

# **Understanding why Beyond Budgeting has not been widely adopted**

**By**

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## **ABSTRACT**

This research aims to understand why Beyond Budgeting, a management accounting innovation, has not been widely adopted. The traditional budgeting process has been the dominant control mechanism for managing businesses for over 100 years. It has been much criticised over the years and the shortcomings have been extensively documented. There have been attempts to develop and improve the budgeting process or elements of it, with Beyond Budgeting being the most recent heavyweight solution put forward. Beyond Budgeting was announced as a CAM-I project in 1997 and presented at the end of the project as a general management model by Hope & Fraser in 2003. The proponents of Beyond Budgeting report significant benefits from implementing it but despite the criticisms of the traditional budget the adoption level of Beyond Budgeting has been low.

During the literature review, theories relevant to the adoption of new management accounting innovations were identified and research questions were derived. The multiphase empirical research took a two phase approach. In the first phase, management accountants worldwide, accessed through the Chartered Institute of Management Accountants (CIMA), were surveyed using a web-based questionnaire which culminated in 185 replies. In the second phase, following the analysis of the questionnaires, semi structured interviews were conducted with 50 respondents who had signalled their willingness to participate. The interviews gave further depth to the research expanding into areas not covered by the survey.

From the empirical research it was concluded that although adoption of the concept of Beyond Budgeting as a whole has been low, the constituent parts of Beyond Budgeting are being adopted more widely than previously believed, but often not using the term Beyond Budgeting and also by managers who have not heard of the term. Abandoning the traditional budget, a cornerstone to moving to the concept as a whole, has turned out to be one of the biggest hurdles to its wider dissemination. Regulatory and other stakeholder pressure obliges organisations to compile annual budgets added to which accountants and non-finance managers are comfortable with budgeting and understand it. This has led to certain Beyond Budgeting techniques being introduced while retaining the traditional budget.

Practical recommendations to professional bodies for more effective dissemination of innovations in future and a summary of pitfalls hindering the implementation of management accounting innovations make up the contribution to practice. The research contributes to theory by adding to the body of literature on the adoption of Beyond Budgeting, comparing the results with the findings of prior research, underlining the continuing relevance of existing theories by using their explanatory power to underpin the findings, documenting additional insights not found in the literature and by proposing a theoretical framework to document factors preventing the adoption of management accounting innovations.

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## **ABBREVIATIONS & GLOSSARY**

<b>ABB</b>	<b>Activity Based Budgeting</b>
<b>ABM</b>	<b>Activity Based Management</b>
<b>ABC</b>	<b>Activity Based Costing</b>
<b>ACCA</b>	<b>Association of Chartered Certified Accountants</b>
<b>ACMA</b>	<b>Associate Chartered Management Accountant</b>
<b>AMS</b>	<b>Advanced Management System</b>
<b>BB</b>	<b>Beyond Budgeting</b>
<b>BBRT</b>	<b>Beyond Budgeting Round Table</b>
<b>BSC</b>	<b>Balanced Scorecard</b>
<b>CAM-I organization</b>	<b>Consortium for Advanced Manufacturing – International</b>
<b>CEO</b>	<b>Chief Executive Officer</b>
<b>CEST</b>	<b>Central European Summer Time</b>
<b>CIMA</b>	<b>Chartered Institute of Management Accountants</b>
<b>C&amp;L</b>	<b>Coopers &amp; Lybrand</b>
<b>CPD</b>	<b>Continuing Professional Development</b>
<b>DNM</b>	<b>Data Needs Matrix</b>
<b>EIU</b>	<b>Economist Intelligence Unit</b>
<b>ERP software</b>	<b>Enterprise Resource Planning programs</b>
<b>EVA</b>	<b>Economic Value Added</b>
<b>FAQ</b>	<b>Frequently Asked Questions</b>
<b>FCMA</b>	<b>Fellow Chartered Management Accountant</b>
<b>FM</b>	<b>Financial Management, CIMA’s monthly magazine</b>
<b>GM</b>	<b>General Motors</b>
<b>ICAEW</b>	<b>Institute of Chartered Accountants in England &amp; Wales</b>
<b>ICWA</b>	<b>Institute of Cost and Works Accountants (now CIMA)</b>
<b>IOD</b>	<b>Institute of Directors</b>
<b>IMA</b>	