-style-type: none"> <li>Sales revenue EUR 85.4 million</li> <li>EBITDA EUR 30.6 million</li> <li>Employees = 230</li> </ul>	<ul style="list-style-type: none"> <li>Sales revenue EUR 235.3 million</li> <li>EBITDA EUR 200.2 million</li> <li>Employees = 186</li> </ul>	<ul style="list-style-type: none"> <li>Sales revenue EUR 238.6 million</li> <li>EBITDA EUR -17.9 million</li> <li>Employees = 2 154</li> </ul>	<ul style="list-style-type: none"> <li>Sales revenue EUR 37,517 million</li> <li>EBITDA EUR 9.7 million</li> <li>Employees &gt; 21 000</li> </ul>
<b>Ownership, Governance &amp; Org. Structure</b>	<ul style="list-style-type: none"> <li>Owned by the public sector and state agencies</li> <li>Semi-decentralized</li> </ul>	<ul style="list-style-type: none"> <li>Privately owned</li> <li>Geographically decentralized</li> <li>Accountable teams</li> </ul>	<ul style="list-style-type: none"> <li>Privately owned by PE companies</li> <li>Decentralized</li> <li>Reorganization</li> <li>Accountable teams</li> </ul>	<ul style="list-style-type: none"> <li>Majority owned by the Norwegian state</li> <li>Decentralized</li> <li>Reorganization</li> <li>Accountable teams</li> </ul>
<b>Code of Conduct Principles</b>	<ul style="list-style-type: none"> <li>Internal (focus on use): Local, Accountable, Professional, Forward-looking</li> <li>External Values: KRAFT (brand and branding efforts)</li> <li>Focus in recruitment, onboarding, and training</li> </ul>	<ul style="list-style-type: none"> <li>Internal values (focus on use): Being responsible, Hands-on, One team and Innovative</li> <li>Workshops as a value-based café</li> <li>Focus in recruitment, onboarding, and training</li> </ul> <p><i>"We want the values to become a part of our DNA"</i></p>	<ul style="list-style-type: none"> <li>Internal values: WE Inspire, WE Empower, WE Care, WE Explore</li> <li>Focus in recruitment, onboarding, and training</li> </ul> <p><i>"By reaching the same goals and following the same vision and values we will get a more like-minded mindset."</i></p>	<p><i>"How you do it, as important as what you do".</i></p> <ul style="list-style-type: none"> <li>Internal values: Open, Collaborative, Courageous and Caring</li> <li>Focus in recruitment, onboarding, and training</li> </ul> <p><i>"Incredibly important for building a learning organization"</i></p>
<b>Strategy &amp; Strategic Planning</b>	<ul style="list-style-type: none"> <li>BSC approach linked to five perspectives: Customers, Public relations, Employees, Internal processes, Finance</li> <li>Strategy maps → Strategic objectives → KPIs</li> <li>Each subsidiary translates overall group strategy map to their own → Find KPIs</li> <li>Process currently evaluated → Many KPIs in each company (leads to detail control)</li> </ul>	<ul style="list-style-type: none"> <li>BSC approach linked to three strategic pillars: Profitable growth, Customer satisfaction, Environmental leadership</li> <li>Resembles OKRs</li> <li>Business reviews quarterly on all buildings → structural plans</li> </ul> <p><i>"Simple planning process because real estate is simple"</i></p>	<ul style="list-style-type: none"> <li>Business Agility - Goals 1-3 years</li> <li>OKR</li> <li>Long term - Business Plan</li> <li>Own strategy department</li> </ul> <p><i>"Every goal and every KPI we have are connected to the overall strategy of the company"</i></p>	<ul style="list-style-type: none"> <li>'Ambition to Action'</li> <li>Strategic objectives → Risk → Actions → (Indicators)</li> <li>Task planning related to Actions.</li> </ul> <p><i>Each unit tries to translate exactly how they can contribute to where Equinor wants to be, and then they define their own strategic objective"</i></p>
<b>Forecasting</b>	<ul style="list-style-type: none"> <li>Forecast as less detailed budget rolled annually</li> <li>Owners are concerned with return on capital investment, thus preferring the insight that a fixed yearly forecast provides and, with it, the expected financial return to stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Activity Plan that focus on next year's activities – only predicts cost not income</li> <li>Works in a similar way as budgets</li> </ul>	<ul style="list-style-type: none"> <li>Rolling Forecasts adjusted quarterly or on demand</li> </ul> <p><i>"We want to use forecasts to look forward, but not as a blueprint for what is as it is, as it is not a promise but expectation of the future"</i></p>	<ul style="list-style-type: none"> <li>Dynamic forecasts</li> <li>Forecast on certain indicators (SRP system)</li> <li>Portfolio modeling (STEA system)</li> </ul> <p><i>"When something happens in their reality, which they believe justify a forecast update"</i></p>
<b>Resource Allocation</b>	<ul style="list-style-type: none"> <li>Proposals or investments over NOK 10 million are decided and authorized by the BoM</li> </ul> <p><i>"Most proposals go to the BoM. Last time it was a computer system for NOK 16,000. So, there is some detail control"</i></p>	<ul style="list-style-type: none"> <li>Investment committee makes decisions</li> <li>All large investments must be approved by BoD</li> </ul>	<ul style="list-style-type: none"> <li>Allocated by needs</li> <li>Authority matrix</li> <li>Business case for large investments</li> </ul> <p><i>"I order what I have to based on 'better judgement'"</i></p>	<ul style="list-style-type: none"> <li>Allocated by needs</li> <li>Authority matrix</li> <li>Business case for management</li> </ul> <p><i>"Which level of management depends on how much resources the business case requires"</i></p>
<b>Incentive Systems</b>	<ul style="list-style-type: none"> <li>No reward of compensation system</li> </ul> <p><i>"So, we chose to move away from the performance pay system and have not had a bonus scheme after that. Internal motivation and values should govern performance"</i></p>	<ul style="list-style-type: none"> <li>Gainsharing with collective rewards on an equal basis</li> <li>Connected to the strategic pillars and KPIs</li> </ul>	<ul style="list-style-type: none"> <li>Individual performance-related bonus for BoM</li> <li>No bonuses on lower-level employees</li> </ul>	<p><i>"How you do it, as important as what you do"</i></p> <ul style="list-style-type: none"> <li>50/50 monetary bonus/career</li> <li>Collective reward system → Benchmarking table</li> <li>Individual rewards system → holistic overall assessment of individual goals</li> <li>Continuous feedback</li> </ul>

SME= Small and Medium-Sized Enterprises, MNC= Multinational Corporation, BoD= Board of Directors, BoM= Board of Management, BSC= Balanced Scorecard, KPIs= Key Performance Indicators, OKRs= Objectives and Key Results, PE= Private Equity

Figure 7: Summary Table (Generated by Authors)

## 4.1 Tussa

Tussa Kraft is the parent company of the Tussa Group which specializes in renewable energy, telecommunications, IT, sales, and installations. The parent company provides administrative support and services to its subsidiaries, while its strategic focus aims for ownership over companies that have their core competence and infrastructure within the fields of production, transmission and sales of energy, and digital communication products (Tussa, n.d.-a). The company

is leading within the energy segment on the northwest coast of Norway and has been producing and supplying electricity since it was founded in 1949. The company is located in the southern part of Norway (Sunnmøre), with main offices in Ørsta, as well as offices along the west coast of Norway, in Ålesund, Ulstein, and Herøy (Tussa, n.d.-b). Initially, *Tussa Kraft* started as a power producer as well as a constructor of power lines and mains infrastructure. However, when possibilities arose to use the same infrastructure for broadband, it developed a subsidiary ICT company, named *Tussa IKT*, see Figure 8 below for *Tussa*'s organization chart.

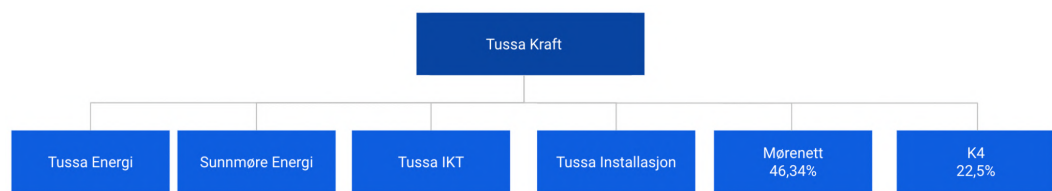


Figure 8: *Tussa Kraft* and its Subsidiaries (Company Documentation)

Another one of its subsidiaries, *Tussa Installasjon*, works with home installation of light and heating. *Sunnmøre Energi AS* is a small production company that owns two smaller power plants, which are operated by *Tussa Energi*. In addition to holding full ownership over the four subsidiaries, *Tussa Kraft* has partial ownership in *Mørenett* with 46,34% and *K4* with 22,5%. *Mørenett* is the company responsible for transferring electric energy to and among 11 municipalities in the Norwegian province of Sunnmøre, while *K4* is a marketing and sales company created and owned in cooperation by four power companies, all located in the west of Norway.

With a total of 230 employees, the *Tussa Group* accommodates our definition of SMEs concerning headcount (Tussa, 2021). While the parent company, *Tussa Kraft*, has a sales revenue of NOK 29.4<sup>4</sup> million, which is within our definition of an SME, the consolidated financial statement for the entire company shows a sales revenue of NOK 854.4 million<sup>5</sup>. This is above the amount used as the definition of an SME. However, as smaller-sized companies knowingly using Beyond Budgeting are not available, the *Tussa Group* in this thesis represents the views of

<sup>4</sup> Approximately equivalent to EUR 2.94 million (May 4th 2021; Norges Bank, n.d.)

<sup>5</sup> Approximately equivalent to EUR 85.4 million (May 4th 2021; Norges Bank, n.d.)

a medium-sized company and our best approximation of an SME. For more financial information, see Appendix D.

#### 4.1.1 Ownership, Governance, and Organizational Structure

The *Tussa Group* has been owned by the public sector and state agencies since it was established in 1949. *Tussa* is not listed on the stock exchange and uses Norwegian accounting standards with the annual statements deposited at Brønnøysund, the Norwegian Business Registry. Ever since, ownership composition has changed multiple times. As of today, *Tussa* is owned jointly by seven municipalities (‘kommune’) in southern Sunnmøre, one power company (*Horningdal Kraftlag*), and *Kommunal Landspensjonskasse* (KLP), a national municipal pension fund, see Figure 9 below. The general assembly provides the annual platform for the shareholders to exercise their ownership (*Vedtekter - Tussa*, n.d.). *Tussa*’s articles of association specify that the annual general assembly shall approve the financial statements and annual reports, including the distribution of dividends, and elect the members of the BoD and different committees. The general assembly also decides on sales of shares.

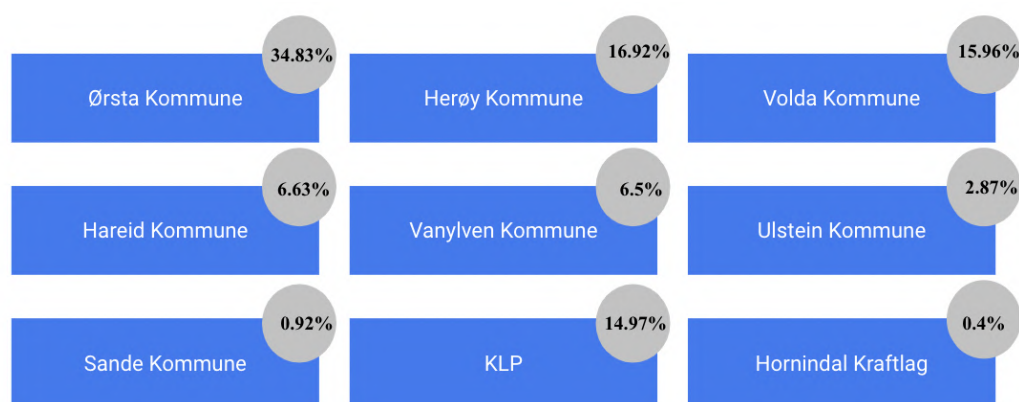


Figure 9: The Owners of *Tussa Kraft* and Percentage of Shareholdings (Proff, n.d.-d)

The Board of Directors (BoD) of *Tussa Kraft* is composed of eleven members. Seven members are elected by the owners, while four are employee representatives, elected by the employees in *Tussa*. As a majority of *Tussa Kraft* is owned by the surrounding municipalities, its focus on creating shared value for the surrounding community is higher than what can be commonly expected from privately-owned companies.

*“We want to be environmentally friendly by means of hydropower plants from renewable energy sources, and we create important jobs in the region. We want to be a local sponsor, meaning that we give back to teams and organizations and provide sponsorship support. We believe that we have a social responsibility to do so. Plus, we have a social responsibility by hiring apprentices and capturing a renewal of knowledge. We want to operate our business well, and in that way give back value to our owners” (Interviewee 4).*

Affected by the ownership structure, the *Tussa Group* focuses on creating shared value, *“which involves creating economic value in a way that also creates value for society by addressing its needs and challenges” (Porter & Kramer, 2011, p. 4).* *Tussa* not only prioritizes giving back to the owners by means of the distribution of dividends at the end of the year but also contributes to the municipalities by means of workplaces and work apprentice opportunities.

The parent company, *Tussa Kraft*, consists of a CEO with direct reports of the CFO, Communications Manager, and HR Manager. The CFO is the head of the Finance Section, which is separated into a Finance Department run by the Finance and Digitalization manager and a Controller Department. There is also a Purchasing Manager reporting directly to the CFO. The HR manager functions both as an HR manager and an organization development manager where the person manages two consultants in the HR and HSE department, as well as one cafeteria staff and the secretariat (see Figure 10 below).

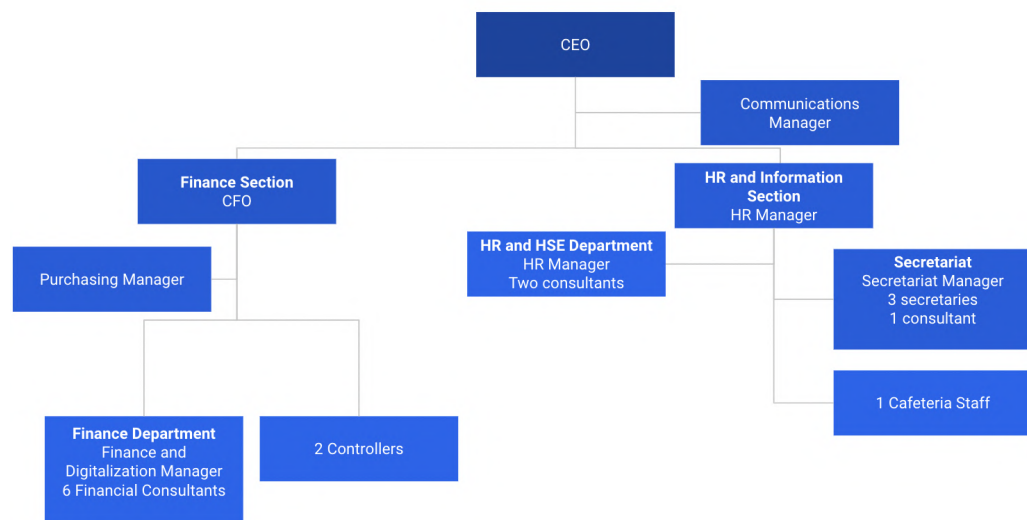


Figure 10: Organizational Chart Tussa Kraft AS (Company Documentation)

*Tussa Kraft* is responsible for delivering services to each one of the six subsidiaries, which have its P&L statements presented in the annual group reports while the capital investment decisions are made by the BoM, thus placing each of the subsidiaries somewhere in between a discretionary cost center and a profit center (Tussa, 2021). The parent company raises external funding if necessary and provides further complementary support to the subsidiaries in terms of Finance, HR, Organization, and Communication. The different departments within the group act as shared service centers for the subsidiary profit- and cost centers.

One of the most important update and decision platforms for the *Tussa Group* is the Board of Management (BoM), which consists of the CEO of the parent company, as well as the Managing Director and Directors of each subsidiary, the communications-, HR-, and Finance Managers. The BoM meets every other week, and the representatives from each subsidiary cascade the relevant information updates to its respective business areas. Therefore, the BoM can be viewed as the main body for information flow from the *Tussa Group* to the different subsidiaries and is a place to increase communication between the subsidiaries. Current decision-making where day-to-day decisions are made within the subsidiaries, which makes the organization semi-decentralized, as the Managing Directors in the subsidiaries tend to discuss cases from the subsidiaries with the BoM to receive approval.

#### **4.1.2 Beyond Budgeting Journey**

*Tussa's* BB journey started when a new Chief Accountant, now the Finance and Digitalization manager, entered the company in 2016 and witnessed the group's budgeting process. Notably, the high level of uncertainty surrounding *Tussa Energi*, one of the subsidiaries, which operates in the power industry and is affected by high variability in electricity prices, made it difficult to budget for. Simultaneously, a starkly constraining observation was made by the parent company and the Finance department that *Tussa IKT*, the ICT company, usually performed better than budgeted. *"In a way, we have companies with great uncertainty where we are unable to budget, and we also have companies that appear to be outperforming every year"* (Interviewee 5). As a result of this observed performance gap, the Finance and Digitalization manager saw a need for



changing the process. During the next few years, the BoM and BoD were introduced to the ideas of BB and were inspired by other BB companies to start this change in 2020. Therefore, with 2021 being its first year without budgets, *Tussa* is at the start of its journey.

In the process of implementing BB, *Tussa* attended a BBRT meeting, a meeting held by the Beyond Budgeting Round Table where participants can communicate, learn and use experiences from other organizations using the BB principles. After attending one of the BBRT meetings “*organizations gave the impression that the change to BB was more demanding than expected. It was difficult to make the change in the whole organization and make it spread outside the business department. Therefore, we grew interested in drawing the implementation of BB to elements of change management*” (Interviewee 4). This sudden interest in connecting the BB literature with change management literature was driven by the HR manager who at the time of the BBRT meeting, was studying for a university degree program on leadership and change management. During the BBRT meeting, the HR manager saw a connection between the two theories and suggested drawing knowledge from change management, with a starting point in the model ‘eight steps of change’ by John Kotter (2008, p. 13), as a foundation to use for the BB implementation.

Kotter’s model of change decomposes the process of change into eight steps that focus on creating a climate for change, engaging & enabling the organization, and implementing & sustaining for change, see Figure 11 below. The first steps highlight the importance of creating urgency, forming powerful coalitions, and creating a strategic vision for change. The next steps state the necessity of communicating the vision, empower action by removing barriers, and generate quick wins. Lastly, the steps call attention to the significance of building on the change to sustain acceleration and making it stick by instituting the change (Kotter, n.d.). A new corporate reporting tool, *Corporater*, was introduced to accommodate for this change management process, which we elaborate further on in Chapter 4.1.4.

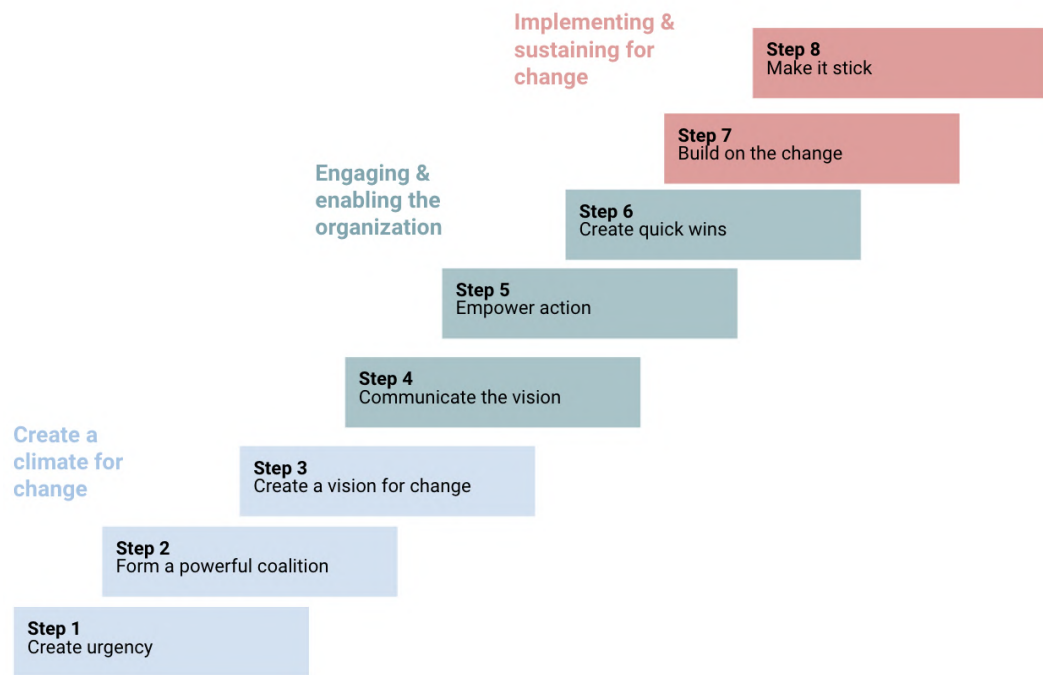


Figure 11: Kotter's Eight Steps of Change (Kotter, n.d.)

In the current BB implementation process, *Tussa* is situated at level five in Kotter's model: empower action by removing barriers. *Tussa* has used time and resources on the first step, which includes pitching the idea and creating a need for change. Step two in the model has also been a priority by forming a powerful coalition and identifying change agents. Step three has been of importance by creating a vision for BB (what the group wants to achieve). Further, *Tussa* has tried to redistribute this vision (step four). However, the whole organization is not currently strongly involved, and the company has mostly focused on the financial management tools and less on the leadership principles.

#### 4.1.3 Value Statements

*"... And maybe a little less discussion about the leadership principles. Although it was informed throughout the process, they (the leadership principles) were not as much focused on, compared to the other principles. Internally, we checked if the leadership principles that are in BB contradicted the principles that we are already governed by"* (Interviewee 7).

*Tussa*'s corporate culture is built around two different sets of value statements, one internal and one external. Its external values are called LAPF:

- Lokal → Local
- Ansvarleg → Accountable
- Profesjonell → Professional
- Framtidsretta → Forward-looking

LAPF values represent how *Tussa* wants to be perceived by external actors. However, the LAPF values are not well known within the company, as LAPF are primarily used on a strategic and executive management level. However, LAPF represents how the employees are expected to act when working with customers; and those who work with customers do have active knowledge about the LAPF values.

*Tussa*'s internal set of values is represented by the word KRAFT, which directly translates from Norwegian as POWER, and is more well known within the company as a part of its stated vision "*Tussa - with the POWER to create future-oriented and environmentally friendly solutions*" (Tussa, n.d.-c). When this vision was implemented in 2012, the group of employees that created the vision presented it in a staff meeting, where the group of employees dressed up as cardinals with big hats to sacred music, and brought out the new vision, using humor as a tool to make employees remember it.

*"But the KRAFT values, we live by them"* (Interviewee 4).

- Kundeorientering → Customer Orientation
- Resultat → Result
- Ansvar og samarbeid → Responsibility and Collaboration
- Forandringsvilje → Willingness to Change
- Tillit og lojalitet → Trust and Loyalty

Each year, one of the five values is highlighted and put into extra focus. The Managing Directors in *Tussa Kraft*, *Tussa Installasjon*, *Tussa Energi*, and *Tussa IKT* are each responsible to write an article on the company's Intranet about what this focus value of the year means for *Tussa*. The KRAFT values are also a focal part of each employee's yearly job appraisal interview. For example, KRAFT

values are the first thing you see on the company's Intranet and are visible on posters around the business premises as well as on company merchandise and giveaways. Similarly, the KRAFT values are part of recruitment interviews and the related personality tests, assuring that the profiles of new entrants match the company values.

*"We behave very properly. There is no cowboy in the way we present ourselves and our work. The values will be very clear"* (Interviewee 6).

*Tussa's* values and vision are also used in marketing campaigns such as *"With the power to create thousands of dreams - and the occasional big star"* (see Figure 12 below). This refers to the sponsorship of local organizations and its support to one of Norway's most famous athletes, Karsten Warholm, who originates from the area.



Figure 12: *Tussa* Marketing Campaign (*Tussa, n.d.-b*)

#### 4.1.4 Strategy and Planning

The BoD and BoM plan the future strategy for *Tussa* in a yearly strategy seminar that revolves around SWOT analyses acting as core inputs. Strategic planning is loosely based on the Balanced Scorecard (BSC), using a strategy map in formulating the strategic goals. Customers, Employees, Internal Processes, and Finance are the perspectives used in the BSC, while *Tussa* added *Public Relations* as an additional fifth perspective reflecting the fact that the group is publicly owned by the surrounding municipalities and accommodating slightly different

responsibilities beyond financial profit as compared to privately-owned companies. Within the *Public Relations* perspective, *Tussa* has also included strategic goals with an environmental focus, to maintain a trustworthy reputation as both a social actor and an energy provider.

Strategy maps are not a new tool for *Tussa* as strategy maps have been used on previous occasions. However, the strategy map used to be hidden into a strategy document that was not particularly focused on and was rarely a topic on the agenda. “*Now the goal is for the strategy map to be the ‘guiding principle’*” (Interviewee 5). The mapping process requires that each subsidiary creates its strategy map based on the group strategy map, linking the group’s strategy to its operations. The role of the strategy map and the *Tussa Group* strategy will be further evaluated in 2021. While *Tussa* plans to continue with the use of strategy maps, the group wants to ensure that the process is efficient, to use them as a base to establish goal congruence and create more decentralized and autonomous subsidiaries.

To follow up on the strategic goals decided by the Board of Directors, *Tussa* implemented a new management tool called *Corporater*.

“*At the end of 2019, it was said that if we were to go for Beyond Budgeting, then we will need to have new management tools in place first. In a way, it was a requirement that was set. Then we chose the Corporater system where we could report financial results, make forecasts, enter strategic goals and measures, and so on...*” (Interviewee 7).



Figure 13: Simplified Example of Strategy Map in Corporater (Company Documentation)

The blue boxes in Figure 13 are the five principles inspired by the BSC, which is presented from the top-left and can be read downwards, with Finance being the bottom principle, which all the other principles lead to. On the right side of each principle are the strategic goals connected to each principle. The four different colors represent the status of the related KPIs, where the amount of KPIs differs between the strategic goals. Green represents a positive trend/status related to the goal, yellow a neutral trend/status, red a negative trend/status, while white means that there is no progress.

*“The challenge is that as soon as you make a KPI, you get a terrible urge to set a target on that KPI which gives you a green status... predominantly, the status should start as yellow and red” (Interviewee 5).*

Each strategic goal (grey box in Figure 13) links to a dashboard that provides an overview of the strategic goal and the related KPIs. Each strategic goal has a connected set of KPIs, where the number of KPIs connected varies between the goals. Further, there is a list of measures or actions related to the strategic goal as well as information on the connected risks, meaning the chances of non-

complying on the strategic objective. Generally, the KPIs are set by means of workshops and discussion of which indicators are of importance to accommodate the desired growth and evolution of the company. The workshops include employees in management positions that can be viewed as a top-down method to discuss KPIs.



Figure 14: Simplified Example of Dashboard for a Strategic Goal in Corporater (Company Documentation)

“What is a bit of a challenge here, is that they (the strategic objectives) are a bit vague. This applies both at the group and company levels” (Interviewee 5)

The *Tussa Group* is still in the trial period of figuring out which strategic objectives and KPIs to use, and which actually serve a purpose. Currently, the group operates with strategic objectives that can be described as vague, and therefore difficult to reach. In addition, *Tussa* have come up with several KPIs upfront and are now filtering them in practice on their usefulness and relevance. Due to the large number of KPIs, the chances are high that the KPIs are conflicting with each other. Each of the subsidiaries relates its strategy maps, including strategic objectives and KPIs, to the strategy map of the parent company. This has led to a large number of KPIs and vague strategic objectives in the subsidiaries’ strategy maps. *Tussa*’s implementation of strategy has been top-down focused on using *Corporater* as a tool, illustrated in Figure 14 above.

As an example, *Tussa IKT*, one of the subsidiaries, started a discussion after creating the strategic goals to find out what would be the most important KPIs, and what the KPIs should include. This has been a continuous process, and *Tussa IKT* has already started to discuss changes after the first month of reporting on the KPIs. “*Some may be taken away. Some may also be added*” (Interviewee 6).

How the KPIs are used in practice depends on the subsidiaries as each subsidiary in *Tussa* uses customized KPIs that are relevant for their business area, and the number of KPIs used are different in the subsidiaries. For example, *Tussa IKT* uses a larger number of KPIs that are more detailed in nature, and some of the KPIs are linked to the desired outcome rather than the predicted outcomes where actual financial numbers are used as opposed to estimated financial numbers. However, it is plausible that the KPIs are generally not as detailed as the previously used budgets and are more dynamic as the KPIs are produced three times a year directly after a strategy discussion has occurred, as *Tussa IKT* discusses chosen strategic topics continuously throughout the year in addition to the yearly strategy meeting.

#### **4.1.5 Forecasting**

As *Tussa* is still in the early stages of implementing BB, identifying and aligning goals were the dominant focus at the beginning of the implementation. However, a start was also made with (re-)developing forecasts. On a group basis, *Tussa* operates with five-year forecasts and yearly forecasts. The group also operates with yearly capital budgeting for each subsidiary and a long-term forecast where investments are planned a few years forward.

The group currently operates with a forecast rolled once a year, showing the expectations for the end of the year. Initially, the plan was to work with a rolling yearly forecast, updated every four months. However, the owners are concerned with return on capital investment, thus preferring the insight that a fixed yearly forecast provides and, with it, the expected financial return to stakeholders. “... *But I think maybe such a measurement will come. Eventually, both the BoD and the owners will probably understand and relate to a 12-months rolling forecast*”



*either instead of or as a supplement (to the forecast showing the end of the year)."* (Interviewee 5).

Different from budgets, there is no need to explain deviation from forecasts, in terms of explaining to the management why the department ended up spending more than what was initially expected in the forecast, as long as the income matches the increased cost. As such, there is variance analysis used on forecasts in operational terms, where *Tussa* also uses trend graphs to ensure that certain key numbers do not grow exponentially without creating value for the company, utilizing Power BI. The Managing Director of *Tussa IKT* stated that *"it (the forecast) is more dynamic, so that is probably the biggest difference"* (Interviewee 6).

During the implementation of forecasts in *Tussa*, there have been discussions around what the purpose of the forecasts the group has implemented is. *"And what exactly is a forecast?"* (Interviewee 5). The intention is to use KPIs as a management tool to measure the progress of goals and forecasts for the future, replacing traditional budgets. However, the impression is that employees in the company use forecasting differently and to serve different purposes. *"To put it bluntly. Sometimes I am under the impression that forecasting is used just as another word for budget management"* (Interviewee 5). While some employees have used forecasts as a tool to predict the future and use it to decide if the company's direction needs to be adjusted, others use it to fulfill similar purposes to the previously used budgets (as goal appraisal and a control tool) and use the two management tools in an identical manner.

#### **4.1.6 Resource Allocation**

Resource allocation is the area where *Tussa* has made the least progress. Each subsidiary has an investment forecast with limits in terms of capital spending. Proposals or investments over NOK 10 million<sup>6</sup> are decided and authorized by the BoM.

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<sup>6</sup> Approximately EUR 1 million (May 4th 2021; Norges Bank, n.d.)

*“Most proposals go up to the BoM. A proposal comes up there, then a question comes down before the answer goes up again. It must in a way get the green light from the BoM group... Last time it was a computer system for NOK 16,000<sup>7</sup> that was decided on by the BoM. So, there is some detail control”* (Interviewee 5).

This level of detailed control is something that *Tussa* hopes to reduce by making the whole organization get a slightly different view on using resources, providing employees both autonomy and accountability. *“They (the employees) do not spend money because they can, they buy what is needed to provide a better customer experience”* (Interviewee 5).

To ensure that the costs are realistic and used to serve the needs of the business operation, *Tussa* has an end-of-month reporting. This reporting period is guided by the controllers and the CEO, where both income and costs are monitored, especially focusing on the cost development to increase control of the capital investments. *“In other words, action will be taken on a monthly basis to make sure that the costs used to create the desired result are not too high”* (Interviewee 7).

#### **4.1.7 Incentive Systems**

*The Tussa Group* does not have a reward or compensation system in place at the moment. Previously, over 10 years ago, *Tussa* used a performance pay system described as being more time-consuming than motivational. The salary was mostly based on a predetermined fixed salary while some employees received individual bonuses. However, this system was experienced as being unfair, where some received more pay than others without necessarily putting in the effort or performing better in their job. This was an injustice that *Tussa* expects to always be present if implementing an incentive system, which is why the company has no plans on reintroducing it either and instead use collective wage negotiations.

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<sup>7</sup> Approximately EUR 1,600 (May 4th 2021; Norges Bank, n.d.)

*“We chose to move away from the performance pay system in agreement with managers and employee representatives and have not had a bonus scheme after that. We believe rather that it is internal motivation and values that should govern performance”* (Interviewee 4).

Employees who received more by means of the incentive system did not see it as an extra motivational factor, while those who did not receive any extra payments by means of the incentive system ended up being demotivated by the lack of acknowledgment. As part of a yearly job appraisal interview, employees are assessed both on the ability to achieve their personal goals and how well the employees exercise the KRAFT values. The focus in the appraisal interview is on the yearly focus value, as the company highlights one of the KRAFT values particularly each year. There is a running theme between the company’s strategy and the goals that employees seek to achieve, i.e., ‘goal congruence’.

To make sure that employees have a strong connection to the company values, the *Tussa Group* organizes company events and giveaways focused on the KRAFT value of the year. A priority for the company is to ensure that all the employees are informed about incidents affecting their business segment and at the *Tussa Group* level. *“...after each BoD meeting in Tussa Kraft... the CEO... has an information meeting after the board meeting for all employees. This is very positively received”* (Interviewee 6). In a town hall meeting in the personnel canteen, the employees receive information and updates, which is expected to increase the employees’ interest in the group’s performance. While this is not empirically verified, *Tussa’s* experience is that the town hall meetings are popular among the employees. Formal information is also posted on the company’s Intranet, which is a stand-alone channel for the sharing of information from the BoM. For informal information flow, *Tussa* uses Microsoft Teams as the main informational channel.

#### **4.1.8 Plans for the Future**

Still early in its BB journey, *Tussa* has several plans and ideas for the next steps on its journey. While still in the process of finding a joint vision of what BB should be for the *Tussa Group*, there is a focus on making goals and information around KPIs more accessible. By using dashboards on screens around the

workspaces, presenting them in a less detailed way than what managers work with, workers will hopefully relate more to the goals and be more motivated to achieve them. In addition, subsidiaries are also using general town hall meetings for employees, and similar types of forums to present information around BB. While all ideas and plans are not finalized, the company focuses on taking the time to discuss how to proceed further.

Most recently, *Tussa* has taken a step back to revise Kotter's eight-step process of organizational change and has revised step three "what do we want to achieve?" as the company has acknowledged that Beyond Budgeting in its extreme form is not aligning with what *Tussa* wants to achieve. However, *Tussa* wants to exploit the use of dynamic management tools and have a leadership principle based on trust and an accompanying strong delegation of decision-making authority, which has not yet been introduced. As of today, *Tussa* is at stage five in Kotter's change model which means that the company has introduced a new management tool and is learning to steer without budgets, trying to remove obstacles that arise along the way.

## 4.2 Hurtigruten

The *Hurtigruten Group* is a leading expedition cruise company that focuses on sustainable and environmentally friendly year-round cruising to unique destinations in Alaska, South America, the Arctic, Antarctica, and along the Norwegian coastline (Hurtigruten, 2021). It was established in 1893, with its global headquarter located in Tromsø, northern Norway. *Hurtigruten* is separated into three business segments: *Hurtigruten Norway*, *Hurtigruten Expeditions*, and *Hurtigruten Svalbard* illustrated in Figure 15 below. *Hurtigruten Norway* consists of seven ships that follow a fixed route from Bergen to Kirkenes (from mid-Norway to arctic-Norway) and serves three different purposes simultaneously: transportation of local passengers on short trips, transportation of goods, and cruise traffic of tourists for a longer period (more than 12 days). *Hurtigruten Exploration* core assets similarly consist of seven ships but with a customized deployment schedule and location; it can decide where the ships will sail and for how long. *Hurtigruten Svalbard* consists of three hotels and Arctic experiences and excursions on the Svalbard Islands and in the arctic-Norway region of

Kirkenes. The above-mentioned subsidiaries are investment centers with correspondingly high levels of decision-making autonomy.



Figure 15: *Hurtigruten and its Subsidiaries (Company Documentation)*

*Hurtigruten* is categorized as an MNC as it operates internationally. The company had a headcount of 2,154 as of 31 December 2020, including the furloughed staff as caused by the pandemic (Hurtigruten, 2021). According to *Hurtigruten's* 2020 Annual Report (2021), the *Hurtigruten Group* had EUR 238.6 million in sales revenues with EUR 171.6 million originating from *Hurtigruten Norway*, EUR 53.9 million from *Hurtigruten Expedition*, and EUR 14.5 million from *Hurtigruten Svalbard*. For more financial information, see Appendix D.

#### 4.2.1 Ownership, Governance, and Organizational Structure

In March of 2021, a *Hurtigruten Group* reorganization was completed. The *Hurtigruten Group* initiated a reorganization of its corporate governance to increase company efficiency and flexibility (Hurtigruten, 2021). Multiple divisions changed names, and departments reorganized to become more aligned with an agile way of thinking and more forward-looking and connected to the long-term strategy. As part of this reorganization, BB is considered to be an auxiliary lever for a core organizational change, which means that BB was not the focus but a support activity of a larger change effort. Previously, the *Hurtigruten Group's* business segments were divided into three product areas: *Hurtigruten Norwegian Coast*, *Expedition Cruises*, and *Land-based*, where the latter, also called *Hurtigruten Svalbard*, was the only separate business entity.

*“By structuring the organization in this way, the organization experienced silo thinking” (Interviewee 1).*

The restructuring of the organization tried to change this decomposed way of working. *Hurtigruten* decided to separate its expedition and Norwegian coastal cruise operations into separate entities with its own management and Management Directors for each entity, effectively establishing two new companies, *Hurtigruten Norway* and *Hurtigruten Expeditions*, to create a stronger divide between two very different product areas. Both companies (*Hurtigruten Norway* and *Hurtigruten Expedition*) were established in February of 2021, while *Hurtigruten Svalbard* has been a separate company since 1988. Each business is broken down into functional departments, while the staff functions serve all separate business units. *Hurtigruten* adopted a form of business units as investment centers within a holding structure<sup>8</sup> where the dependent subsidiaries constitute all companies that *Hurtigruten Group* exercises control over (Hurtigruten, 2021). The *Hurtigruten Group* includes the parent company *Hurtigruten AS* and its subsidiaries.

*Hurtigruten* has an ownership structure that is hard to grasp due to multiple layers of cross-holdings; the company's core owner is *Silk Midco AS*, which is the central part of a complicated web of cross-holdings. When *Silk Midco* bought *Hurtigruten Group* in 2015, the latter was privatized and delisted. *Silk Midco*'s main shareholder is the Luxembourg registered company *Silk Holdings S Ar. L* which is owned, in turn, by the leading private equity firm *TDR Capital* (Hurtigruten, 2021). Private Equity (PE) firms are not obligated to inform the public of co-investors in their fund structures, and the Norwegian government has not set requirements to disclose a company ownership structure, which creates an intransparent full ownership structure in the case of *Hurtigruten*. The BoD in *Hurtigruten* are representatives from the owners of *Strawberry Equities*, *Periscopos AS*, and two partners in *TDR Capital*, resulting in a BoD that includes representatives from the largest shareholders of *Silk Topco AS* which is the parent company of *Silk Midco AS*, see Figure 16 for a simplified diagram of the governance structure. The multiple layers of investment firms and PE firms in the ownership of *Hurtigruten* suggest a higher likelihood for spinouts to release value, as is PE firms' common 'modus operandi'.

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<sup>8</sup> The simplest form of a holding structure is evident when "a superordinate company (parent company) hold stock in a dependent subsidiary company" (firma.de, 2018, p. 1)



Figure 16: The Owners of Hurtigruten Group and Percentage of Shareholdings (Proff, n.d.-c)

*Silk Holding S Ar. D*, *Strawberry Equities*, and *Periscopos AS* are the owners, while the other companies are investment companies owned by members of the Board of Management (BoM). The BoM consists of the Managing Directors of *Hurtigruten Group*, *Hurtigruten Norway*, and *Hurtigruten Expeditions* in addition to the CFO, Chief Sales and Marketing Officer, and Chief Digital, People & Organization Officer. *Hurtigruten Svalbard* has its main office at Svalbard where most of its daily operations, from hotel activities to excursions, take place and are substantially different in nature from the business activities of *Hurtigruten Norway* and *Hurtigruten Expeditions* which revolve around cruises or scheduled traffic. Therefore, *Hurtigruten Svalbard* works with a larger amount of autonomy and reports to the CFO, which is included in the BoM, but the business unit does not have representatives in the BoM directly (see Figure 17 to see a simplified version of the organizational chart).

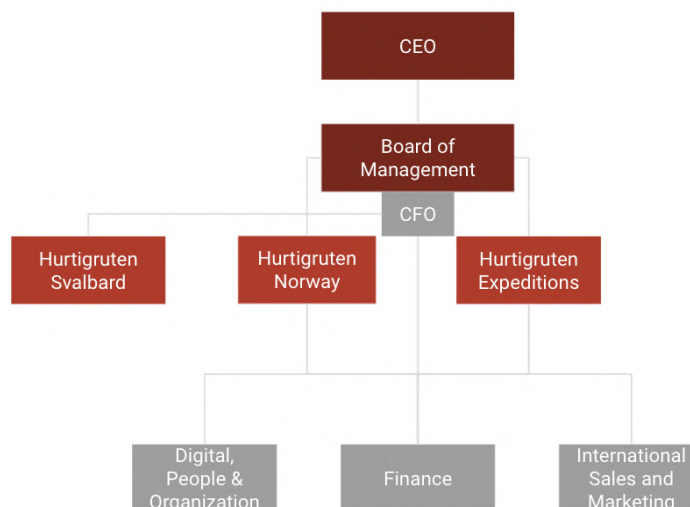


Figure 17: Organizational Chart Hurtigruten Group (Company Documentation)

The organizational chart is illustrated above in Figure 17 and follows a holding structure with direct reporting lines to the BoM while each of the divisions has its own unique organizational chart. By having supporting functions that work across the different organizations and are not directly connected to any of the subsidiaries, such as the Finance, Digital, People & Organization, International Sales and Marketing divisions, the company has improved cross-functional communication and shares highly skilled resources between the different business units.

By working across the separate business units and collaborating across business areas, the company will reduce the potential of silo thinking. However, it introduces the need for transfer pricing for internally delivered services as well as an arbitration mechanism in case of pricing conflicts. Group functions such as Finance, International Sales and Marketing, and Financial, People & Organization will work across the different business units in an autonomous and stand-alone shared service center fashion, thus acting as cost centers within the main aim of cost-efficiency.

#### **4.2.2 Beyond Budgeting Journey**

*“The pandemic made the Beyond Budgeting implementation process a smoother transition in a way, since the company experienced better cost control, as the main goal has been to cut costs. However, the process has also been more difficult since we are in an unusual situation”* (Interviewee 1).

*Hurtigruten’s ‘Business Agility’, or its Beyond Budgeting implementation process, started at the end of 2019 when it decided to find other options and tools to use instead of, or in addition to, traditional budgeting. Previously, the company had used traditional budgets, but it was under the impression that by the time the budget was finalized, it was already outdated due to currency adjustments, changed VAT rates, or other unexpected events.*



*“We started playing with the idea. Should we continue with the use of budgets and focus our efforts on making forecasting a larger portion of the current process? Or should we move completely away from the budgets and use other tools?”*  
(Interviewee 1).

However, the decision to start with BB was said to be coincidental and the result of several employees being familiar with the concept, in combination with a push from the business owners to try it out. From there on, a kick-off meeting was held to agree on a timeline and align the company’s expectations of this new management tool. In the following, a list of expectations ahead of the implementation has been provided to us by interviewee 2:

- Aim to better identify and follow the underlying drivers of business success rather than follow up discrepancies between budget and results
- More dynamic resource allocation that does not follow the calendar year according to budget
- Create an ongoing forecast process that follows the business cycle and that can be adjusted continuously according to market development and expectations
- Free up time spent on the budgeting process and rather focus on identification of drivers for success, dynamic resource allocation, forecasts, and the development of relevant tools associated with the processes of change

At the beginning of 2020, *Hurtigruten* had a plan set for the implementation of BB, to start 2021 with a Big Bang without the use of budgets. However, as a result of (the negative financial consequences caused by) the pandemic, the implementation process was put on hold as other goals were more important for the company, such as mere survival of the company and reducing its costs. Although the implementation process was put on hold, *Hurtigruten* re-started 2021 without budgets and is aligning the company with the BB principles continuously, notably with a focus on forecasting. At present (May 2021), the focus is shifting to setting the appropriate goals for the future and further developing the reporting tools. With this extended focus will come an emphasis on transparency and sharing the relevant information regarding the BB changes

and how this will affect the different divisions. *“Now most of this information is at the financial level as we have been in a reorganization process and been focused on reducing costs. However, when we are in a normal situation, the information will be spread evenly throughout the organization”* (Interviewee 1).

The future includes a process where the employees are to be included and motivated towards this change in helping to deliver on the company’s long-term strategy. *“To do this, the management needs to be positive to the change, as they (the management) might be faced with a feeling of losing control. In the future, we have to get out of our comfort zone”* (Interviewee 2).

The future development of *Hurtigruten*’s Beyond Budgeting journey consists of three parts: objectives, resource allocation, and forecasting. As of now, *Hurtigruten* has focused mostly on forecasting that forms the basis for resource allocation and has simultaneously worked with the implementation of goals. It is considered important that employees at the group level have a forecast that all parts of the organization believe in and that provides a common picture of the future. Setting relevant objectives and adopting dynamic resource allocation will be the focus in the unfolding implementation process by *Hurtigruten*.

#### **4.2.3 Value Statements**

*Hurtigruten*’s corporate culture is based on the following values:

- **WE Inspire** - We create a positive engagement
- **WE Empower** - We make each other better
- **WE Care** - We make a difference
- **WE Explore** - We are always looking for improvements

The four main values are well incorporated into the organization and are known to most employees as the values are fronted strongly and visible in many aspects of the organization. Many employees are passionate about their work, and the organizational culture is described by employees as inspiring. The passion is very noticeable at the Intranet where employees, for example, spend their free time, sharing photos of their hiking trips with co-workers. This correlates with many employees being interested in nature and outdoor leisure activities, and this

creates a very ‘sporty company’. *“All in all, we have a very positive, open, and inclusive work environment” (Interviewee 2).*

The values are also represented in, for example, the company’s hiring and onboarding processes. As part of onboarding, employees will receive an introduction to the company’s vision: to be the world leader in expedition travel. This vision is familiar to all employees within the organizations, as *Hurtigruten* is presently the world leader within the expedition-travel segment as measured by the (capacity-focused) number of available guest nights on the ships.

*“By reaching the same goals and following the same vision and values we will get a more like-minded mindset.” (Interviewee 1).*

Even though the values are supposed to be well known by everyone working in the organization, it is highlighted that *“not everyone feels the same degree of ownership to the values. Some people might think it is unnecessary, and an inconvenience. However, the younger generation is generally speaking better at owning the values as they (the younger generation) have learned the importance of this during their education” (Interviewee 3).*

The *Hurtigruten Group* conducts employee surveys regularly to monitor employee satisfaction (Hurtigruten, 2021). During the pandemic, digital tools and digital platforms have been used more frequently to communicate and collaborate. This increase in the use of digital tools for spreading of information (using Microsoft Teams) is viewed as having a positive effect on the overall work environment in *Hurtigruten*; however, *“there are more meetings today than before the pandemic, partially because social meetings are now online as opposed to informal chats by the coffee machine” (Interviewee 1).* The employees working in *Hurtigruten Group* also use a common Intranet to spread information called Workplace which is also known as ‘Facebook for business’ that is used as an internal bulletin board. On Workplace, information is communicated from corporate management and across all employees and this ensures that all employees obtain the same information simultaneously.

#### 4.2.4 Strategy and Planning

*“The strategy works as a guiding principle for everything that we do”*

(Interviewee 3)

The strategic planning process comprises how an organization sets its goals and actions plan for the future and the short, medium, and long term (O’Grady & Akroyd, 2016). The *Hurtigruten Group*’s overall strategy is to generate profitable and sustainable growth in its three business segments (Hurtigruten, 2021). The company operates with two different approaches: ‘Business Agility’ and OKRs. For long-term strategic planning, *Hurtigruten* and its Strategy department have created a Business Plan until 2035. The Strategy department, which resides under the Finance staff function, is in charge of the planning process with a longer time horizon and delivers proposals to the management for final strategic decision-making. The Financial Planning and Analysis department works closely with the Strategy department to set objectives and key reports as part of the ‘Business Agility’ project.

The ‘Business Agility’ process refers to the long-term goals for the next 1-3 years and how the long-term goals are connected to the overall strategy. Such goals can, for example, relate to the desired EBITDA for 2022 or a direct sales share percentage, with being either absolute or relative goals (to competitors in the market). For example, *Hurtigruten* uses a ‘performance league table’ where every ship obtains a score based on achieved customer satisfaction; *“there should be a desire to be at the top of the (performance) league table”* (Interviewee 1). This goal is relative to the aim for each vessel to rise to the top of the table. Previously, when using budgets, a large number of financial goals predominated, but with BB, *Hurtigruten* is moving towards widespread use of both financial and non-financial goals. Similarly, sustainability goals, such as emission, fuel consumption, and food waste, are considered important goals to include in the near future. *“We believe that we must have goals in order to deliver the best possible returns”* (Interviewee 1).

Currently, the goals used in ‘Business Agility’ are mostly at an organizational level and obtained using Microsoft Power BI. In the future, *Hurtigruten* wants to implement external benchmarks as a basis for competitive positioning, measuring

against comparative firms that are Best-in-Class on how things can be done. It is considered important for each employee to feel connected and have a sense of ownership towards the goals, and currently, *Hurtigruten* uses internal benchmarking between the ships to enforce healthy competition within the organization.

The other approach used is OKRs (Objectives and Key Results) which is a quarterly bottom-up process of target setting and incremental improvement cycles. The illustration in Figure 18 shows the company’s breakdown of Objectives and Key Results (OKRs) and how the objectives are connected to the overall strategy. *Hurtigruten* has its vision at the top, followed up by the missions that are separated into annual objectives which are related to sustainability, safety, customer experience, results, brands, and values. By means of a quarterly process, each department breaks down the long-term goals (annual objectives) into quarterly objectives, which represents what that department will focus on to contribute to the annual objectives. *“In a way, it becomes a way to kickstart the business towards achieving the long-term goals”* (Interviewee 1). *“Every goal we have is connected to the overall strategy of the company”* (Interviewee 2).



Figure 18: Objectives in *Hurtigruten* Group (Company Documentation)

On a group level, the current quarterly objectives include reducing emissions by 20%, having zero incidents, having a set market share, EBITDA margin, and NPS (Net Promoter Score) among other objectives. *“The NPS is an objective that is related to customer satisfaction which is extremely important to follow up for *Hurtigruten* as a company as it is the only indicator for measuring expectations and reality of the delivered product”* (Interviewee 3).

*Hurtigruten* also operates with implicit control mechanisms by means of Microsoft Power BI, where employees have access to financial and non-financial key figures that act as numerical feedback results on actions taken. Similar reports, as illustrated in Figure 19, can be accessed by employees in different departments to monitor and measure the status of the various financial and non-financial key figures. Some of the key figures might be connected to a department's OKRs, while others are used for trend analysis on different key figures for financial analysis. In Power BI, the development, trend, and status of key figures are represented by color, where green represents positive, yellow represents neutral, and red represents negative. The Power BI Dashboards are used for internal benchmarking as well. "Through the dashboard here, you follow how one ship measures against another ship" (Interviewee 2 on Figure 19).

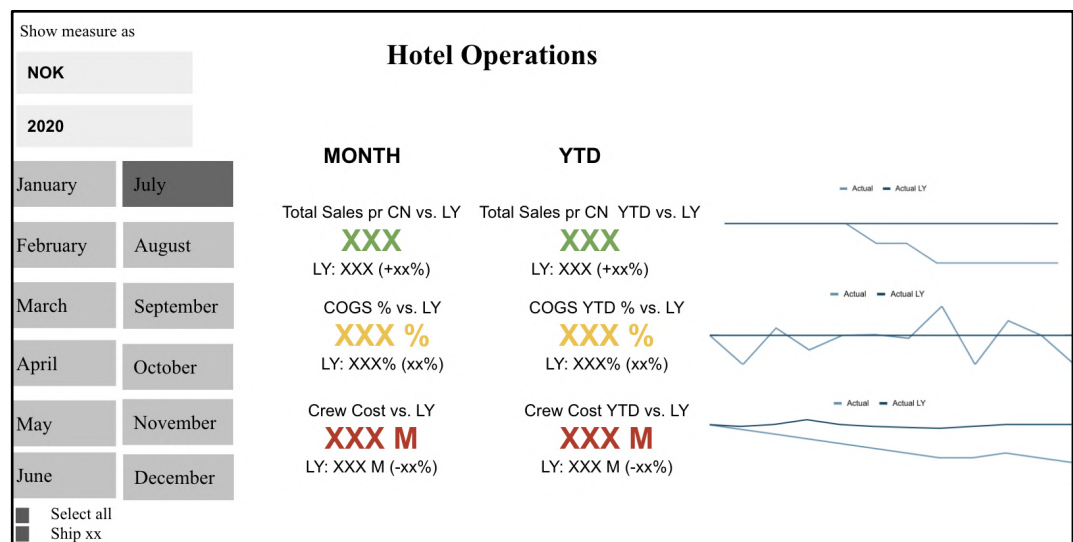


Figure 19: Simplified Example of a Dashboard in Microsoft Power BI (Company Documentation)

#### 4.2.5 Forecasting

"Previously, it has not been necessary to update the forecasts as we have used budgets to relate to in the short term" (Interviewee 2).

Even when *Hurtigruten* used budgets in the past, it used forecasts alongside that were updated every year or every other year. At present, *Hurtigruten* uses rolling forecasts that are updated quarterly on the full P&L statement of each business segment. However, situations might occur that demand an updated forecast beyond the four calendar moments a year, for example when a bank or a business

partner requests an updated version due to changes in the market conditions. Additionally, *Hurtigruten* uses a long-term forecast for its Business Plan 2035. The forecasts will be used to decide if action is needed to achieve the objectives or long-term strategy

The intent is to have a forecast that matches the company strategy and reflects ongoing business reality. The forecast is discussed yearly with the owners. At this yearly meeting, *Hurtigruten* together with the owners, decide on a strategy and it is evaluated to what extent *Hurtigruten* delivers on its strategy. The forecasts are developed in a detailed Excel spreadsheet, and based on ongoing reporting from the accounting system; to reflect reality accurately, changes are made in accordance with changes in the business environment. *“We forecast the expenses too, but we do not want to use forecasting as a form of budget. We want to use it to look forward, but not as a blueprint for what is as it is, as it is not a promise but expectation of the future”* (Interviewee 2).

#### **4.2.6 Resource Allocation**

*“Right now, I order what I have to based on ‘better judgment’, as we cannot afford nice-to-have resources. We have to tighten up the use of resources now because our ships are not operating”* (Interviewee 3).

Previously, the financial resources have been budget allocated every year by means of negotiations between the CEO and the Business Unit managers. However, resources are presently allocated based on the needs of the division to be able to deliver on the goals. An authorization matrix caps the amount of money employees in different positions can spend and serves as an implicit mandate to take autonomous decisions within certain spending limits. For investments over a certain amount, a business case, explaining the importance of the investment, must be approved by the appropriate decision-making body. There are standardized business-case templates, and employees must deliver all resource requests via this template. As *Hurtigruten* is in the introductory phase of its BB implementation, information regarding resource allocation and the procedures around business cases has not been distributed evenly to employees at all levels.

*“I hope to receive some guidelines in the form of a spending menu list from the Finance team in the future as to how much money I can use” (Interviewee 3).*

To plan ahead for the next couple of months, *Hurtigruten* uses a backlog to allot financial resources and employees to specific projects. Every other week, employees prioritize assignments from the backlog and initiate a ‘sprint’. A ‘sprint’ is a work assignment that is chosen from the backlog and will be prioritized for the next couple of weeks. Since January, this process of using backlogs has been formalized within the Microsoft Power BI app where the tasks are added, and employees can visually monitor which assignment to work on, what to deliver on each task, and who is responsible to complete and finalize the assignment. By using ‘sprints’, it creates an increased focus by simplifying the action agenda, as employees work on a set of assignments until it is completed before moving onto a new assignment in the backlog.

*“When employees work with several assignments simultaneously, they (the employees) are not able to deliver anything in the end. The best solution would be to finalize a task 100% before moving onto the next one” (Interviewee 1).*

Some departments also use ‘Kanban boards’ in Microsoft Teams, Miro<sup>9</sup>, and Smartsheet<sup>10</sup> to plan and distribute employees across projects, but the functionality is the same: a project is detailed with the overview of employee tasks and due dates, and employees can choose which one of the three tools works best for them.

#### **4.2.7 Incentive Systems**

Different recognition mechanisms, both financial and non-financial, have previously been included in *Hurtigruten*’s incentive system. In an HR portal, employees got ongoing feedback measured against performance, and some employees received a bonus, based on the HR portal’s data. At the management level, an individual performance-related bonus scheme has been in force since

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<sup>9</sup> Miro is an online collaboration platform used by companies as a tool for virtual workshops, brainstorming activities, and for interaction with coworkers (Miro, n.d.)

<sup>10</sup> Smartsheet is a software used for collaboration and project management used by companies to plan employee activities (Smartsheet, n.d.)



2013, notably for the CEO and others included in the BoM. However, as a result of the pandemic, no payment was made towards the bonus scheme in 2020. Apart from the top-management incentive system, *Hurtigruten* does not have an overall bonus-based scheme for non-executive employees. However, in different sub-units, for example, restaurants on ships, employees will be evaluated based on customer satisfaction and might receive a non-financial reward for good performance. For example, a high-performing employee will get rewarded in the form of good feedback from the leader, a promotion, or greater responsibility in the position. Also, good performances are highlighted and celebrated on the internal Workplace communication platform.

#### **4.2.8 Plans for the Future**

As mentioned, *Hurtigruten* is in the introductory phase of its BB implementation process with the main focus being on developing forecasting, and on setting goals and objectives. For the future, *Hurtigruten* mentions that it has not started working on a change in the bonus scheme, but it will need to be taken into consideration for the future. *“How is it possible to connect bonuses into delivery on goals and objectives? How does this trigger good behavior in the company?”* (Interviewee 1)

Additionally, the company plans to start implementing external benchmarking to a larger extent in the future and will especially focus on identifying well-performing companies to compare against. Previously, the budget was used as a reference to evaluate whether something was good or not. However, when there is no use of budgets, the organization will have to find new points of reference; benchmarking is considered the way forward in this respect. As *Hurtigruten* is a geographically distributed firm, the use of internal benchmarking of ships and crews can be beneficial to find best-in-class ways of working. For the future, the focus will be on external benchmarking, in addition to the already used internal benchmarking, and compare against other ships, restaurants, and hotels from other companies by means of ‘performance league tables’.

*“As of now, we benchmark the hotels on our ships against each other. Therefore, we know which ship has a high performance. However, what happens if ships with high performance relatively are not performing as well compared to hotels on other ships besides the ones we own? By using external benchmarking, we are able to see if hotels on other ships are performing better than the hotels on our ships, and then we can start to think about what they (the competitors) are doing that we are not doing, and how we can achieve similar results” (Interviewee 1).*

Finally, to identify performance trends and bandwidths, *Hurtigruten* is using Power BI and performance dashboards. For the future, it considers continuing to build on existing dashboards and implement distributed access to employees. Previously, the technology of Power BI was used to compare against the budgets, but its use is extending to compare against non-budget goals, including benchmarks.

### **4.3 Entra**

*Entra ASA* is the parent company of a group of real estate companies, where each building *Entra* has ownership over constitutes its own company. The reason why each building is its own private limited company is tax-motivated, and other real estate companies operate in the same way. The company has its headquarter located in Oslo and is a Norwegian real estate company founded in 2000, when a number of state properties managed by the Norwegian Directorate of Public Construction and Property, *Statsbygg*, was separated, privatized, and listed on the Oslo Stock Exchange. In a process from 2014 to 2020, the Norwegian government gradually sold down its ownership in *Entra ASA* to zero, and today *Entra* is an independent and fully private company. *Entra* is a leading owner, manager, and developer of office properties and focuses its portfolio on environmentally friendly offices in the largest cities in Norway such as Oslo and the surrounding area, Trondheim, Bergen, and Stavanger (Entra, 2021). Previously, the company rented out office spaces in smaller cities. However, the company decided to move away from this practice due to the risk associated with finding new tenants, which is easier to do in larger cities. The company’s strategy presently is to focus on centrally located properties close to transportation hubs located in clusters. Additionally, the company exercises active portfolio management with the purchase and sale of properties, which is the key driver for the company’s growth.

With a total of 186 employees, *Entra* accommodates our definition of an SME when it comes to headcount. While the parent company, *Entra ASA*, has a sales revenue of NOK 136<sup>11</sup> million, which is within our definition of an SME, the consolidated financial statement for the entire company shows a sales revenue of NOK 2 353<sup>12</sup> million (Entra, 2021). This large difference is due to the fact that each office building that is rented out is organized as its own company, and the sales revenue from each building is therefore accounted for in the consolidation of financial statements. This is well over the limit for the chosen initial definition of an SME. However, regarding the lack of available companies that knowingly use Beyond Budgeting, *Entra* in this thesis represents the views of a medium-sized company similar to *Tussa*. For more financial information, see Appendix D.

#### **4.3.1 Ownership, Governance, and Organizational Structure**

*Entra ASA* has been an independent company since it was established in 2000. As per the Summer of 2020, the company was owned by approximately 7 500 different institutional shareholders with the majority being large international funds, typical pension funds, or ordinary investment companies. The largest shareholders are *Folketrygdfondet* that manages the pension fund in Norway, and three Nordic companies; *Skandinaviska Enskilda Banken*, *Carnegie Investment Bank*, and *Danske Bank*, which is illustrated in Figure 20 together with the 10 largest shareholders of the company. During the fourth quarter of 2020, two companies, *Castellum Aktiebolag* and *Samhallsbyggnadsbolaget i Norden AB (SBB)* initiated a hostile takeover by wanting to acquire all available shares and made two unsolicited offers. However, both offers were later withdrawn, and for the future, *Entra* needs to prove to its shareholders that it can deliver good financial returns and perform as an individual company.

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<sup>11</sup> Approximately equivalent to EUR 13.6 million (May 4th 2021; Norges Bank, n.d)

<sup>12</sup> Approximately equivalent to EUR 235.3 million (May 4th 2021; Norges Bank, n.d.)

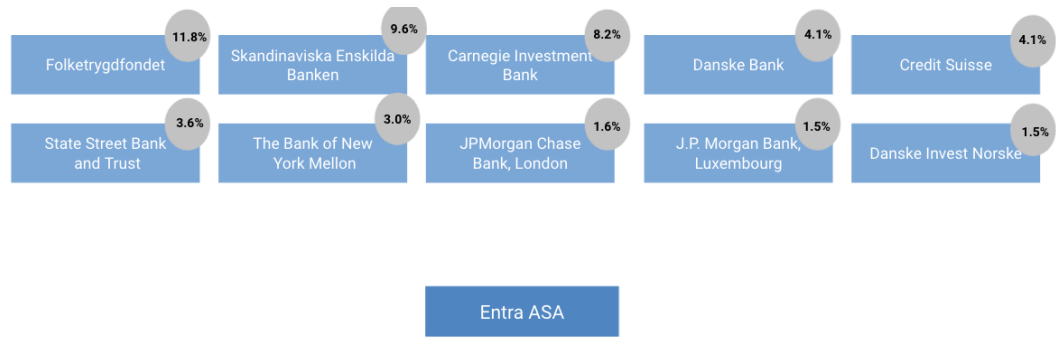


Figure 20: The Largest Owners of Entra ASA and Percentage of Shareholdings (Proff, n.d.-a)

The governance of the parent company, *Entra ASA*, consists of a Board of Directors (BoD) at the top, a CEO, and direct reports of the different business areas of Property Management, Project Development, Letting & Real Estate Development, and Digitalization & Business Development. In addition, there are two staff functions, the CFO department, and HR & Communications. The Property Management department is split into different geographical regions and consists of a total of six teams working with the operational and service aspects of the buildings. The Product Development department includes large new projects as well as remodeling projects and includes property analysis and Health, Safety and Environment (HSE). The Letting and Real Estate Development division works as real estate agents, and its work includes finding tenants for the building offices and increasing the occupancy rate. The CFO department provides legal counsel, investor relations, investments, and accounting services. Lastly, there is a Digitalization & Business Development department that focuses on the changes in technology changes occurring in the real estate industry as it attracts tenants and drives occupancy.

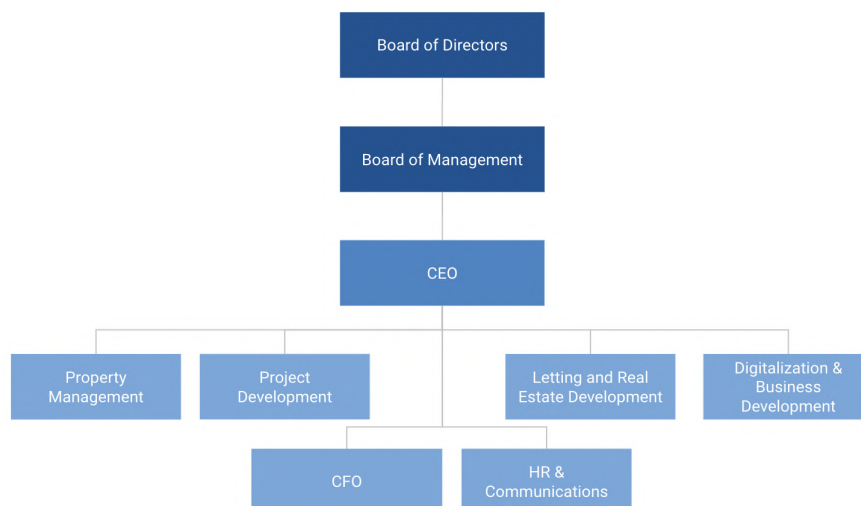


Figure 21: Organizational Chart Entra ASA (Company Documentation)

Figure 21 above illustrates *Entra's* organizational chart. The BoD is responsible for the long-term success of *Entra* and sets the overall strategy and provides management and direction for the Group to follow. The overall purpose is to have a BoD that safeguards the shareholders' interests. The BoD attends eight board meetings per year and any extraordinary, ad hoc board meetings when needed. Currently, the BoD consists of seven members, where the shareholders have elected five members, while two are employee representatives. The BoD is composed in a way that it can act independently of special interests. One of the eight annual board meetings is designed as a strategy workshop and lasts over two days, in which the BoD decides on the future strategy of the company. The BoM also includes seven board members, but there is no overlap with the BoD: those included in the BoM cannot be members of the BoD. The members of the current BoM include the CEO, CFO, COO, and EVPs from different business segments including Project Development, Market, Digitalization, and HR.

#### **4.3.2. Beyond Budgeting Journey**

*"We do not have any budgetary processes anymore and I would describe what we do as 'Beyond Budgeting light' because we do not have any set KPIs that we use in a sense... So, there are no set guidelines"* (Interviewee 9).

Previously *Entra* had a traditional budgeting process that lasted from June to December (6 months), which was a time-consuming process that included the entire organization. In 2011, the budgeting practice was simplified, with a reduced timeline lasting from October to December. However, there continued to be a broad involvement from the organization and many resources were used for detailed purposes. From 2015, activity plans were introduced replacing budgeting, with the process lasting from November to December (2 months). Today, *Entra* uses one month for the planning of activities. *"Still, many call this process a budgeting process, even though we do not control the activity plan. Real estate is pretty easy. We have long-term contracts which make it easy to predict future expenses and income"* (Interviewee 9). The company has moved away from a rigid budgeting process to a process that focuses on the relationship with future activities, reducing the time spent on planning future activities and the level of detail. *Entra* no longer includes income in its activity plans, and activity plans are

used by staff and support to prioritize focus areas. This yearly process with constant adjustments is further explained in Chapter 4.3.5.

*“However, we never decided to implement Beyond Budgeting, but we have started to work together with the Beyond Budgeting environment over time and gathered inspiration from this way of thinking. Hence, the changes made matched the principles of Beyond Budgeting more coincidental than planned. In the beginning, it was only meant to improve and simplify the budgeting process”* (Interviewee 10).

The main purpose of reducing the budgeting timeline was a result of the listing on the Oslo stock exchange, as a listed company should not have unnecessarily heavy processes that provide little value, i.e., it was driven by a cost-benefit motivation. Coincidentally, the resulting simplification process later turned out to be much aligned with the Beyond Budgeting way of thinking. As of today, in the operational aspects of the organization, budgets or variance reporting are no longer used. Instead, there is a continuous assessment of operational issues and investments, while more recently the occupancy rate has become more important than the cost of ownership. Meaning that the emphasis has shifted to obtain a return from the investment, rather than the capital investment itself. There are still some budgets being used on single projects as part of project management activities, but there is an external focus on key figures and the future development of the company by means of internal follow-up in management and project meetings on a regular basis, where the strategic pillars and KPIs are on the agenda. *“Even though it was not a strategic decision to start with Beyond Budgeting and it just became that way, we all agree that the company works in a much better way now”* (Interviewee 10).

### **4.3.3 Value Statements**

*“What has been important to us is that we are supposed to use our values. What is important is not to have posters hanging everywhere and make employees memorize them. We want it to become a part of our DNA”* (Interviewee 10).

*Entra’s* internal culture is built around four core values: being responsible, hands-on, one team, and innovative. The four values are related to the overall goal of

having a social responsibility as a company, and the use of values is evaluated during job appraisal interviews. Overall, most employees receive a good score on the compliance and use of the values. The values are also closely connected to the management principles that focus on how the follow-up and the development of employees are pursued. It is considered important that managers in *Entra* are good ambassadors for its values, and are seen as motivators, change agents, and culture- and business developers by setting good examples of how the values are used in practice. Managers are supposed to coach and provide feedback to the employees with both using and living the company values in practice.

*“The values are being used to build a culture, and it is used in recruitment to ensure that the future employees are value-driven and identify with our values. It is harder to change an employee’s behavior rather than hire someone who behaves in the way we prefer. A previous leader of mine said that it is easier to teach an old dog new tricks than to make people change their behavior”*  
(Interviewee 10).

Hence, the values are used as a criterion when recruiting and are focused on as an important factor for the future of the company. To make current employees identify with the values of the company, *Entra*’s employees attend workshops in the form of a ‘value-based café’, where the values are defined in terms of expected behavior. Alignment of individual behavior with the company’s values is evaluated constantly, with the values being used for the formation of company culture, management development, and as part of the hiring process.

The company’s vision is to have the most satisfied people work in *Entra* buildings and this extends the definition of customers to include also the employees working for the companies that are tenants in the office buildings that *Entra* owns and operates (Entra, 2021). By broadening the definition of the term customers, the extended enterprise vision affects 40 000 customers. Both the vision and the values are well known in the company, as the vision was established with help from external parties and utilizing workshops with employees in the different divisions. *Entra* focuses on having efficient buildings and, especially in the middle of a pandemic, the buildings must be satisfying the customers by covering their changed needs during lockdown. For the post-pandemic future, the vision

might change since remote offices are increasingly becoming more popular, and office spaces may need to be redesigned or sized differently.

#### 4.3.4 Strategy and Planning

*Entra* uses a BSC approach to implement the company’s strategy, and this scorecard is linked to three strategic pillars:

- Profitable growth
- Customer satisfaction
- Environmental leadership.

Even though being environmentally friendly is viewed as being a buzzword and popular recently, *Entra* has focused on being an environmental frontrunner since 2000, when the company was established. The strategic pillars are used to evaluate the employees and are introduced as dimensions in its version of the BSC, where KPIs are related to the pillars. Figure 22 below illustrates the KPI categories used at *Entra* since the company implemented Beyond Budgeting in 2015. It is worth mentioning that inside the KPI categories are point-item KPIs, which can have changed over the years. However, the categorization of KPIs remains the same. The BoD decides which KPIs to use and are set at the end of the previous year. Usually, the KPIs are based on continuous improvements and are adjusted from the previous year to constantly evolve and ensure growth. This resonates strongly with the process and aim of OKRs as it is a trade-off between setting ambitious goals that are not too ambitious and that can be achieved. The KPIs are communicated at every town-hall meeting four times a year and the meetings include what the objectives are, and what the progress is on them. The financial KPIs are retrieved from the accounting system and can be viewed at any time, while other parameters such as customer satisfaction will not be available until a customer survey has been completed.

<b>NOI Margin</b> (Net Operating Income Less Administrative Cost/Rental Income)
<b>Customer Satisfaction Score</b> (Norsk Leietakerindex, NLI)
<b>Energy Consumption and Waste Management in the Property Portfolio</b>
<b>HSE</b> (Health, Safety, and the Environment)
<b>Employee Satisfaction</b>
<b>Compliance</b>

Figure 22: List of KPI Categories (*Company Documentation*)



The strategy of the company is discussed and decided by the BoD annually in a two-day strategy seminar, often at the start of June. The strategy can also arise bottom-up and input is sent to the BoM and discussed, and later finalized in the BoD meetings. The strategic focus is changing together with the environment; for example, during the pandemic or when the company was close to being acquired. Often, strategy is a topic on the agenda that relates to strategy at the BoM meetings, which are scheduled every other week, as many of the topics have a 12-month perspective. The company uses a strategy pyramid, as illustrated in Figure 23, where the vision and main strategic objectives are identified and cascaded down to strategic focus areas. At the bottom of the pyramid are the company values.

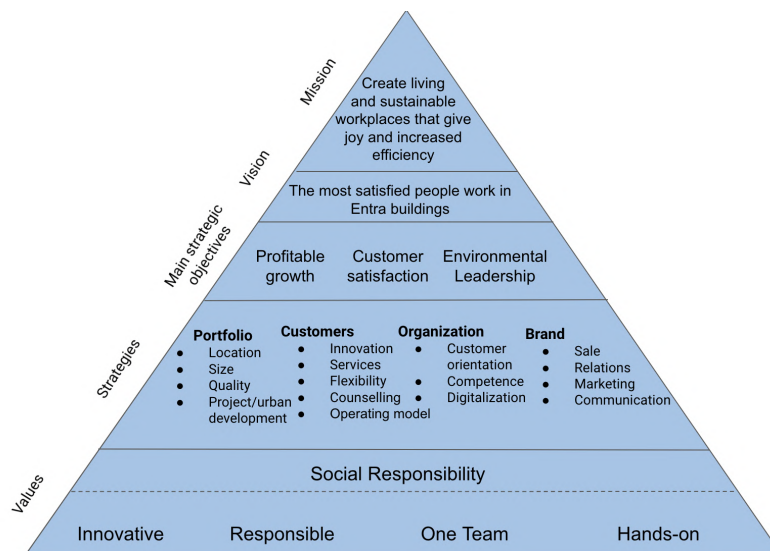


Figure 23: Illustration of the Strategy Pyramid (Company Documentation)

The planning process in a real estate company is rather simple, as buildings have a long life cycle, both for newly developed buildings and for existing buildings that are acquired. Normally, an occupancy ratio of 50% must be achieved before *Entra* starts the building process. Between 18-24 months are being used to build the building, and the tenants usually have contracts between 5-15 years. When a building either is finished or acquired, *Entra* uses existing rental agreements as a starting point in its occupancy process and rolls the existing rental agreements based on simple assumptions of the future based on vacancy, uptick, and reletting

cost. Tenants in existing buildings usually have contracts between 5-15 years as well.

As a result of the business model, *Entra* plans for the long term with an elevated level of accuracy as costs and income can be estimated with high certainty. Every quarter, business reviews are conducted with all of the business areas in which a status review is performed on each of the buildings, having project budgeting on a per-project basis. This is related to the fact that each of the buildings is its own separate legal entity. This is a method used by real estate companies to avoid capital gains taxation when selling buildings, as the company sells shares in the building (entity) which are tax-free capital gains. For each project, for example, when building a new office building, there is a related structured time schedule for what needs to be done at a certain time, in addition to an expected expenditure. The company does not have end-of-month reporting, and only reports its accounting quarterly which is a compliance requirement because the company is listed. *“I do not see the point of having a monthly accounting in a company that is so predictable and stable as Entra”* (Interviewee 8).

#### **4.3.5 Forecasting**

Activity plans work as a projection model where all the contracts are added, including financial data, and models them based on historical numbers, with just over 100 activities followed up yearly. An example of an activity plan used to project social expenditures is illustrated below in Figure 24. The use of an activity plan, that uses costs to develop concrete plans and priorities, works similarly to a traditional budgeting process; hence, although the terminology is different, the purpose and use of both tools (activity plan and budget) are identical as activity plans replace the planning role of the budget. Nevertheless, the activity plan only predicts administrative costs and does not include income. *Entra* states that the biggest difference between traditional budgeting and using activity plans is in the variance analysis reporting; reporting to the BoD does not compare financial numbers to a budget. The avoidance of ‘box ticking’ results in increased flexibility in the approval of activities on an ongoing basis.

VO	1
Project nr.	1
Activity	Social expenditures
Which year the cost occur	2021
VAT (Yes/No)	Yes

<b>Description</b>	Social events
<b>Justification</b>	Events to build the <i>Entra</i> culture

<i>Forecasts reevaluated every quarter</i>							
Actions	Description	Total Costs	External consultant	Forecast pr Q1	Forecast pr Q2	Forecast pr Q3	Forecast pr Q4
Squash	Available to all employees two hours every week						
Biking trip	Reduced size of event compared to last year						
Kayak	Purchases of two kayaks available to use by all employees						
Marathon	Two teams and social activities afterwards						
Work out session at the office	One times every week						
Soccer Team	Real-estate cup						

Figure 24: Example of an Activity Plan for Social Expenditures (Company Documentation)

#### 4.3.6 Resource Allocation

In terms of prioritizing the spending of resources, the Investment Committee is the most important decision-making entity. It has meetings every week to focus on the purchase and sales of buildings, as well as on the development of the real estate portfolio as such. Each investment case is related to strategy, risk and profitability and is evaluated at multiple levels in the organization, and includes the CFO department, where the investment project leader is located, the Investment Committee, the BoM, and the BoD (Entra, 2021). All major investments exceeding 10 000 000 EUR must be approved by the BoD. When evaluating whether or not to construct a building, an internal team will be established that includes employees from project development, to evaluate the building, people from operations, and sales and marketing to evaluate expected income and future development in the area the building is located. The company is using Excel as a computational platform with larger buildings being purchased are analyzed and evaluated in Excel, based on cash flow relating to the acquisition cost of the building and any necessary cost for renovation. *Entra* also uses Microsoft Dynamics 365 as an enterprise resource planning system where contracts and financial data are stored, and which is interconnected to Excel.

#### 4.3.7 Incentive Systems

Currently, the company operates with a gainsharing approach where the employees are collectively rewarded on an equal basis, i.e., receive the same compensation and benefits as employees in similar positions and at the same level in the organization (as based on salary). As a result, a higher degree of equality is

ensured throughout the organization, independent of gender or job position. The gainsharing incentive system is connected to *Entra Group*'s three strategic pillars and its KPIs. The KPI that measures profitable growth provides a bonus based on the annual EBITDA and the Return on Equity (ROE). Regarding customer satisfaction, employees are evaluated in comparison to the Norwegian Tenants Index (*Norsk Leietakerindeks*, NLI), an index that measures tenants' satisfaction, and receive a bonus equivalent to the score received in the index. Regarding environmental leadership, the bonus is settled based on energy consumption and waste sorting in the office buildings that *Entra* owns and operates. Lastly, Health, Safety, and Environment (HSE) is included in the gainsharing system and the goal is to have zero safety incidents of the tenants in the *Entra* buildings. Hence, the strategic pillars are leveraged behaviorally by means of the gainsharing system and its breakdown into KPI-based measurement categories. The KPIs underlying the gainsharing system depends on, are moderately easy to attain, which provides the employees a 50/50 chance of achieving the desired KPI and receiving the bonus. Previously, the company had individual bonus schemes and was incentivized based on the performance of the individual employee's scorecard on which each employee received a subjective score based on their performance. However, the company did not see individual bonus-incentivized scorecards as practical due to the size of the company, as well as the employee dissatisfaction with this arrangement.

*“With ‘one team’ being a core value in the company, some employees experienced that the previous bonus scheme was unfair and was inconsistent with the management principles we work with. Some employees saw it as a red cloth and triggered emotions that were unhealthy for most employees. Therefore, we went from a combination of individual and collective bonuses to a pure collective bonus scheme for everyone”* (Interviewee 11).

The present gainsharing plan has pros and cons as well, but a majority of employees are satisfied with the new incentive system.

In terms of performance appraisal, each employee in *Entra* has its individual performance scorecard where the employees' goals are documented in Microsoft Word and are uploaded to *Simployer*, an HRM-driven IT system. However, this

system will be replaced in 2022 with a new HRM system, *Salaris*, which additionally will include strategic aspects of HRM to create a more streamlined process. The individual performance scorecard tries to align employee goals to the company values by means of extrinsic motivation.

#### **4.4 Equinor**

*Equinor ASA*, previously known under the name *Den Norske Stats Oljeselskap AS - Statoil*, is a Norwegian energy company founded in 1972 (Equinor, n.d.-a). The company has over 21,000 employees worldwide and operates in the fields of oil, gas, solar, and wind power. *Equinor* operates an integrated value chain, including exploration, development and production, transportation, processing and refining, and marketing and trading. Its main office is located in Stavanger in the southwest of Norway, and the company operates in 30 countries all over the world.

In this paper, *Equinor* represents one of the MNCs, with the name *Equinor* in this referring to the group, meaning *Equinor ASA*, and its subsidiaries. The group's income statement for the year 2020 shows sales revenues of USD 45,753 million<sup>13</sup>, a net loss of USD 5,496 million<sup>14</sup>, and total assets of USD 121,972<sup>15</sup> million (Equinor, 2021). For more financial information, see Appendix D.

##### **4.4.1 Ownership, Governance, and Organizational Structure**

*Equinor's* majority owner is the Norwegian State with an ownership interest of 67% in the company (Equinor, 2021), represented by the Norwegian Ministry for Petroleum and Energy. See Figure 25 for an illustration of *Equinor's* shareholders. *Equinor* treats the Norwegian government as any other institutional investor, with the only difference being the frequency of meetings. "*Topics discussed include Equinor's economic and strategic development, sustainability and the State's expectations regarding results and returns on investments*" (Equinor, 2021, p. 121).

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<sup>13</sup> Approximately equivalent to EUR 37,517 (May 31st 2021; Norges Bank, n.d.)

<sup>14</sup> Approximately equivalent to EUR 4,506 million (May 31st 2021; Norges Bank, n.d.)

<sup>15</sup> Approximately equivalent to EUR 99,964 million (May 31st 2021; Norges Bank, n.d.)

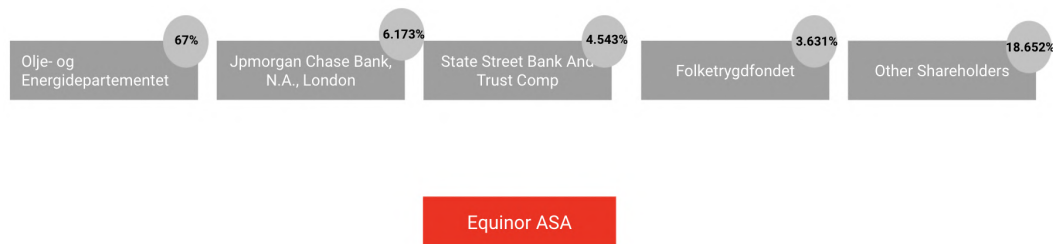


Figure 25: The Owners of Equinor ASA and Percentage of Shareholdings (Proff, n.d.-b)

The ultimate corporate body at *Equinor* is the General Meeting of Shareholders between *Equinor*'s shareholders, and its BoD, and BoM. The General Meeting of Shareholders is responsible for electing both the Nomination Committee and the Corporate Assembly (see Figure 26). The Corporate Assembly is required by the Norwegian Public Limited Liability Companies Act, and the corporate body is mainly responsible for supervising the BoD and the CEO's management of the company (Equinor, 2021, p. 124).

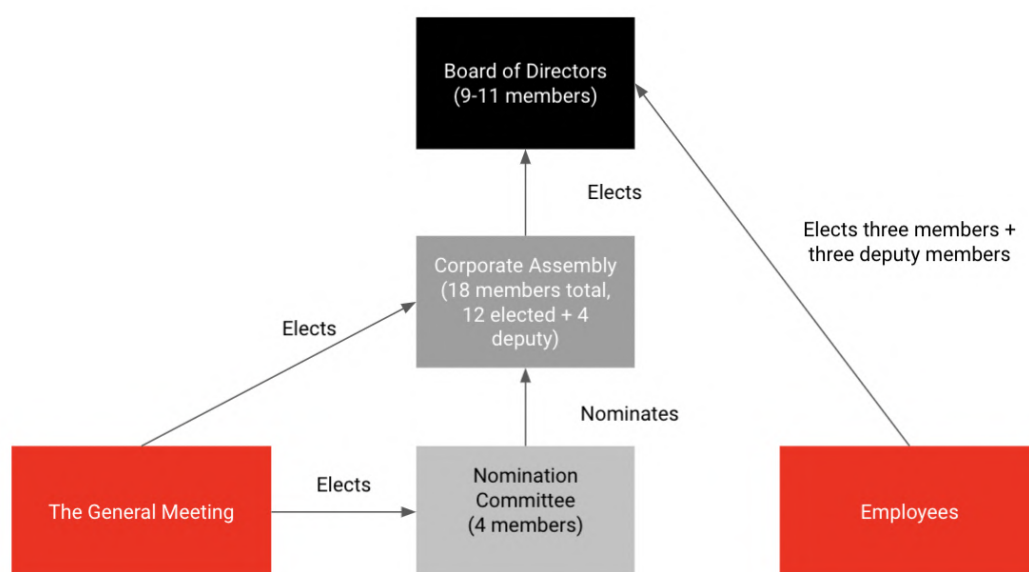


Figure 26: The Election of Corporate Assembly and BoD (Generated by Authors)

*Equinor*'s BoD consists of nine to eleven members that are elected for up to two years at a time. The BoD's responsibility is to "attend to the company's strategy, goals, main challenges, and the common interest of all shareholders" (Equinor, 2021, p. 126). The BoD usually meets eight times during the year.

The BoM, also known as the corporate executive committee (the CEC), consists of the president, the CEO, COO, and CFO, in addition to the vice presidents from several of the business units (the black boxes in Figure 27). It is their responsibility “to safeguard and promote Equinor’s corporate interests and to provide the president and CEO with the best possible basis for deciding the company’s direction, making decisions and executing and following up business activities. In addition, each of the CEC members is head of a separate business area or staff function” (Equinor, 2021, p. 132).

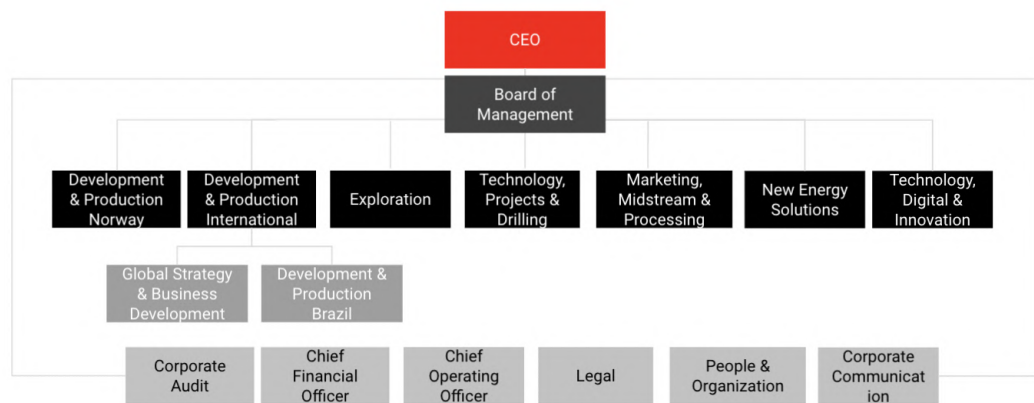


Figure 27: Organizational Chart Equinor ASA (Company Documentation)

#### 4.4.2 Beyond Budgeting Journey

Equinor started with personal delivery targets back in the 1980s, where the company introduced personal goals, and targets for the different levels upwards in the organization. Later, in the mid-90s, Equinor’s management introduced the BSC, which introduced more dimensions related to the bottom line.

*“And then our performance environment, and those who work with goal management, started talking about Beyond Budgeting in the early 2000s.... and then we got a very close link between the personal performance system and the financial performance system”* (Interviewee 14).

*“So, we went to the BoM in 2005. At the time, the new CEO had just started. We proposed not only throwing out the budget, as this had become a lot larger. By then it was more about actually changing a lot of the ways we thought about management and governance. And we got a yes to that”* (Interviewee 11).

Since 2005, *Equinor*'s BB model has continuously been developing. In 2010, *Equinor* decided to change the business rhythm, allowing for more dynamic management and reporting and continued to develop its 'Ambition to Action', as it is called in the company. However, *Equinor* has experienced some struggles from its BB initiation to where the company is today, for example, in terms of inter-organizational collaboration. Drilling licenses to operate on the Norwegian continental shelf are often shared between several companies and cooperating with different companies that use budgeting implies that certain situations and projects must follow budgets, losing some of the agility of BB. Another example is mergers and acquisitions. For example, in 2007, the oil and gas operations of *Statoil ASA* and *Norsk Hydro* were merged (Equinor, n.d.-b). The people that had previously worked for *Norsk Hydro* were used to operating with budgets, so the company "almost had to start all over again" (Interviewee 11).

#### 4.4.3 Value Statements

*"I want to go back to seventy-two, when the company was established because it was about hitting the ground running, right? We were going to be in the same league as the big ones who have a very long history, SP (Standard Petroleum) and Shell and Exxon and you name it. So, we grew quite fast, but there were a lot of young people who were recruited. And this with autonomy and empowerment and trust in people. It was not even a conscious choice. You had no choice. You had to trust people. You had to delegate. I got a pretty heavy management job a year after I had graduated from business school, as an example, and I think that it did something with the company culture that has never disappeared"* (Interviewee 11).

*Equinor* summarizes its values with four words: open, collaborative, courageous, and caring. While the four words are equivalent to words used by many other companies, the BoM has worked on communicating the content and meaning of the words, as well as the reasoning behind the choice of words and not using them just as empty filler. *"We got collaborative as a separate value for Equinor. It was a few years ago because they (BoM) see that we as an organization get nowhere if we are not extremely good at collaborating internally"* (Interviewee 12). Whereas internal collaboration always had been a focus and something that the company



had excelled at, the BoM wanted to highlight this additionally acknowledging collaboration as something that would bring *Equinor* forward.

The company values are well known by most employees in *Equinor* and are emphasized as “*incredibly important for building a learning organization*” (Interviewee 14). However, it is considered more important that the meaning behind the words is understood, rather than just reciting the words. The values, together with the vision and company strategy, are the guidelines for everything the company does. “*We place as much emphasis on how we do it, as what we do*” (Interviewee 14). Therefore, values play a key part in the recruitment process and are one of the main criteria when recruiting. While this is not extraordinary within Norway, for locations outside of Norway it is something that makes *Equinor* a competitive employer brand when recruiting. “*... in the United States for example. This is where we recruit a lot from our competitors, and many want to work for us because we operate in a different way than others*” (Interviewee 11).

Shaping the future of energy is *Equinor*'s main vision. In the ‘Equinor Book’, the document describing *Equinor*'s code of conduct (2020, p. 15), the vision is said to be resting on three pillars.

- Competitive at all times
- Transforming the oil and gas industry
- Providing energy for a low-carbon future

*Equinor*'s purpose is phrased as “to transform natural resources into energy for people and progress for society”.

#### **4.4.4 Strategy and Planning**

“*Equinor continues to pursue its strategy of always safe, high value, and low carbon. To position itself as a leading company in the energy transition, Equinor is accelerating profitable growth in renewable energy, developing for low carbon solutions and focusing and optimizing its oil and gas business*” (Equinor, 2021, p. 21).

‘Ambition to Action’ is the tool *Equinor* uses to translate the strategy into concrete actions and results. ‘Ambition to Action’ is designed and created in SRP, which is an enterprise resource planning system based on SAP. Based on the BSC,

*Equinor* has strategic objectives which are divided into five interdependent perspectives.

*“So, if you do not have Safety, Security, and Sustainability in place, then you can forget the others. The next level is the People and Organization, you have to work with the people as they (the people) are the most important asset. Then you can move onto operations, market and finally finance, and get the results you need”* (Interviewee 11).

The strategic objectives typically indicate the desired position in the next three to five years, and each department translates the objective. *“What are actually the strategic objectives of the Equinor/top level? Each unit tries to translate exactly how to contribute to where Equinor wants to be, and then the unit defines their own strategic objective”* (Interviewee 13). By means of ‘Ambition to Action’, *Equinor*’s overall strategy reaches out to each level within the organization. *Equinor*’s overall strategy as well as the organization’s top-level strategic objectives are designed with help from the department of Global Strategy and Business Development. The CEO holds the main responsibility for developing *Equinor*’s business strategy, but the final version, and the connected overall ‘Ambition to Action’, are reviewed by the BoD in December each year. After receiving BoD approval, each business unit will then deliver its objectives as related to the top-level strategic objectives. The strategic objectives must be approved by the BoM but can be adapted if needed.

*“That often happens in February... and last year, we came to March, and then everything fell apart. The fact that we then can adapt it, I think is extremely important for us, to actually be able to make the right decisions and really maneuver the market we are in, in a good way”* (Interviewee 13)

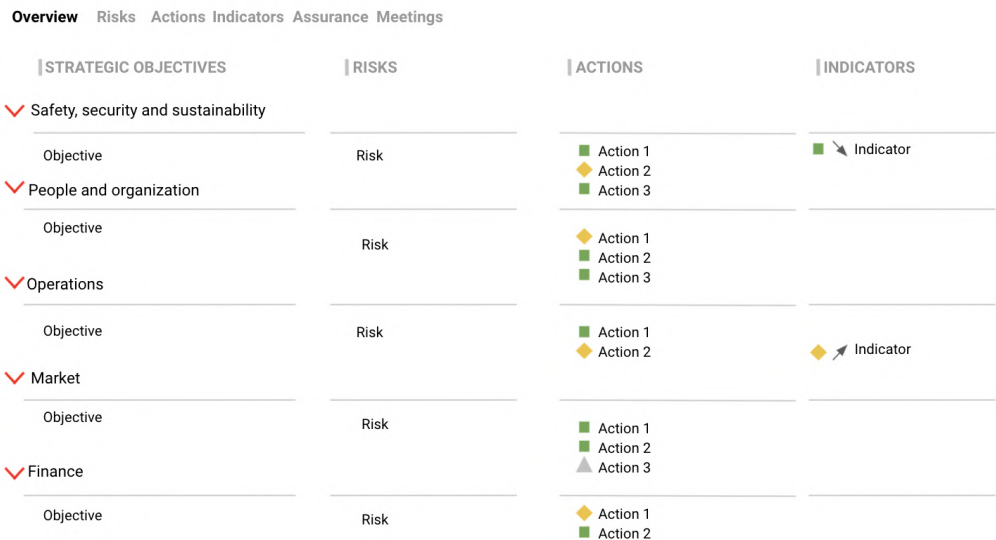


Figure 28: Simplified Overview of Ambition to Action Dashboard (Company Documentation)

As can be observed in Figure 28, the different objectives are organized under the five BSC perspectives. Each objective is connected to a risk, which employees can monitor. Risk management was previously managed in a separate program but was more recently integrated into the dashboard. Each objective has a number of actions and either includes how the company will meet the strategic objective, or how to mitigate the risk related to the objective. Each action is linked to a dashboard where action-related tasks can be organized, and their status is monitored, illustrated below in Figure 29. In addition, related actions can be shown, both within the organizational unit as well as across organizational units, thus enabling selecting which organizational units to collaborate with to contribute towards *Equinor's* strategy.

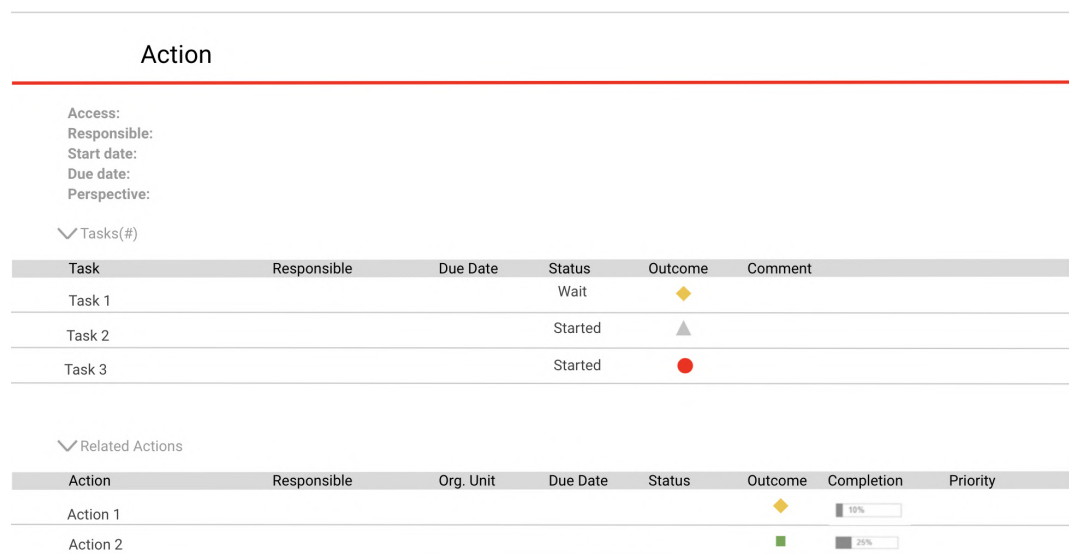


Figure 29: Simplified Action Dashboard (Company Documentation)

Lastly, in terms of metrics, a measure can be connected to some of the strategic objectives, indicating if the unit is moving in the right direction. There can be two things connected to an indicator. *“It can be a goal. Then it is the status as of today, and a forecast where it is relevant”* (Interviewee 11). Colors (and shapes) show if the forecast is above or below the target when there is a target connected to an indicator (illustrated in Figure 28 above). There are over 300 predefined indicators that are automatically reported on and require no additional work, using a system called MIS. Additionally, managers have the option to choose an indicator outside the predefined set; however, the manager must then maintain it manually by her/himself.

For financial measurements, *Equinor* uses relative shareholder return and relative Return on Capital employed. Relative in the sense of benchmarking within a ‘performance league table’, established by *Equinor*, against eleven other energy companies. The goal is to perform higher than average on the two relative measures each year. Taking into consideration that *Equinor* operates with fluctuating oil prices, benchmarks allow them to evaluate its performance against other companies subject to the same fluctuations, instead of just comparing this year’s numbers against the previous years, implicitly including oil price fluctuations that distort the financial results.

#### **4.4.5 Forecasting**

*Equinor* uses different kinds of forecasts, which vary between the organizational units. To further adapt to the different needs of the units, *Equinor* has introduced so-called dynamic forecasts. Different units or entities update their forecasts *“when something happens in their reality, which they (the different units) believe justify a forecast update”* (Interviewee 11). On a group level, the same dynamic forecast system is used for forecasting, which can be used as a reference for large investments or decisions. To maintain a forward-looking focus and linked to the ‘Ambition to Action’, *Equinor* forecasts on certain actions or indicators when necessary. The forecasts are expected forecasts and are articulations of business prognostics; forecasts are not targets that need to be achieved.

Scenarios are used in *Equinor*'s forecasting process for decision-making or investment. By means of a self-developed system called STEA, the company does portfolio modeling on investments continuously and dynamically. Different alternative portfolios under different price regimes are modeled, to aid with investment decision-making.

#### **4.4.6 Resource Allocation**

To replace predefined, budget-based resource allocation, *Equinor* operates with spending authorization limits within which an employee can spend without needing approval. Part of the spending authorization responsibility is delegated to the business areas, as business areas know best how to use their money and prioritize their resources best. If an individual employee proposes a business case that surpasses the spending limit, the case is presented to a management meeting for review and approval. "*Which level of management depends on how much resources the business case requires*" (Interviewee 13).

Furthermore, some implicit control mechanisms are integrated into the SRP and MIS systems, where employees can access different reports. *Equinor* operates with a variety of heterogeneous indicators, where indicators can have either diagnostic or monitoring purposes. Some monitoring indicators are not connected to 'Ambition to Action' but are monitored separately by means of SAP and MIS, which are enterprise resource planning systems. Monitoring indicators monitor situations that the company wants under close observation but are not currently relevant for the existing 'Ambition to Actions'. Some indicators in an 'Ambition to Action' can also be related to cost as a control mechanism. The diagnostic purposes of certain indicators are related to the expected forecast on those indicators, or if certain targets are not met on indicators related to an 'Ambition to Action'.

Project portfolio status overviews are equally used by *Equinor* to assess the (continued) correct prioritization among projects. "*Mostly to see if we prioritize the right projects and that we provide resources to those who actually create the most value, so we get some momentum in the projects that are prioritized*" (Interviewee 13).

#### 4.4.7 Incentive Systems

“At Equinor, the way we deliver is as important as what we deliver” (Equinor, 2021, p. 120). Described as a learning organization, *Equinor* aims to facilitate continuous feedback for employees, which is organized by a system called ‘*People at Equinor*’. This is where each employee finds her/his individual delivery (what) and behavioral (how) goals. Delivery and behavior are weighted equally, as illustrated in Figure 30. The aim is that the goals will create motivation, and the focus is on how each individual employee can contribute to *Equinor*’s strategy. The dark grey boxes vertically above and under the black Result box represent the results of the team and the individual delivery goals (what), and the results of the team and individual behavior goals (how). The arrows in the figure illustrate the importance of continuous feedback at *Equinor*.

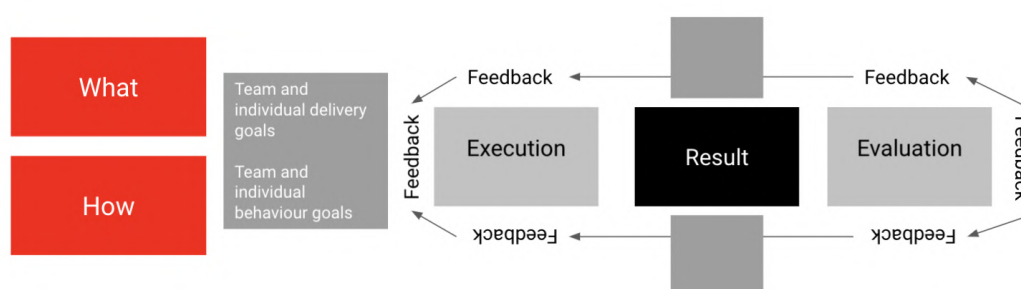


Figure 30: Evaluation and Feedback (Company Documentation)

While individual delivery goals often are connected to an ‘Ambition to Action’, the behavioral (how) goals focus on *Equinor*’s values, such as management, focus on safety. *Equinor*’s incentive system is weighted 50/50 between career incentives and monetary rewards. In the case of monetary bonuses, there is both a collective bonus scheme based on how *Equinor* performs on the two ‘performance league tables’(benchmarking) against its competitors and an individual bonus system, connected to the individual goals.

For bonuses “it varies how much you actually have to play with since it boils down to salary. In recent years, there has been a decrease in oil prices, and other external factors that have affected the monetary limits. If you then have very good people that you would like to reward, there might not be much room to affect their salary. Then there are other things you must do instead, like giving people interesting and challenging tasks and making them visible to management and top management” (Interviewee 12).

The focus is, therefore, to find out what motivates each employee. Regarding careers, it is stated that “*some people attach great importance to careers, but what is important about our career system is that we have both a career ladder for managerial careers, and a career ladder as a professional within a field of knowledge*” (Interviewee 14). Being recognized for performing well will either provide more responsibilities as a manager or more responsibilities as a professional within a delineated field of knowledge such as reservoir engineering or deep-sea drilling technology.

## **5.0 Discussion**

In this chapter of the thesis, the 12 Beyond Budgeting principles will be discussed in relation to the four case companies: *Tussa, Entra, Hurtigruten, and Equinor*. The purpose is to present the findings of this thesis and answer the research question “*How do SMEs use the Beyond Budgeting principles as compared to multinational companies?*”. To answer the research question, we will evaluate the companies’ usage of the 12 BB principles, and we will discuss if the differences observed can be attributed to company size.

The following paragraphs is based on an NVivo interview coding analysis, where themes and quotes from the interviews are used as a basis for the findings. The findings are explained in detail connected to the 12 BB principles in tables presented in Appendix E. The NVivo analysis was conducted using the 12 BB principles with the NVivo findings allowing us to focus on the research question. This is different from the focus in the description of each case study in Chapter 4, which was inspired by MCS-as-a-package by Malmi & Brown (2008).

## 5.1 NVivo Findings of the 12 BB Principles

By answering the research question “*How do SMEs use the Beyond Budgeting principles as compared to multinational companies?*”, we have put emphasis on the practical usage and to what extent the companies follow the principles. In Figure 31, the 12 BB principles are repeated.

Leadership Principles	Management Processes
1. Purpose	7. Rhythm
2. Values	8. Targets
3. Transparency	9. Plans and Forecasts
4. Organization	10. Resource Allocation
5. Autonomy	11. Performance Evaluation
6. Customers	12. Rewards

Figure 31: The 12 BB Principles (BBRT, 2016b)

### Leadership Principles

#### *Purpose*

From the observations of case companies, we observe that not all companies are able to combine their purpose with high clarity of top-management communication on decomposing goals into objectives and KPIs, a criterion emphasized by Gartenberg et al. (2019) as important in order to improve financial performance. Decomposition is reflective of ‘Management by Objectives’ (MBO<sup>16</sup>) aiming at goal congruence between purpose, objectives, goals, and targets (Dinesh & Palmer, 1998). For example, three of the case companies use strategic objectives/strategic pillars connected to either KPIs (*Entra*), OKRs (*Hurtigruten*), or ‘Actions’ (*Equinor*), which increase the clarity on how the companies will work towards the company strategies. The interviewees in the above-mentioned companies expressed a high degree of clarity related to the decomposition of goals into objectives and KPIs. However, an interviewee in *Tussa* gave a different impression, reflecting the lack of guiding strategic objectives leading to a higher degree of unclarity. This is exemplified by the following statement:

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<sup>16</sup> Management by Objectives “is a management system that incorporates the features of three processes that are known to constitute good management practice: participation in decision making, goal setting, and objective feedback” (Rodgers & Hunter, 1992, p. 27)



*“What is a bit of a challenge here, is that they (the strategic objectives) are a bit vague. This applies both at the group and company levels” (Interviewee 5)*

*Tussa’s* strategic objectives are inspired by the BSC and are separated into Customer, Public relations, Employees, Internal processes, and Finance. The strategic objectives related to ‘Public relations’ include taking care of the environment and having a good reputation. This can be viewed as vague in a sense, as taking care of the environment is a broad objective and can be interpreted in many ways and be hard to operationalize in terms of actions at lower organizational levels. *Tussa* also connects more than six KPIs to one strategic objective, which are likely to each proliferate into multiple metrics, making it overwhelming and hard to prioritize and focus. Such a large number of KPIs can be confusing, and the KPIs might even contradict each other. *Tussa* might draw inspiration from *Equinor’s* ‘Ambition to Action’, creating singular priority lists to reduce the level of confusion present in the company. As *Equinor’s* ‘Ambition to Action’ has been developed over a longer time and has been adjusted accordingly, we can argue that *Tussa’s* clarity of objectives might become clearer when the BB implementation matures. As mentioned by *Tussa*, the current KPIs are in constant evolution as a result of the ongoing strategy process, i.e., setting good strategic objectives and KPIs are mentioned as a priority for the company.

*“We have experienced problems relating to the level of detail, as we should have general strategic goals that are directional and inspire employees. However, we are not there as of yet” (Interviewee 5).*

One might also argue that *Hurtigruten* has a relatively lower clarity on the usage of goal-setting approaches in the company than initially expressed by the interview subjects. All interviewees from *Hurtigruten* explained the usage of OKRs; however, their explanations are more in line with the top-down use of MBOs. Therefore, there seems to be an incorrect application of the OKRs described, which might be related to a lack of clarity on the purpose behind the approach. OKRs are more recently implemented in *Hurtigruten*, and the development and integration of OKRs may be further developed in the future, with misinterpretations possibly being a result of the early phases of the

implementation process. However, the usage of ‘sprints’ is more in line with the purpose and routines of OKRs provided its focus on bottom-up involvement and engagement. Hence, we can argue that the OKR and ‘sprint’ tools might benefit from morphing into one single tool of bottom-up involvement.

To summarize, by means of the NVivo coding there is little to no evidence showing that SMEs use the BB principle of ‘Purposes’ differently from MNCs. However, as illustrated in the paragraphs above, *Tussa* and *Hurtigruten* have a lower degree of clarity in goal-setting approaches as compared to *Equinor*, but we are not relating this observation to the company size directly, as this finding might be more related to company experience working with BB.

### *Values*

In all four case companies, there is a focus on communicating both the ‘Purpose’ and ‘Values’, with a varying degree of success depending on the maturity of BB in the organization (short maturity leading to limited communication success and vice versa), and the time spent on planning before initiating the implementation process. For example, *Equinor*’s ‘Ambition to Action’ has been developed over years, compared with *Tussa*’s use of *Corporater*, which is a relatively recently developed management tool. In terms of change management in itself, *Tussa* is presently revising the Kotter model (Kotter, n.d.) as the company realized that BB in its extreme form was not the desired outcome of the implementation (see Chapter 4.1.2 for further information concerning Kotter’s model as mentioned in the case description). Hence, *Tussa* jump-started the BB process with the implementation of a new tool such as *Corporater*, before discussing if Beyond Budgeting in itself fulfilled the desired outcomes of the company, which is exemplified by *Tussa* revising the Kotter framework after reflecting on its implementation.

Further, our observations from the NVivo analysis provide support that the case companies that serve both private customers (B2C) and business customers (B2B) will have value statements with a larger focus on the customers than companies that serve the B2B market only, as exemplified by *Equinor* (further discussed in the ‘Customers’ paragraph). Most companies have one value statement that is communicated both internally and externally, while *Tussa* has deployed a set of

external values in addition to the internal ones, which revolve around acting towards its customers. This comes down to ‘behavioral congruence’<sup>17</sup>, i.e., the way *Tussa* wants to be perceived by its customers should align with the employees’ actions. In *Tussa*, the external (LAPF) values and value statements are used for brand and branding efforts, and not for the sole purpose of using them internally. Because *Tussa* is publicly owned by the municipalities and has other responsibilities alongside financial profit, the company uses the LAPF values primarily for external legitimization and to capture customers, while using the KRAFT values in addition and primarily to achieve internal behavioral congruence in customer-focused activities.

Even though the value statements are used in different ways and to fit different purposes, all case companies operationalize their value statements in the HRM domain, notably in recruitment, onboarding, and training. The reverse can be argued too; if the values were not made practical, the values and value statements would not have survived the test of time. By using the values in the recruitment process, all four case companies aim to hire people who fit with the organizational values. This is exemplified by an employee at *Entra*: “*It is harder to change an employee's behavior rather than hire someone who behaves in the way we prefer. A previous leader of mine said that it is easier to teach an old dog new tricks than to make people change their behavior*” (Interviewee 10).

To summarize, each of the four case companies has a set of values established that are embedded in the MCS even though the values are used to different extents. Therefore, we do not observe any substantial difference between SMEs and MNCs in the use of ‘Values’ relating to company size.

#### *Transparency and Autonomy*

Relating to the ‘Transparency’ principle, the NVivo evidence shows that ‘Transparency’ is strongly tied to information access and authorization, which again links with the ‘Autonomy’ principle and uses trust as a keyword. This in turn implies that both information access and the need for authorizations seem to be positively correlated to increases in transparency and autonomy. Further, this

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<sup>17</sup> Behavioral congruence refers to the fit, match and agreement between two constructs such as perceived and wanted employee attributes (J. Edwards, 1994)

suggests that both information and authorization are key instrumental pathways to operationalizing the high-level, abstract concepts of ‘Transparency’ and ‘Autonomy’. From a Management Control Systems tooling perspective, it suggests an emphasis on information technology platforms to implement both principles of ‘Transparency’ and ‘Autonomy’.

Looking at all four case companies, the evidence hints at a difference between SMEs and MNCs, where the focus on access to information technology platforms is larger in both MNCs (*Hurtigruten* and *Equinor*). *Equinor* wants to make ‘Ambition to Actions’ accessible for all employees; however, some are restricted due to the level of sensitivity, related to *Equinor* being a listed company. Some departments also choose to connect their ‘Actions’, meaning employees can observe who are working towards the same strategic objective (‘Ambition’). *Hurtigruten*’s plans for the future also include open and accessible dashboards in Power BI. *Tussa* also mentions accessible dashboards on screens as a tool the company is considering implementing in the future, but the company has not prioritized this. Both *Hurtigruten* and *Tussa* are early implementers of BB and are both wrestling with the instrumental implementation of the principles, tailoring the principles to their specific company circumstances. However, *Tussa* has thus far limited itself to provide managers with access to information tools, which illustrates an early-stage level of ‘Transparency’ deployment. In *Entra*’s case, the use of the ‘Transparency’ principle is not related to information access restrictions, but to the internal reporting cycle, with information and financial numbers being updated quarterly or yearly. Within *Entra*, there is little information to share as the performance numbers, such as customer satisfaction, cannot be accessed until surveys are completed. The case study observations further imply that the BB principles might require the generation of information that needs to be relatively short-cycle, i.e., decoupled from external reporting cycles and established on work (‘Action’) cycles. The NVivo evidence, therefore, shows a higher level of transparency in the MNCs. In the SMEs, due to the use of Excel as a tool, the accessibility of information is relatively lower, and is restricted to individual (Excel) users only and not shared across larger parts of the organization. Hence, ‘Transparency’ is only useful if backed up with company-level shared tools and supported by information access and work cycle connectivity.

### *Organization and Autonomy*

Several of the BB principles cover similar aspects of an organization, as discussed in Chapter 2.4 Beyond Budgeting model. The theoretical backgrounds of the principles of ‘Organization’ and ‘Autonomy’ highlight the importance of ‘Agile Management’ and accountable teams, which are observable to a larger extent in the MNCs, than in the SMEs. In the SMEs, a higher degree of decision-making is residing with the BoM and is less decentralized to units lower in the organizational hierarchy. This might be attributed to company size, but there are examples of SMEs which are strongly decentralized in terms of decision-making even though it is not the case for our SME case companies. In the MNCs, it is not possible for the BOM to *make everything its business*; As a result, there is evidence that goal setting and goal accountability is stricter in MNC, as compared to the SMEs. In MNCs, teams/departments are responsible for translating their goals and are held accountable for the resulting outcomes (examples from the case descriptions include the use of OKRs and ‘Ambitions to Actions’). Both MNCs (*Hurtigruten* and *Equinor*) operate with investment level authorization, implying that the control span is broader in the MNCs. The volume of managerial decisions made in MNCs requires increased ‘Controls of Results’<sup>18</sup>, which, again, is achieved by holding employees accountable for achieved results (Van der Stede & Merchant, 2017). All four case companies studied have a high level of organizational performance as represented by (solid) financial results. Therefore, one might argue that also the SMEs might afford more decentralized decision-making, hinting at Antsaklis’ (2019) observation on the reversed causality between organizational performance and autonomy (high performance drives autonomy).

### *Customers*

The BB principle of ‘Customers’ involves decentralized decision-making. By delegating decision-making power closer to the customer-employee interface, the theory on Customer Need Knowledge (CNK) argues that employees working in the employee-consumer interface have improved knowledge about the customers, which is beneficial to both parties (Homburg et al., 2009). CNK, therefore,

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<sup>18</sup> Pay-for-performance is a type of result control as it involves rewarding employees for generating good results and are related to incentive systems (Van der Stede & Merchant, 2017)

supports decentralizing decision-making and increasing organizational flexibility. The NVivo analysis (see Appendix E) found no substantial differences between SMEs and MNCs as related to ‘Customers’. For example, *Hurtigruten*, *Tussa*, and *Entra* all include customer satisfaction as a part of their performance evaluation by means of internal ‘performance league tables’ (*Hurtigruten*) and KPIs (*Entra* and *Tussa*), while *Equinor* on the other side removed the customer dimension out of its ‘Ambition to Action’ dimensions. Several of the businesses operate in a business-to-business market (B2B): *Tussa*, *Equinor*, and *Entra*, although *Hurtigruten* and *Tussa* operate mostly towards the end consumer, while *Equinor* has no immediate end-consumer interface. This impacts the organization’s agility, as organizations that work with consumer interfaces, often necessarily need to increase frontline decision-making autonomy. The focus on the ‘Customer’ principle implies that BB has an immediate implementation gateway within businesses that work with consumer interfaces (B2C industries). Within B2C industries, the ‘Customer’ BB principle might possibly be backed up by the ‘Autonomy’ and ‘Transparency’ principles, which tend to be operationalized via information access, authorization rules, and work cycle connectivity. A higher-level implication of the B2C and B2B and ‘Customer’ principle observation is that differences in BB implementation might be connected to the industries in which companies operate, i.e., BB implementation and use is primarily industry determined.

## **Management Principles**

### *Resource Allocation*

We observe a connection between ‘Autonomy’ and accountable teams towards ‘Resource Allocation’. In general, SMEs make relatively more decisions by top management, especially when it comes to the large amounts involved in resource allocations. For SMEs, large resource allocation decisions carry a high financial risk which requires centralized decision-making; an SME cannot risk making a wrong multi-million investment because it will not survive. Spending authorizations is one solution (standard operating procedures, SOP) to manage as much decentralization as possible, controlling the related financial risk. While both MNCs (*Equinor* and *Hurtigruten*) operated with matrices of spending limits and supporting business cases, our NVivo analysis found no mention of spending matrix tools in the SMEs (*Tussa* and *Entra*). Nevertheless, while this may indicate

a lack of autonomy in resource allocation decisions, it may equally be a reflection of the related financial risk, with decisions requiring centralized decision-making.

Additionally, MNCs due to sheer size, are more obligated to trust employees and it would not be possible to allocate resources in a similar manner as SMEs, where more decisions are made by the BoM. Monitoring and action observability are not possible on the same level in MNCs as in SMEs, thus mandating accountable/autonomous teams and decentralized decision-making as requisite management mechanisms. As such, matrices of spending limits and the use of business cases are equally resonating with Principal-Agent theory, where the decentralized, autonomous team tools function as a method of guiding possible diverging interests between higher and lower management (principals and agents). To conclude, our findings indicate a difference in the allocation of resources between SMEs and MNCs, which is likely attributed to the size of the company and the accompanying mechanisms for decentralized decision-making.

#### *Plans & Forecasts and Business Rhythm*

With respect to the BB principle of 'Plans & Forecasts', we do see a difference in the usage, but more seemingly related to ownership structure and industry sectors. Even though all four case companies to some degree use plans and forecasts as a replacement of the budgeting process, there is a difference in the extent and the format. For example, both MNCs (*Hurtigruten* and *Equinor*) use rolling forecasts to evaluate the future, i.e., as a planning device, while none of the SMEs have adopted forecasting, be it for distinct reasons; because working in a predictable industry (*Entra*), or because going against the owners' wishes (*Tussa*). In the latter case of *Tussa*, the non-use of forecasting illustrates a tenet of the Principal-Agent theory, with agents and principals having diverging interests (Hagen, 1997); *Tussa's* employees and its finance team want to adopt rolling forecasts, but the owners do not. In the case of *Entra*, "*BB would probably not have been implemented if the owners knew what changes it includes*", because it impacts the power dynamic present in budget negotiations, shifting it towards *Entra's* units. This observation implies that the governance structure does matter for BB adoption. A transfer of planning capabilities and tools to lower levels in the organization implies a shift in decision-making power that amplifies information asymmetry between parties. As such, it might be a topic for future research; for

example, performing a ‘before’ and ‘after’ study of increasing the use and location of planning and forecasting tools in order to illustrate a shift in the power dynamic within the overall governance structure and MCS.

However, as planning and forecasts are used as substitutes of traditional budgets, and the fact that it is used in companies of different sizes and across different industries, illustrates that forecasting is very flexible by nature and can be customized and scaled to many different industries and circumstances. In other words, it is more accommodating towards absorbing different variables and parameter categories than budgets, which require translation into financial categories befitting the financial statements. The case companies’ planning process is also dependent on the industry; for example, *Hurtigruten*’s plan is based on seasonality and *Entra* bases it on long-term tenants’ contracts. When combining the ‘Planning & Forecasting’ principle with ‘Rhythm’, which is best measured by order backlogs and invoicing, it can be argued that the power production fluctuates depending on the weather for *Tussa* and fluctuates with the tourism seasonality for *Hurtigruten*. As such, it brings back the argument on ‘work cycle connectivity’ of information access mentioned previously, relating to the principle of ‘Rhythm’.



*Target, Performance Evaluation, Rewards*

Company	Tussa	Entra	Hurtigruten	Equinor
Size	SMEs		MNCs	
Inspired by	The BSC	The BSC	OKRs	The BSC
Short explanation	Uses a strategy map with five perspectives. Each perspectives have four to five connected strategic objectives.	Three strategic pillars, each pillar has some related KPIs	Long term strategy into annual strategic objectives. Each department focuses on creating OKRs	'Ambition to Action'. Five perspectives. Strategic objective – risk – actions
Measurements	Each strategic objectives have several connected KPIs	Some KPIs connected to each strategic pillar	Key results and KPIs	Some actions have indicators related to risk or forecasts. Some can have a target
Other performance evaluation systems	Personal goals related to company values	Personal scorecards related to company values	Internal benchmarking between ships Plans external benchmarking	External Benchmarking Personal goals, 50/50 how and what
Rewards	None, focus on intrinsic motivation	Collective bonus scheme related to KPIs/strategic pillars	Individual bonuses in leadership positions	50/50 career and monetary rewards. Individual bonuses in leadership positions

*Figure 32: Comparative Table of Findings Relating to Targets, Performance Evaluation and Rewards (Generated by Authors)*

The NVivo evidence regarding the principles of ‘Targets’, ‘Performance Evaluation’ and ‘Rewards’, illustrated in Figure 32 above, show little evidence of differences between SMEs and MNCs. The most common performance measurement systems are recognizable in all four companies, whether that be either the BSC, OKRs or benchmarking, or a combination thereof, is used. All four case companies operate with both financial and non-financial goals. However, there is a stronger focus on the translation of strategy in the MNCs as compared to the SMEs. For example, looking at *Equinor's* ‘Ambition to Action’, each department translates the strategy and creates strategic objectives from five perspectives which describe how that particular department will contribute to the overall strategy. Somewhat similar is the use of OKRs in *Hurtigruten*, where the long-term strategy is translated into objectives and key results by the different departments. *Entra* operates with three strategic pillars, and KPIs as a measurement of the strategic objectives (pillars), while *Tussa* uses a strategy map with five perspectives, each with several connected strategic objectives and

related to a specific set of KPIs. KPIs are commonly connected to the strategic objectives, emphasizing the argument that the purpose becomes ‘vague’ when described merely by means of the strategic objectives. Benchmarking as a performance tool is used, or planned to be used, by both MNCs. *Equinor* uses a ‘performance league table’ against other energy companies, while *Hurtigruten* developed a ‘performance league table’ internally, to be used between the different ships. In addition, *Hurtigruten* plans to start benchmarking against external companies.

All four companies base parts of or the entire individual performance evaluation on their company’s code of conduct. In *Equinor*, “*how you do it, is as important as what you do*”, meaning that there is a 50/50 balance between the result of the individual and team goals, and the behavior and values shown when working towards those goals. In all four case companies, the individual performance evaluation is connected to the job appraisal interview. Whereas in *Tussa*, *Entra*, and *Hurtigruten*, the feedback happens more periodically, *Equinor* specifies a focus on continuous feedback (‘People at Equinor’) which is facilitated by a dedicated IT platform.

Regarding the BB principle of ‘Rewards’, the findings are diverse. There are different reward systems used in each of the three companies with *Tussa* using no reward or compensation system at all. In *Equinor* there is a 50/50 combination of monetary and career rewards, where some managers have individual bonuses. *Hurtigruten* also operates with bonuses at higher levels in the organization, while *Entra* has a collective bonus scheme for employees at the same level, connected to the KPIs. Our findings suggest that making a generic observation about differences between MNCs and SMEs with regards to ‘Rewards’ as a BB principle is difficult because each company’s reward systems seem to be the result of previous experience and history rather than being connected to BB. This is exemplified in several of the case companies that abandoned or changed their bonus scheme before implementing BB (*Tussa*, *Entra*, *Hurtigruten*). Therefore, our observation is that the BB principle of ‘Rewards’ is company-specific and stands alone for the Beyond Budgeting implementation.

## 6.0 Conclusion

The aim of this Master thesis has been to answer the following research question: ‘*How do SMEs use the Beyond Budgeting principles as compared to multinational companies?*’. To do this, a multi-case study has been conducted with four case companies: *Tussa*, *Entra*, *Equinor*, and *Hurtigruten*, where the first ones are SMEs and the latter two are MNCs. Both *Tussa* and *Hurtigruten* are in the early phases of implementation, while the remaining companies have adopted a BB mindset several years ago and are in a mature phase. Interviews have been the main source of data collection that has been used as a foundation to compare the use and design of BB practices in companies of different sizes. By keeping an open research question in the analysis of each case, it allowed us to capture other interesting insights related to BB. In the following sections, we will provide our concluding remarks regarding the difference in BB design in the enterprises, as well as we will comment on the scalability of BB and the novelty of BB design.

Firstly, we will comment on the use of BB, addressing both the process before and after implementation. Our findings suggest that the SMEs studied have implemented BB by eliminating the traditional budgets as the first step in the process. Afterward, both companies’ code of conduct is evaluated, and the companies have aligned the current management processes with the BB principles after the implementation process has started. Their approach can be viewed as ‘learning by doing’, adjusting to occurring problems. On the contrary, MNCs have more detailed plans in place before the implementation process begins. For example, *Hurtigruten*, which is at the beginning of the implementation process, had several plans in place for the future, exemplified by its plan to adapt to rolling forecasts. Hence, the process before the implementation process is more thorough in MNCs, which can be attributed to the size of the company as MNCs have more employees and resources to keep track of and therefore need more plans in place to adapt to large changes in the organization. Regardless, companies of both sizes use the inherent Theory Y management approach as a motivation for change, including the appraisal and importance of human creativity and initiative.

To summarize, the SME that was aware of BB when implementing (*Tussa*) started retooling and then reorganizing, while the MNCs worked the other way around, reorganizing before retooling. MNCs work in a more systematic environment where changes have a ripple effect into other systems; there is a dynamic equilibrium that is re-established, thus enforcing an organizational change perspective. In that sense, the SME using Kotter as a change framework (*Tussa*) might hint at a similar systematic change management approach to be useful for MNCs, albeit there are hints of stakeholder awareness and orientations in recalibrating the management toolbox. For example, provided that *Hurtigruten* has not yet started an organizational change process in order to involve and engage the rest of the organization, a daunting task in itself considering the geographical distribution of the company, the eight-step Kotter model used by *Tussa* might be of particular relevance to its changeover process to BB.

When it comes to the differences in how SMEs and MNCs use the BB principles, there are few findings that can be argued as directly related to the SME-MNC differential. Within our selected four case companies, we observed a difference related to the use of the three principles of ‘Resource Allocation’, ‘Transparency’ and ‘Autonomy’, where the MNCs had increased autonomy supported by a broader control level leveraged by more extensive use of performance planning systems (SAP and Power BI). Increased autonomy also had an impact on the transparency in the MNCs, where the relatively more extensive use of information tools enabled a higher level of information access compared to the SMEs. Additionally, the findings suggest that SMEs use more centralized decision-making with regard to the allocation of resources as compared to MNCs. However, when evaluating the use of the 12 BB principles, there is an indication that the 12 principles are adopted to different degrees by each one of the different firms, giving rise to the observation that customization to local organizational circumstances merits more attention, notably by expressing or articulating a changeover approach as part of its principles (such as evidenced by *Tussa*’s use of Kotter’s eight-step approach). One might view it as a slide ruler; often, with more user experience, the BB principles get used more in a complete form, hence, the slide ruler moves over time.

As previously mentioned, this Master thesis also aims to comment on the characteristics and the prevalence of conventional and novel elements of Beyond Budgeting design in both sets of enterprises. By looking at the BB journey of each company, SMEs appear to adapt more flexibly to the BB principles and use the ones found to be of relevance. MNCs, on the other hand, prepare more in advance and implement more complex (and costly) systems in order to use BB as a comprehensive management control system. While some differences can be attributed to size, due to a higher level of autonomy required in the MNCs, owners within the governance structure, including owners' preexisting knowledge of BB, can affect the prevalence of conventional and novel elements. An example here is *Tussa*'s owners, who showed little to no interest in rolling forecasts. There is a larger degree of the conventional BB elements in the SMEs, while the MNCs have adopted more novel elements of BB design, i.e., the use of external benchmarking and the implementation of information and reporting tools. However, the use of novel management control tools cannot be solely attributed to the guidelines inherent to the BB principles; for example, companies adopting 'Better Budgeting' or 'Agile Management' as management control approaches might equally present novel elements.

Our observations suggest that both SMEs have eliminated traditional budgets by replacing budgets with similar tools that fit similar purposes. Therefore, we can argue that SMEs are using tools more aligned with the 'Better Budgeting' approach, as their focus has been on the improvement of current processes by implementing tools with similar usage. The case evidence seems to suggest that all companies were triggered by the idea of a 'better tool' rather than the set of principles and the value system locked into these principles. For example, *Entra* described themselves as *Beyond Budgeting light* and one interviewee in *Tussa* considered if its way of acting was likely to be categorized as doing 'Better Budgeting', as its forecasts act as less detailed budgets. We argue that the changes in MNCs are more drastic in nature. However, the MNCs are not using the word BB to describe their process either. *Equinor* uses 'Ambition to Action' and *Hurtigruten* uses the name *Hurtigruten*'s 'Business Agility', which can be viewed as synonyms to BB.

It might be possible to conclude that there exists a lack of novelty in BB as a management control system. However, BB does provide organizations with questions and principles to guide organizations into selecting tools and levels of control that are fitted to the purposes of the companies. Hence, we view BBRT as a gathering place for companies to learn and gather inspiration from other companies to discover improved ways of operating their own organizations. Since there is no right way to perform BB, businesses will deploy BB differently and to different extents. Each company has different needs and requirements, due to its size, industry, owners, and stakeholders. *Equinor* has a strong BB philosophy with complex integrated systems, internally developed over time while *Entra* operates *Beyond Budgeting light*. Some methods and management control tools appear to be used more often than others, i.e., versions of the BSC, forecasts, strategic objectives, and benchmarking, showing that there are some similarities between the tools chosen, even if BB does not articulate specific preferences. Also showing is that the companies have implemented similar versions of measurements, i.e., KPIs. The reason why companies use different tools to accommodate BB is probably affected by the fact that the BB principles are generic guidance rather than tools. The specific characteristic of openness of BB makes it both attractive but at the same time difficult to implement. This can be illustrated by the broad range of specific techniques on performance evaluation, BSC, OKRs, and benchmarking techniques. Even though three of the companies, apart from *Hurtigruten*, use a BSC approach, the BSC approaches are not similar in nature and each company has adapted the method to create a better fit for the organization.

While studying the difference in the use of BB principles between SMEs and MNCs, the scalability of BB did not appear as an issue. However, there is a lack of decision-making autonomy present in the SMEs, which would be more difficult to operate with as MNCs. Further, this might be related to our issue of encountering SMEs that use BB as an MCS. SMEs might not see the need for more autonomy and the need to drastically change their MCS. Nonetheless, there is also a possibility that SMEs have implemented aspects of BB but are not aware that their existing MCSs fit the BB principles. Hence, BB might exist already but hiding under a different set of names, such as ‘trust-based management’ or ‘agile’, and using different nomenclature.

## 7.0 Suggestions for Future Research

This Master thesis focuses on the use of Beyond Budgeting principles in SMEs compared to MNCs. Recommendations for future research include focusing on the main limitation in this Master thesis; replicating the study with companies that fully fit the criteria of SMEs. Conducting a replication of this study with smaller companies with resource constraints may provide empirical evidence for size as a factor impacting the use of BB principles in companies; this thesis found it difficult to provide empirically valid evidence in that respect. For example, the use of an ethnographic or accumulative case study research design would be an alternative mode for studying the use and design of BB by SMEs.

Moreover, there is a lack of theoretical justification connected to the BB principles, as BB is “implementation empty” but “guidance full”. Our literature review aimed at elucidating the BB principles as well as verify if any scholarly research exists that corroborates either the claims or any of its constituting arguments. However, further theoretical research is necessary in order to verify the validity of the BB principles as such. *“Are the BB principles theoretically validated to have an effect on performance (or another chosen success factor)?”* could be an interesting research question for future research. Additionally, either in a separate study or in combination through a mixed-method research design, it may be interesting to combine the theoretical justification with a quantitative research method, i.e., using a survey questionnaire generated dataset to see if BB improves performance or, alternatively, any specifically selected performance factor.

In this thesis, the basis of the analysis of our case studies has been the Malmi & Brown (2008) framework used for ‘configurational replication’. For future research, we might change the theoretical framework and interpretive perspective, moving away from M&B’s management-control-as-a-package configuration. One way of doing this is to deploy control frameworks such as Van der Stede & Merchant’s (2017) Economics-based framework of inputs, throughput, and outputs, which includes actions, results, and personnel/cultural controls, and/or Simons’ (1995b) Strategy framework consisting of control categories such as belief systems, interactive controls, diagnostic controls, and boundary systems. If

future research is focusing on the difference between SMEs and MNCs, researchers might need to consider if different frameworks are suitable for organizations of different sizes. Van der Stede & Merchant's framework originates from economics (agency), and it appears that MNCs might benefit from using this framework. However, Simons' framework originates from Strategy and Organizational Behavior (behavioral change), and it appears that this framework is more suitable for SMEs. As previously mentioned, all four companies seemed to be triggered by the idea of a 'better tool', and other frameworks with a more functionalist perspective (Van der Stede & Merchant, 2017; Simons, 1995) might uncover motives and arguments that are harder to identify when using a configurational and systemic fit perspective (Malmi & Brown, 2008).

The case companies in this case study are companies with high performance (good financial results) which is argued to enable and drive autonomous decision-making behavior within the organization. It assumes that working with the design parameter of autonomy is resource-intensive (expensive) and can only be afforded above a certain resource threshold and when business is good. This provides an important and testable hypothesis for future research - the relationship between the degree of autonomy and level of profitability, i.e., high corresponds to high.

The case studies provide yet another suggestion for future research in working specifically with the implementation trajectory. Notably, the *Tussa* case suggests the use of Kotter's eight-step approach as related to implementing Beyond Budgeting. This implies that BB is not to be conceived and managed as an update of the MCS or the management control toolset but, instead, as an organizational change process.

Finally, instead of focusing on size and resource endowments (SMEs and MNCs) as the sample set, we would suggest focusing on corporate governance differentials in the sample set. For example, explore if BB is attractive to family-owned businesses, with concentrated ownership, resulting in a patriarchal and more informal management style and MCS toolkit. Similarly, as hinted at by all cases, the participation of private equity and large institutional investors (either private or public) in the corporate governance structure might be inductive to adopting BB principles.



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# Appendices

## **Appendix A: The Case Study Protocol**

**Section A:** an overview of the case study (objectives and auspices, case study issues, and relevant readings about the topic being investigated)

The main objective of this case study is to answer the research question:

*How do SMEs use the Beyond Budgeting principles as compared to multinational companies?*

As part of the comparison, we expect to address both the characteristics and the prevalence of conventional and novel elements of Beyond Budgeting design in both sets of enterprises. (What is different?)

Moreover, as a consequence of the answer to our research question, we expect to comment on the scalability of BB. Scalability focuses on a system's ability to decrease or increase in response to changes in demands and application (*Definition of Scalability - Gartner Information Technology Glossary, n.d.*). Can we say that Beyond Budgeting is scalable from small to large and even multinational corporations? Which differences are attributed to size? (Does size matter?)

Furthermore, we expect to comment on the novelty of the Beyond Budgeting design in both SMEs and MNCs. Will the findings show that companies displace (fully or partially) existing budget design and process characteristics, and if so, with what is it displaced? Here lies the largest difference between 'Beyond Budgeting' and 'Better Budgeting': the focus on novelty and displacement vs. the focus on incremental adjustment and improvements. (Is BB new?)

Last but not least, we expect to address the practical management issue of the implementation approach to Beyond Budgeting within SMEs. (How to do BB?)

**Section B:** Data collection procedures (procedures for protecting human subjects, identification of likely sources of data, description of credentials to field contacts, and other logistical reminders)

The main form of data collection for this case study is semi-structured interviews. A list of themes and questions to be discussed needs to be prepared before the interview, and a semi-structured interview allows us to be flexible and ask follow-up questions.

#### **Data collection procedures:**

To gather and collect data in this case study, the plan is to use either Zoom or Teams and record video and audio. This method was chosen as the Covid-19 pandemic makes in-person interviews hard to do. To safely store the video and audio recordings, the recordings will be stored following the guidelines from BI Norwegian Business School regarding the storage of collected data for a Master thesis and will be stored on an external hard drive. The list where the interviewees are identified will be stored separately from the recordings and transcriptions of the interviews. Each interview subject and interview will be provided a code to protect anonymity. Regarding job descriptions, we are aware that the descriptions can be ways of identifying human subjects and will therefore inform our interview subjects about this before the interviewees agree to take part in our study. When beginning the process of our case study, a reporting form for processing and collection of personal data was sent to NSD: Norsk Senter for Forskningsdata. This is a requirement when researching in Norway. NSD needs to approve this reporting form to determine that the planned processing of personal data is in line with current privacy legislation.

#### **Identification of likely sources of data:**

##### **MNCs:**

Equinor

Senior Advisor Performance Framework

VP Exploration

Senior Analyst Performance Management

Senior Adviser Executive Leadership Development

Hurtigruten

FP&A Analyst

FP&A Manager

## **SMEs:**

Entra

Group Controller

HR Manager

CFO

Tussa

HR-Manager/Head of Organization

Financial and Digitization Manager

CEO Tussa Subsidiary

**Section C:** Protocol questions (the specific questions that the case study researcher must keep in mind in collecting data and the potential sources of evidence for addressing each question)

We have color-coded our interview questions, where the ones in black are questions applicable to all interviewees, and the ones in purple apply only to SMEs.

## **Introduction**

- Introduction of researchers
- Brief introduction of the Master thesis/research project
- Give information regarding anonymity and confidentiality
- Ask for permission to record the interviews with audio and video

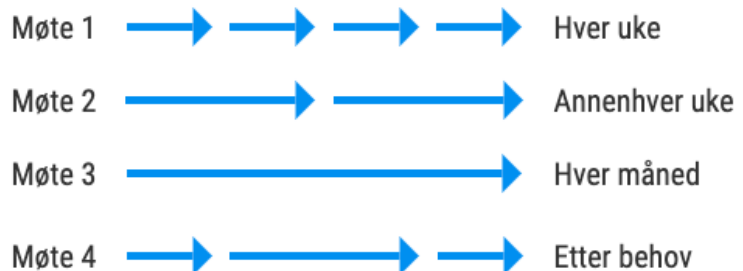
## **Opening questions**

- Can you start by telling us about your workplace and your experience working in the organization?
  - Job title/department
  - Duration
  - Responsibilities and working assignments
- Could you describe the organizations
  - Vision and mission
  - Growth strategy - and how is this achieved without the use of budgets?

- Funding structure/original source of founding
- Memberships in business associations if any?
- Can you briefly describe the company's journey of implementing BB?
- Did you consider any other alternatives besides Beyond Budgeting?  
(explain the term 'Better Budgeting' if necessary)

### Core in-depth questions

- Can you please describe the company's corporate culture and values?
- How do you establish and monitor the vision/direction?
- Can you describe the company hierarchy/organizational structure?
  - For example: Using an organizational chart with reporting lines if the vocal description is difficult
- How often do you attend meetings?
  - Can you try to draw a meeting chart? Who is in a meeting with who? What is on the agenda (outline, not details)



- Can you explain to us the structure of your department?
- Could you please explain the current planning process your organization uses?
- How are the resources allocated?
- How does the company plan for the short, medium, and long-run?
- How does the company evaluate firm and personnel performance?
- How does the organization control cost?
- How does the company try to control uncertainty?
  - For example: Forecasts, weekly or monthly reports
  - If possible: could you provide a screenshot of the screens you monitor the reports/forecasts on (Does not have to be accurate numbers).

- Do you have a reward/recognition system?
  - **If yes:** can you describe it?
  - **If no:** why not?
- With the current structure of the company and the current systems used, how do you think the organization would handle business growth with an increased number of employees, revenues, etc?
  - Would this growth affect the way you communicate and make decisions?

### **Closure**

- Can you explain to us what you think of the BB implementation?
- What do you believe are the greatest challenges with BB?
- Provide an opportunity for the interviewee to add something to the discussion
- Ask if we can send the interviewee follow-up questions by means of email if needed
- Is there anyone in the organization that you recommend us to talk to?

### **Units for analysis after collection of data**

Level 2 question:

What was the \*Company's\* reason for implementing Beyond Budgeting?

How did the \*Company's\* implement Beyond Budgeting?

How is the prevalence of conventional and novel elements of Beyond Budgeting design in the company?

How does the company use the Beyond Budgeting principles?

How does the company's use of Beyond Budgeting differ from the advice provided in the Beyond Budgeting principles?

**Section D:** A tentative outline for the case study report (e.g., format for the data, use, and description of other documentation, and bibliographic information)

**Master Thesis**

Introduction

Research Question

Literature Review/Theory

Methodology

Introduction of the companies in the case study

Each company's management control systems package

Analysis using our level 2 questions and research question

Conclusion

Topics for further research

Appendices

Case Study Rapport

Interview Guide (in Norwegian)

Collected Documents

Interviews

## Appendix B: General Interview Guide (In Norwegian)

### Introduksjonsspørsmål

- Introduksjon av oss
- Kort introduksjon av vår masteroppgave
- Informer intervjuobjektene om anonymitet og konfidensialitet
- Spør om tillatelse til å spille inn intervjuene med video og lydopptak

### Åpningsspørsmål/Bakgrunn

- Kan du starte med å fortelle oss litt overordnet om bedriften og dens virksomhet? Hva er bedriftens visjon og formål, og hvordan er dette kjent i virksomheten?
- Kan du videre orientere oss om din opplevelse med å jobbe i bedriften?
  - Jobbtittel/avdeling
  - Lengde på ansettelsesforhold
  - Ansvarsområder og daglige oppgaver
- Kan du beskrive bedriftens strategiske føringer?
  - Hva er bedriftens vekststrategi- hvordan denne er oppnådd uten bruk av budsjetter?
  - Finansieringsstruktur/kilde til finansiering
  - Medlemskap i interesseorganisasjoner/ bransjeorganisasjoner
- Kan du kort beskrive bedriftens Beyond Budgeting “reise” fra dere startet med å vurdere innføring til dere dere er i dag?
- Vurderte bedriften noen andre alternativer i tillegg til Beyond Budgeting?

### Dybdespørsmål

- Kan du vennligst beskrive selskapets organisasjonskultur og verdier?
- Hvordan ble deres visjon etablert, og hvordan overvåkes/følges den opp?
- Kan du beskrive organisasjonens hierarki/organisasjonsstruktur?
  - For eksempel ved bruk av et organisasjonskart med rapporteringslinjer hvis det er vanskelig å beskrive med ord
- Hvor ofte deltar du på møter?



- Kan du prøve å illustrere et møtekart/en møteoversikt? (Hvem som deltar, og overordnet hva som er på agendaen?)
- Kan du beskrive den nåværende planleggingsprosessen brukt i organisasjonen?
  - Hvordan planlegger bedriften på kort, medium og lang sikt?
- Hva med ressursallokeringen? Hvordan fordeles midler i organisasjonen?
- Hvordan kontrollerer bedriften kostnader?
- Hvordan prøver bedriften å håndtere usikkerhet (risikostyring)?
  - For eksempel: Prognoser, ukentlige eller månedlige rapporter
  - Hvis mulig: kan du sende utklipp av skjermene hvor du overvåker disse rapportene / prognosene (trenger ikke å være nøyaktige tall).
- Hvordan evaluerer/måler bedriften selskapets og personalets prestasjon/ytelse?
- Har dere et belønningssystem/anerkjennelsessystem?
  - Hvis ja: Kan du beskrive det?
  - Hvis nei: Hvorfor ikke?
- Med den nåværende strukturen i selskapet og de nåværende systemene som brukes, hvordan tror du organisasjonen vil håndtere en forretningsvekst med økt antall ansatte, inntekter osv.?
- Vil denne veksten påvirke hvordan dere kommuniserer og tar beslutninger på?

### **Avslutning**

- Er det noen andre i bedriften du anbefaler oss å snakke med?

## Appendix C: Collected Documents

<b>Case Company</b>	<b>Documentation Material</b>	<b>Date Collected</b>
<b>Hurtigruten</b>	<ul style="list-style-type: none"><li>• Presentation of HRG Business Agility</li></ul>	<ul style="list-style-type: none"><li>• 29.01.2021</li></ul>
<b>Tussa</b>	<ul style="list-style-type: none"><li>• Presentation of the company</li></ul>	<ul style="list-style-type: none"><li>• 17.03.2021</li></ul>
<b>Equinor</b>		
<b>Entra</b>	<ul style="list-style-type: none"><li>• Presentation of their BB-journey</li><li>• Organizational chart</li><li>• Overview of membership in interest groups</li><li>• Activity Plan</li></ul>	<ul style="list-style-type: none"><li>• 20.01.2021</li><li>• 07.04.2021</li><li>• 07.04.2021</li><li>• 07.06.2021</li></ul>

## Appendix D: Financial Information of Case Companies

<b>(In EUR 1,000) *</b>	<b>Tussa Energi AS</b>	<b>Sunnmøre Energi AS</b>	<b>Mørenett AS</b>	<b>Tussa IKT AS</b>	<b>Tussa Intallasjon AS</b>	<b>Tussa Kraft AS</b>	<b>Tussa Group</b>
Sales Revenues*	15,800	1,100	59,530	22,280	14,320	2,944	85,439
EBITDA*							30,600
Current Liquidity Ratio						2.0	0.7
Total Dividends							4,454
Profit/(loss) before income tax*						10,691	13,812

### *Tussa Financial Information pr 2020 (Tussa, 2021)*

<b>(In EUR 1,000) *</b>	<b>Hurtigruten Norge</b>	<b>Hurtigruten Expedition</b>	<b>Hurtigruten Svalbard</b>	<b>Hurtigruten Group</b>
Sales Revenues*	171,550	53,908	14,472	238,611
EBITDA*	47,334	(11,782)	1,315	(17,879)
Current Liquidity Ratio				0.4
Dividend pr. share	0	0	0	0
Profit/(loss) before income tax*	15,946	(31,217)	(2,229)	(163,668)

### *Hurtigruten Financial Information pr 2020 (Hurtigruten,2021)*

<b>(In EUR 1,000) *</b>	<b>Entra ASA</b>	<b>Entra Group</b>
Sales Revenues*	13,600	235,300
EBITDA*		200,200
Current Liquidity Ratio	0.2	0.4
Dividend pr share		4.90
Profit/(loss) before income tax*	53,600	727,400

### *Entra Financial Information pr 2020 (Entra, 2021)*

<b>(In EUR 1,000) *</b>	<b>Equinor ASA</b>	<b>Equinor Group</b>
Sales Revenues*	27,200,000	37,517,000
EBITDA*	(3,799,000)	9,681,000
Current Liquidity Ratio	1.04	1.58
Dividend pr share		0.58
Profit/(loss) before income tax*	(4,200,000)	(4,506,000)

### *Equinor Financial Information pr 2020 (Equinor, 2021)*

## Appendix E: NVivo Coding for the 12 BB Principles

Company	Size of Company	BB Principle: Purpose
Tussa	SME	<p><i>"The idea is that when we have a group strategy, the subsidiaries must adopt the strategy down into their company"</i></p> <ul style="list-style-type: none"> <li>• Vision- Tussa - with the POWER to create future-oriented and environmentally friendly solutions</li> <li>• <i>"I think that the vision is a bit... it is not exactly what we steer towards"</i></li> <li>• Lack of guiding strategic objectives (vague)</li> <li>• Relates many KPIs to one strategic objective</li> </ul>
Entra		<p><i>"Our strategy is to build flexible buildings close to traffic hubs located in clusters in the largest cities in Norway"</i></p> <ul style="list-style-type: none"> <li>• Vision - the most satisfied people work in Entra buildings</li> <li>• Strategic pillars - profitable growth, high customer satisfaction and environmental leadership <ul style="list-style-type: none"> <li>• Well known and used to evaluate employees</li> </ul> </li> <li>• Strategy Pyramid - includes vision, mission, strategy, strategic objectives, and values</li> </ul>
Hurtigruten	MNC	<p>Vision - World leader in expedition travel</p> <ul style="list-style-type: none"> <li>• Communicated through the strategy department</li> <li>• Every goal is related to the strategy</li> <li>• OKRs</li> </ul>
Equinor		<p><i>"There is a link between the company's strategy and my goals as an employee"</i></p> <ul style="list-style-type: none"> <li>• 'Ambition to Action'</li> <li>• Vision- Shaping the Future of Energy</li> </ul> <p><i>"The whole purpose of 'Ambition to Action' is to translate the strategy into concrete actions and results. It is done at each level"</i></p> <ul style="list-style-type: none"> <li>• Translating, not cascading</li> </ul>

Codes and themes from NVivo, related to Purpose

Company	Size of Company	BB Principle: Values
Tussa	SME	<p><i>"They are very well known"</i></p> <ul style="list-style-type: none"> <li>• Two sets of values, internal and external - KRAFT &amp; LAPF</li> <li>• One KRAFT value in focus each year</li> <li>• Posters &amp; Giveaways</li> <li>• Branding efforts</li> <li>• Criteria in recruitment process</li> <li>• Use, not memorize</li> </ul>
Entra		<p><i>"I try to make employees say 'we' instead of 'I' because we are the Entra-team"</i></p> <ul style="list-style-type: none"> <li>• Important to use the values not just memorizing them</li> <li>• Innovative, Responsible, Hands-on, One team</li> <li>• Value based café workshop to use values</li> <li>• Used to build organizational culture, in leadership and the recruitment process</li> <li>• The use of values measured on job appraisal interviews</li> </ul>
Hurtigruten	MNC	<p><i>"Not all employees feel as connected to the values, even though they are well known"</i></p> <ul style="list-style-type: none"> <li>• Visible in all parts of the organization</li> <li>• We inspire, We empower, We care, We explore</li> <li>• Workplace reflects the company values - employees share sporty images</li> <li>• Used in recruitment process and in job advertisements</li> </ul>
Equinor		<p><i>"Our values are incredibly important for building a learning organization"</i></p> <ul style="list-style-type: none"> <li>• Open, Collaborative, Courageous and Caring</li> </ul> <p><i>"How we deliver is as important as what we deliver. And with 'how we deliver', we talk about the values in the company"</i></p>

Codes and themes from NVivo, related to Values

Company	Size of Company	BB Principle: Transparency
Tussa	SMEs	Informal communication - Microsoft Teams Formal communication (from management) - Intranet Only leaders involved in BB implementation has access to tools & information (Corporater) <ul style="list-style-type: none"> <li>Plans for the future - Use of dashboards</li> </ul>
Entra		<ul style="list-style-type: none"> <li>Formal communication - Intranet (both video and text are posted) and e-mail</li> <li>Informal communication - Microsoft Teams</li> </ul>
Hurtigruten	MNCs	<ul style="list-style-type: none"> <li>Formal communication - Intranet for information sharing + Workplace where accomplishments are highlighted</li> <li>Informal communication - Microsoft Teams</li> <li>Wants open sharing of information of the Performance Evaluation</li> </ul>
Equinor		<i>"We want as much as possible on these Ambitions to Actions to be open and accessible to all"</i> <ul style="list-style-type: none"> <li>Formal communication - Intranet</li> <li>Informal communication - Microsoft Teams, as well as other platforms</li> </ul>

#### Codes and themes from NVivo, related to Transparency

Company	Size of Company	BB Principle: Organization
Tussa	SMEs	<ul style="list-style-type: none"> <li>Hierarchical control/decision making</li> <li>Change management - Kotter's Model</li> <li>Governance - Owned by the surrounding municipalities</li> </ul>
Entra		<ul style="list-style-type: none"> <li>Governance - Owned by many owners including foreign funds and investment companies</li> <li>Accountable teams</li> </ul>
Hurtigruten	MNCs	<ul style="list-style-type: none"> <li>Reorganization of the company structure</li> <li>Agile management, Hurtigruten Business Agility</li> <li>Accountable teams</li> <li>Governance - owned by private equity firms</li> </ul>
Equinor		<i>"We want this to work as much as possible by itself. In other words, we must not abdicate at group level. We must support where necessary. We will intervene where necessary, but the more the organization can function independently, the better"</i> <ul style="list-style-type: none"> <li>Accountable teams</li> <li>Competence centers</li> </ul> <i>"More than 80% of the owner is the Norwegian state and the Norwegian society"</i>

#### Codes and themes from NVivo, related to Organization

Company	Size of Company	BB Principle: Autonomy
Tussa	SMEs	<i>"Most things go up to the BoM... it must in a way get the green light (approval) in BoM" "One must in a way have trust in the organization. This a point we need to work more on"</i>
Entra		<i>"I make everything that happens in the company my business"</i> <ul style="list-style-type: none"> <li>Each team is responsible for its projects</li> </ul>
Hurtigruten	MNCs	<ul style="list-style-type: none"> <li>Use of OKRs and backlog, each team accountable for the outcome</li> <li>Reorganization of organization to be more agile</li> </ul>
Equinor		<i>"Right now, the focus is even more on this with autonomy"</i> <ul style="list-style-type: none"> <li>Each department responsible for the outcome of their 'Ambition to Actions'</li> </ul>

#### Codes and themes from NVivo, related to Autonomy

Company	Size of Company	BB Principle: Customers
Tussa	SMEs	<i>"The values are focused on the customers. What we do must be oriented towards what is best for the customer."</i>
Entra		<ul style="list-style-type: none"> <li>• Customers included in the KPIs and strategic pillars</li> <li>• Broad view of customers (includes the organization's renting office space and tenants working in them)</li> <li>• Experienced silo thinking</li> </ul>
Hurtigruten	MNCs	<i>"For us, the goal is not necessarily to have the lowest cost, but to have a high customer satisfaction"</i> <ul style="list-style-type: none"> <li>• Before reorganization - Silo thinking</li> <li>• Customer satisfaction measured (NPS score)</li> </ul>
Equinor		<i>"We do not have customers in the same way as many other companies, because we sell to others who either resell or process further. So, there is more of a customer-supplier relationship or internally with other departments".</i>

#### Codes and themes from NVivo, related to Customers

Company	Size of Company	BB Principle: Rhythm
Tussa	SMEs	<i>"What I think will be the biggest change is that we have spent quite a lot of time on the budget process. We have spent the whole autumn"</i> <ul style="list-style-type: none"> <li>• Power prices fluctuates with the weather</li> <li>• Other business areas follow different business cycles</li> </ul>
Entra		<ul style="list-style-type: none"> <li>• Long business cycle on buildings (25 years)</li> </ul>
Hurtigruten	MNCs	<ul style="list-style-type: none"> <li>• Business cycle fluctuates with the tourism seasons</li> </ul>
Equinor		<i>"Have we thrown away the calendar year completely, the answer is no. In some areas this is not possible. It was not a choice. Elsewhere it is possible, but it does not make sense or provide any value. It may be a natural annual rhythm of things. This is an offer for the business where it makes sense and is possible, so you can operate in a much more dynamic way. And I find that the organization is increasingly using this opportunity to be dynamic".</i>  <i>"We want entities to update their forecast when something happens in their reality that they themselves believe justify a forecast update"</i>

#### Codes and themes from NVivo, related to Rhythm

Company	Size of Company	BB Principle: Targets
Tussa	SMEs	<i>"I think we have 60 KPIs in Tussa IKT"</i> <ul style="list-style-type: none"> <li>• Strategy map - Strategic Objectives - KPIs</li> <li>• Many KPIs</li> </ul>
Entra		<ul style="list-style-type: none"> <li>• Scorecard established bottom-up</li> <li>• KPIs related to the strategic pillars</li> <li>• KPI progress discussed at town hall meetings</li> <li>• Goals connected to values and vision</li> </ul>
Hurtigruten	MNCs	<ul style="list-style-type: none"> <li>• Resources allocated to achieve the goals</li> <li>• Business Agility - long term organizational goals</li> <li>• OKRs - quarterly goals</li> <li>• Benchmarking (internal+external)</li> <li>• Each goal and KPI are related to the strategy</li> <li>• Financial and non-financial KPIs</li> </ul>
Equinor		<ul style="list-style-type: none"> <li>• 'Ambition to Action' (strategic objectives to indicators, translated down)</li> <li>• Some indicators have targets</li> <li>• Managed in MIS, (resource planning system by SAP)</li> <li>• More focus on actions to achieve the strategic goal, rather than indicators and targets</li> </ul>

#### Codes and themes from NVivo, related to Targets

Company	Size of Company	BB Principle: Plans & Forecasts
Tussa	SMEs	<p><i>"And what exactly is a forecast"</i></p> <ul style="list-style-type: none"> <li>Forecast updated 3 times a year - focusing on year end result</li> </ul> <p><i>"We cannot use 50 accounts at the forecast level. We have to focus on the revenue-driving products and markets, and focus on the biggest cost-drivers"</i></p> <ul style="list-style-type: none"> <li>Less detailed budget</li> <li>Planning varies between subsidiaries and departments</li> <li>Software: Adra, Microsoft Teams</li> </ul>
Entra		<ul style="list-style-type: none"> <li>Activity plan - focus on activities, administrative costs</li> <li>Plan before a building is built (50% occupancy rate before start)</li> <li>Quarterly business reviews to plan each building</li> <li>No month-end reporting</li> <li>Planning tools: Excel, Microsoft Dynamics 365</li> </ul>
Hurtigruten	MNCs	<p><i>"We need to challenge the management to let go of the safe environment"</i></p> <ul style="list-style-type: none"> <li>A Business Plan - forecast to 2035</li> <li>In a detailed Excel-document</li> <li>Backlog - plan and prioritize assignments in sprints to focus on</li> <li>To keep control of costs and used in resource allocation</li> <li>Rolling Forecast - quarterly</li> <li>Strategy department in charge of long-term plans</li> <li>Planning tools: Kanban Boards, Microsoft Teams, Miro</li> </ul>
Equinor		<ul style="list-style-type: none"> <li>Either rolling forecasts, or updated forecasts when needed</li> <li>Forecasts on some indicators</li> <li>Long term planning: 'Ambition to Action' = a planning tool for actions to reach the strategy</li> <li>Short term planning: Microsoft Teams, other Microsoft apps</li> <li>Planning varies between entities</li> </ul>

#### Codes and themes from NVivo, related to Plans and Forecasts

Company	Size of Company	BB Principle: Resource Allocation
Tussa	SMEs	<ul style="list-style-type: none"> <li>Group and subsidiaries have forecasts on investments with spending limits</li> <li>BoM consider and decide on investments over NOK 10 million</li> <li>However, an investment for IT system of NOK 17 000 was considered by the BoM</li> </ul>
Entra		<ul style="list-style-type: none"> <li>Investment committee make decide on large investments (buy/sell of buildings) <ul style="list-style-type: none"> <li>Includes selected members of the BoM and Managing Directors</li> <li><i>"It is not necessary to include the whole BoM, as some members do not know what we are talking about and have no interest in it"</i></li> </ul> </li> <li>Quarterly reporting starting with mini-business review from departments → business review → audit commission approve → BoD approve quarterly report</li> </ul>
Hurtigruten	MNCs	<p><i>"Every employee can say what resources they need to deliver on their goals"</i></p> <ul style="list-style-type: none"> <li>Allocation by needs - better judgement</li> <li>Authorization matrix</li> <li>Business case on large investments</li> <li>Month-end reporting</li> <li>Right now, the prioritization is to keep costs down - no "nice to have"</li> <li>Forecasting used in resource allocation</li> </ul>
Equinor		<ul style="list-style-type: none"> <li>Authorization matrix</li> <li>Business cases - for investments over spending limit</li> <li>Portfolio overview on some investments</li> <li>MIS deliver cost reports</li> <li>Future: SAP Analytics Cloud (automation)</li> <li>Monitoring indicators</li> </ul>

#### Codes and themes from NVivo, related to Resource Allocation

Company	Size of Company	BB Principle: Performance Evaluation
Tussa	SMEs	<ul style="list-style-type: none"> <li>BSC version - subsidiaries translate strategy map → Strategic objectives → KPIs</li> <li>Individual: KRAFT values through job appraisal interviews</li> </ul>
Entra		<p><i>"For employees to set their own goals, they have to understand the direction of the company"</i></p> <ul style="list-style-type: none"> <li>Balanced Scorecard</li> <li>Individual goals discussed in job appraisal interviews</li> <li>KPIs included in scorecard</li> <li>Employees sets individual goals to increase engagement and motivation</li> </ul>
Hurtigruten	MNCs	<ul style="list-style-type: none"> <li>Individual goals discussed in job appraisal interviews</li> <li>Employees sets individual goals to be evaluated on yearly</li> <li>Benchmarking <ul style="list-style-type: none"> <li>Internal: league table - competition between departments</li> <li>External: against other ships (desire for the future)</li> </ul> </li> <li>KPIs related to company strategy</li> </ul>
Equinor		<ul style="list-style-type: none"> <li>Benchmarking: League table</li> <li>'Ambition to Action' <ul style="list-style-type: none"> <li>Accountable teams</li> <li>Accountable for reaching their strategic objectives and related actions</li> </ul> </li> <li>Individual: People at Equinor <ul style="list-style-type: none"> <li><i>"How we do it is just as important as what we do"</i></li> <li>Personal goals related to ambition to action or company values</li> <li><i>"Holistic evaluation" - "When we look at what the measurement have not captured"</i></li> <li>Continuous feedback - continuous improvement</li> </ul> </li> </ul>

#### Codes and themes from NVivo, related to Performance Evaluation

Company	Size of Company	BB Principle: Rewards
Tussa	SMEs	<ul style="list-style-type: none"> <li>No reward system</li> <li>Intrinsic motivation</li> </ul>
Entra		<p><i>"It is important to stimulate and incentivize the right things"</i></p> <ul style="list-style-type: none"> <li>Bonus related to strategic pillars/KPIs</li> <li>Collective bonus scheme, similar for all employees</li> </ul>
Hurtigruten	MNCs	<p><i>"It is important to have a wish to be on top of the league table"</i></p> <ul style="list-style-type: none"> <li>HR portal with feedback measured against performance</li> <li>Intranet &amp; Workplace to highlight accomplishments</li> <li>Bonuses for leadership positions- individual bonuses</li> <li>Increased responsibility, promotion etc. (intrinsic)</li> </ul>
Equinor		<p><i>"Some people attach great importance to careers, but what is important about our career system is that we have both a career ladder for managerial careers, and a career ladder as a professional within a field of knowledge"</i></p> <ul style="list-style-type: none"> <li>50/50 career and rewards</li> <li>Monetary incentives for managers</li> </ul> <p><i>In recent years, there has been a decrease in oil prices, and other external factors that have affected the monetary limits. If you then have very good people that you would like to reward, there might not be much room to affect their salary. Then there are other things you must do instead, like giving people interesting and challenging tasks and making them visible to management and top management</i></p>

#### Codes and themes from NVivo, related to Rewards





BI Norwegian Business School - campus Oslo

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Preliminary thesis report

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# Preliminary Thesis Report

# Beyond Budgeting in Small and Medium-Sized Enterprises

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# I Table of Contents

<b>1. Introduction</b>	<b>1</b>
1.1 Background	1
1.2 Definition SME	2
1.3 Relevance	3
1.4 Literature Review	4
1.5 Our Contribution	6
<b>2. Research Question</b>	<b>7</b>
<b>3. Methodology and Research Design</b>	<b>7</b>
3.1 Proposed Research Design	8
3.1.1 Methodological Choice	8
3.1.2 Comparative Multiple-Case Study and External Validity	9
3.2 Data Collection	11
3.2.1 Qualitative Interviews	11
3.2.2 The Case Study Protocol	11
<b>4. Progression Plan</b>	<b>12</b>
<b>5. References</b>	<b>13</b>

# 1. Introduction

## 1.1 Background

*“Quickly obsolete numbers, endless revisions, “gaming” of bonus targets – traditional budgeting is a poor guide to strategic decision-making” (Player et al., 2019, p. 1).*

Today, many businesses operate in an environment where a traditional budget does not have the flexibility to handle drastic changes in the market. *“Budgeting is described as the cornerstone of the management control process in organizations” (Hansen et al., 2003, p. 1)*, where the purpose of a budget can be separated into four different groups: planning, accountability, process, and ritual (Anthony et al., 2014, p. 333) and is most often prepared once a year for the next year. Traditional budgeting has several negative arguments against its preparation and use, including being too time-consuming and costly (Anthony et al., 2014, p. 348). As a result, the ‘Beyond Budgeting movement’ arose, arguing not only against traditional budgeting but also proposing an alternative that was “Beyond” budgeting, emphasizing the dynamics of management control.

*“Beyond Budgeting is the principle whereby companies need to move Beyond Budgeting because of the inherent flaws in budgeting, especially when used to set contracts. It proposes that a range of techniques, such as rolling forecasts and market-related targets, can take the place of traditional budgeting” (CGMA, n.d., p. 1).* The goal of Beyond Budgeting (BB) is not necessarily to eliminate budgets, but to obtain better performance through agile and humane organizations that take reality seriously (Kontochristos, 2016). An important part of the BB line of argument is centered around the need for changes in management processes in order to respond flexibly to changes in the market environment.

We have chosen the Beyond Budgeting (BB) topic for our master thesis because it offers a solution to several of the critiques and problems surrounding traditional budgeting. As traditional budgets have proven to be too static and focused on historical data, the main objective of the BB management model is to increase the organizational adaptability and flexibility (Daum, 2002). Daum (2002, p. 1) states

that BB “opens new possibilities with strategic enterprise management with the transition to flexible resource management”. According to the Beyond Budgeting Round Table (BBRT) consortium of user companies, BB consists of 12 principles to achieve the full potential of the BB management philosophy (Beyond Budgeting Institute, n.d.-a). Divided into two categories of principles, the leadership principles focus on creating a flexible and decentralized organizational structure revolving decision-making autonomy, while the management principles focus on designing an adaptive management process. However, existing research on how the principles of Beyond Budgeting articulate themselves in practical terms, uses predominantly large, multinational corporations. In contrast, there is a lack of research on the topic of BB in SMEs (Nguyen et al., 2018). This Master thesis takes the latter as its core research domain: the working of BB within SMEs.

### Beyond Budgeting - enabling business agility

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

Figure 1.1 The 12 Beyond Budgeting Principles (Beyond Budgeting Institute, n.d.-b)

## 1.2 Definition SME

The research literature available on SMEs does not offer any universally accepted definition of SMEs, and a number of definitions of the concept coexist (Robu, 2013). For example, the Norwegian Employees Association NHO defines SMEs as organizations with less than 100 employees (NHO, n.d.), while the EU defines an SME as a mix of headcount, sales volume, and total assets. More specifically, a firm is classified as an SME when it has a headcount of less than 250, a sales volume of € 50 million or less or a balance sheet total of € 43 million or less

(European Commission, 2016b). For the purpose of this Master thesis, we choose to use the definition of small and medium-sized enterprises (SMEs) as defined by the EU recommendation 2003/361 (European Commission, 2016b). Adoption of this definition allows us to compare the SMEs against multinational corporations within the whole of Europe.

<b>Company category</b>	<b>Staff headcount</b>	<b>Turnover</b>	or	<b>Balance sheet total</b>
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Figure 1.2. SME classification (European Commission, 2016b)

### 1.3 Relevance

Within the European Union, 99% of all businesses are SMEs which account for more than half of Europe's gross domestic product (GDP) (European Commission, 2016a). In total, SMEs employ around 100 million people, and are viewed as the backbone of Europe's economy. SMEs are acknowledged to play a key role in economies worldwide, generating not only employment, but also act as a key driver for economic growth, environmental sustainability (OECD, 2017), and the general health and welfare of economies (Morrison et al., 2003). Moreover, SMEs are central to the EU's transition to a sustainable and digital economy through their "*innovative solutions to challenges like climate change, resource efficiency and social cohesion*" (European Commission, 2016a). Similarly, SMEs are important to the Norwegian economy, acting as an inclusive umbrella term for startups and entrepreneurial activity in general (Skarbøvig, 2020). All start-ups, innovative or not, initiate life as an SME, and scaling their innovative potential requires attention to how they are controlled and steered towards maturity. Since SMEs make up a substantial part of the European and Norwegian economy, the management control of SMEs is a relevant issue for the country's economic growth, and its employment and industrial policy incentives as a whole. Hence, the argument is two-step: first SMEs are of prime importance, and second, how SMEs are managed and controlled matters as a consequence.

Additionally, small enterprises are relevant for a country's competitiveness, in terms of innovation bringing new products or techniques into the market (Robu, 2013). In a world that constantly changes, SMEs possess a big advantage in terms of globalization, as their size allows for rapid adjustment to market fluctuations (Robu, 2013). Similarly, the size of SMEs allow for rapid experimentation with flexible and innovative organizational structures and management processes that, in turn, enable the adoption and use of new technologies (Erdirin & Ozkaya, 2020).

## 1.4 Literature Review

Volatile and dynamic market conditions have contributed to adaptable management control systems that focus on innovation and flexibility (Bogsnes & Kaplan, 2016). In a world where uncertain events happen regularly, e.g., the coronavirus outbreak, there is an obvious need to respond in kind and increase organizational adaptability (Brown et al., 2020). Our core research references focus on dynamic management tools, such as rolling forecasts, that provide that necessary flexibility. More conventionally, we rely on previous research on Beyond Budgeting in general, on management control in SMEs, and on articles addressing the instrumental aspects of Beyond Budgeting.

The topic for our master thesis found its original inspiration in the textbook *Management Control Systems: European Edition* (Anthony et al., 2014) which provides an overview of the criticism of traditional budgets, the main principles of Beyond Budgeting, and its instrumental aspects such as rolling forecasts.

A second core research literature reference consists of the book *Implementing Beyond Budgeting - Unlocking the Performance Potential* (Bogsnes & Kaplan, 2016) which addressed the implementations of Beyond Budgeting in a number of large corporations such as Statoil (now called Equinor) and Borealis. One of the book's authors, Bjarte Bogsnes, who went on to set up the Beyond Budgeting movement (the Beyond Budgeting Round Table mentioned above), focusing on the implementation of the Beyond Budgeting principles and its related tools.

An overview of the available research on Beyond Budgeting is provided in *Beyond Budgeting: Research and Review Agenda* (Nguyen et al., 2018). This literature review article indicates there is little research done on several topics of Beyond Budgeting and directed the problem area of this thesis to Beyond

Budgeting in SMEs. Although the literature review noted that Beyond Budgeting has received increasing scholarly attention in recent years, it suggests that the full picture of the theory has not evolved and is incomplete. One of these gaps in our present knowledge of Beyond Budgeting is on how it works in SMEs, if at all.

An empirical article that studies the implementation of the Beyond Budgeting principles in practice is “*Management Control without Budgets: a Field Study of ‘Beyond Budgeting’ in practice*” (Østergren & Stensaker, 2011). This empirical field study is based on a large multinational company with 30 000 employees worldwide, which implies that the focus of Beyond Budgeting is primarily on large MNCs. But is it? Are the BB principles and tools not equally applicable to smaller firms?

One of Beyond Budgeting’s instrumental alternatives is the intensive use of rolling forecasts. Following up on our consideration that BB might also be applied in SMEs, a key research reference became the article “*Rediscovering Rolling Planning: Controller’s Roadmap for Implementing Rolling Instruments in SMEs*” (Rickards & Ritsert, 2012). It discusses research on rolling forecasts in the settings of SMEs. When combining the BB field study with the instrumental focus on rolling forecasts, a possibility to advance on the current knowledge status is located in the application of Beyond Budgeting in SMEs.

But what does existing budgeting practice actually suggest? Is there no innovation, adaption, or flexibility? Is Beyond Budgeting actually needed according to the situation in practice? A research study that surveyed the budgeting practice in both the US and Canada attempts to answer that question; “*Beyond Budgeting or Budgeting Reconsidered? A Survey of North-American Budgeting Practice*” (Libby & Lindsay, 2010). It presents several counterarguments to the arguments provided by the co-founders of the Beyond Budgeting Round Table, Jeremy Hope and Robin Fraser. For example, North America based companies did not fully agree with the statements that traditional budgets were too time-consuming and did not bring value to the company. As the study’s authors underline “... *we do not possess a robust understanding of budgeting that is capable of explaining the mechanisms or processes giving rise to satisfactory or unsatisfactory consequences of budgeting systems*” (2010, p. 57).



This statement we have to take into account in our further thesis research as implying that more field studies are needed.

More counterarguments can be found in the “better budgeting” approach, which argues for the continued use of traditional budgets. Better Budgeting, for example, states that traditional budgets might be the correct approach for some companies, as well as that conventional budgeting can bring value to companies. Both opposing perspectives of budgeting and Beyond Budgeting were presented at a Better Budgeting Forum in London in 2004 (CIMA & ICAEW, 2004). Out of the clash of the arguments from both camps, it was observed that “*Financial managers say that budgets are important - and most report changes to the process in the last five years*” (CIMA & ICAEW, 2004, p. 11). In addition, improvements to the continuing of budgeting were put forward, such as: “*greater involvement of junior management in budgeting processes; more detailed analysis; and intensification of the use of budgets*” (CIMA & ICAEW, 2004, p. 11). Valid and strong as these arguments are, there is a strong likelihood that existing budgeting processes have developed further since this forum of 2004.

## **1.5 Our Contribution**

The previous literature on Beyond Budgeting show a focus as well as empirical evidence on large, resource-rich corporations. Few studies, if at all, have explored the possibilities of using Beyond Budgeting in less resource-rich, small and medium-sized enterprises. Our initial review of BB literature resulted in identifying a research gap related to Beyond Budgeting; there exist literally no publicly available studies that address how SMEs use BB, if at all.

We plan to fill this gap by means of a comparative study of two large corporations versus two SMEs, with both sets of firms using Beyond Budgeting, so as to identify the relative differences in the design and use of its overall approach and constituting instruments.

## 2. Research Question

This Master thesis aims to contribute to the Beyond Budgeting literature by shifting the focus from Beyond Budgeting in MNCs to Beyond Budgeting in SMEs through a comparative case study. We aim to answer the following research question:

*How do SMEs use the Beyond Budgeting principles as compared to multinational companies?*

As part of the comparison, we expect to address both the characteristics and the prevalence of conventional and novel elements of Beyond Budgeting design in both sets of enterprises. (What is different?)

Moreover, as a consequence of the answer to our research question, we expect to comment on the scalability of BB. Scalability focuses on a system's ability to decrease or increase in response to changes in demands and application (*Definition of Scalability - Gartner Information Technology Glossary*, n.d., p. 1).

Can we say that Beyond Budgeting is scalable from small to large and even multinational corporations? Which differences are attributed to size? (Does size matter?)

Furthermore, we expect to comment on the novelty of the Beyond Budgeting design in both SMEs and MNCs. Will the findings show that companies displace (fully or partially) existing budget design and process characteristics, and if so, with what is it displaced? Here lies the largest difference between 'Beyond Budgeting' and 'Better Budgeting': the focus on novelty and displacement vs. the focus on incremental adjustment and improvements. (Is BB new?)

Last but not least, we expect to address the practical management issue of the implementation approach to Beyond Budgeting within SMES. (How to do BB?)

## 3. Methodology and Research Design

The purpose of this chapter is to describe the methodological approach and research design used to investigate our problem statement. The research design is meant to guide the research, answering how to study the research questions; i.e., what questions to study, what data are relevant, what data to collect, and how to

analyze the results (Philliber et al., 1980). Hence, the below chapter will explicate our proposed plan for answering our research question.

### **3.1 Proposed Research Design**

#### **3.1.1 Methodological Choice**

Methodology can be defined as: “the theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted” (Saunders et al., 2016, p. 720).

The first methodological choice is between a quantitative, qualitative, or mixed-method research design. We have chosen a qualitative approach for this master thesis, as it provides us the flexibility of choice needed to answer our research problem. There are several different types of qualitative research designs available to choose from, with the decision criterion being based on the research question; for example, does the research study require control of behavioral events, and whether the research study focuses on contemporary events.

For our problem statement, we found that the use of the case study research method was the best fit for answering the research question (Yin, 2009, p. 24). Yin (2018) emphasizes that the more a research question seeks to explain some contemporary circumstance, the more case study research will be relevant. Furthermore, case study research is best suited when asking “how” and “why” questions as compared to, for example, randomized controlled trials (RCTs) or survey questionnaires. Since previous research on the subject of Beyond Budgeting in SMEs is absent, an exploratory approach such as the case study research method is best suited.

The research can be designed to fulfill an exploratory, descriptive, explanatory, or evaluative purpose, or a combination thereof (Saunders et al., 2016, p. 174). An exploratory research design “is a valuable means to ask open questions to discover what is happening and gain insights about a topic of interest” (Saunders et al., 2016, p. 174). Since there is little to no research done on our research question, we chose an exploratory design to gain insight and familiarity with the

topic of Beyond Budgeting in SMEs. However, as we conduct a comparative case study of Beyond Budgeting in SMEs versus Beyond Budgeting in MNCs, the purpose of our research design is dual, it becomes evaluative as well as exploratory. “The purpose of evaluative research is to find out how well something works” (Saunders et al., 2016, p. 176). Looking at the use of Beyond Budgeting in SMEs as compared to how it is used in MNCs, we might have to evaluate the scalability of the Beyond Budgeting principles and the novelty of Beyond Budgeting in each enterprise. Therefore, we aim for a combination of exploratory and evaluative purposes when it comes to the research design.

### 3.1.2 Comparative Multiple-Case Study and External Validity

Yin (2009) distinguishes between single or multiple cases, and holistic or embedded case study strategies.

As the research question is based on comparing several firms, we have chosen a comparative case study. “*Comparative case studies involve the analysis and synthesis of the similarities, differences and patterns across two or more cases that share a common focus or goal*” (Goodrick, 2014, p. 1). According to Yin (2009), it is important to choose cases that highlight your research question.

*“You need sufficient access to the potential data, whether to interview people, review documents or records, or make observations in the ‘field.’ Given such access to more than a single candidate case, you should choose the case(s) that will most likely illuminate your research questions”*(Yin, 2009, p. 38).

To increase the external validity, we have chosen to study two cases where Beyond Budgeting is used in SMEs and two cases where Beyond Budgeting is used in MNCs. Two cases are chosen in each category to strengthen the basis of *analytic generalization* from the case studies (Yin, 2018). Analytic generalization explains the concept where the goal is to generalize and expand theories from a case study (Yin, 2009, 2018).

In addition, the two case studies in each “category” (SMEs and MNCs) are selected on a basis that they will predict similar results, based on *configurational replication*. Malmi and Brown in *Management control systems as a package - Opportunities, challenges and research directions* (2008) describes *configurational replication* as companies that have the same configuration of

management control system (MCS). Configuration, in this sense, is a package concept consisting of the elements illustrated in Figure 1.3. “Therefore, two packages may have contrasting elements, yet do the same job, as a result of internal consistency between the chosen elements in each of the packages” (Malmi & Brown, 2008, p. 296). Organizations will have distinct designs and histories, however, since internal consistency exists between the elements in the packages, it will be possible to compare companies as long as they share the same model of configuration.

<b>Cultural Controls</b>						
Clans		Values			Symbols	
<b>Planning</b>		<b>Cybernetic Controls</b>				<b>Reward and Compensation</b>
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
<b>Administrative Controls</b>						
Governance Structure		Organisation Structure			Policies and Procedures	

Figure 1.3. Management control systems package (Malmi & Brown, 2008)

Yin (2018) defines external validity as showing how and whether findings from a case study can be generalized. The cases are selected on the basis that analytic generalization is a methodological goal for the study, creating a basic theory that is open for subsequent verification, thus giving the case study external validity (Eisenhardt & Graebner, 2007). As a basis, case studies are especially useful in exploratory research to provide understanding and recognize patterns in and across cases. Central in a multiple-case study is replication logic; the research design allows for a replication strategy that increases the findings external validity. Here, each experiment in a multiple-case study serves as a replication, contrasts, and extension to theory. Challenges with a multiple-case study can be mitigated through exact use of language and a well considered research design, for example interview techniques to limit information bias, and a theoretical sampling of cases. Additionally, Eisenhardt and Graebner specify that arguments composed in comprehensible statements and well presented evidence in tables and appendices are important to mitigate predictable challenges (2007). When researchers are able to mitigate the challenges often connected with case study

research, they end up with theories that cross over from qualitative evidence to conventional deductive research.

## **3.2 Data Collection**

### **3.2.1 Qualitative Interviews**

Interviews can be viewed as one of the most important methods of data collection with regards to case studies (Yin, 2009, p.101), and qualitative interviews are used as an umbrella term for methods where the researchers learn information from participants through conversations (deMarrais & Lapan, 2003, p. 52). Qualitative interviews are categorized as: structured interviews, semi-structured interviews, and in-depth (or unstructured) interviews (Saunders et al., 2016, p. 390). We have decided to use a semi-structured interview which *“usually includes closed-ended and open-ended questions, is prepared; but in the course of the interview, the interviewer has a certain amount of room to adjust the sequence of the questions to be asked and to add questions based on the context of the participant’s responses”* (Zhang & Wildemuth, 2009, p. 1). A list of themes and questions to be discussed needs to be prepared before the interview, and a semi-structured interview allows us to be flexible and ask follow-up questions.

### **3.2.2 The Case Study Protocol**

To facilitate a higher degree of reliability in case study research, a case study protocol should be prepared before the data collection starts (Yin, 2009, p. 80). In addition to containing the questions prepared for the cases, the protocol contains the general rules and procedures that should be followed (Yin, 2009, p. 80). Yin (2009, p. 86) states that *“the questions in the case study research protocol should distinguish clearly among different types or levels of questions”*. The author also comments on the fact that a case study protocol is essential if doing case study research that contains multiple cases (Yin, 2009, p. 80).

## 4. Progression Plan

We will make a monthly plan to ensure a steady progression going forward with our master thesis.

**November:** Ask for a change of supervisor and topic.

**December:** Schedule a meeting with our supervisor and discuss expectations from both parties.

**January:** Deliver the preliminary thesis report (PTR), and deliver a draft to the supervisor in advance to receive feedback and insert changes. Attend a meeting with the supervisor and decide on a final problem definition to focus on for our thesis. Moreover, to get in contact with Bjarte Bogsnes, the founding father of Beyond Budgeting, to help us select and access our research objects (two large companies and two SMEs). Furthermore, to apply to NSD before we start to collect personal data from interviewees such as job description and workplace. We also need NSD approval to be able to record our interviews. Ideally, this should be done in January, as we need this approval before we collect our interview data.

**February:** Prepare the case study protocol, define the interview questions, and prepare for our interview process. Simultaneously, send our interview questions to our supervisor, obtain feedback, and get the go-ahead. Agree on the interview schedule with our interviewees. Additionally, we will collect additional sources for our literature review, and obtain different topical perspectives from different authors to use to interpret our interview statements. Finally, we will finetune and detail our research methodology further in terms of validation criteria and related quality assurance aspects.

**March:** Initiate the interview process to obtain our first data in early March, as we expect to need time to process the information. If possible, we like to talk to the interviewees again in case we need further detail and have follow-up questions. We will record our interviews which will provide us with more accurate recollection, and will afterwards transcribe the interviews- which requires an enormous amount of time and effort (Yin, 2009). Our interview notes (handwritten, electronically typed, and audiotaped) need to be stored properly to be able to retrieve the data at a later date.

**April:** Continue with the interviews and the analysis of the interviews. Read more sources to see if the interviews make sense and if some sources support our findings.

**May:** Use our interview findings to write the analysis part of the thesis.

**June:** Write the discussion chapter of our thesis, linking the findings to our research question, and evaluate the details that argue for the conclusions. Assess what constitutes a contribution to existing research, and what confirms existing research, and what are the more specific avenues for further research. Rewrite the thesis multiple times following feedback from both our supervisor and from relevant interviewees, company representatives and topical experts. Prepare draft versions of the thesis to be used for Norwegian language management practitioner publication (Magma), for a topical practitioner audience (BBRT), and, if the findings warrant, prepare a paper for submission to an international research outlet (either one of the *European Accounting Review*, *Management Accounting Reviews*, *Qualitative Research in Accounting and Management*). Language and style edit the Thesis manuscript and the various drafts, The thesis will be submitted by the end of June.

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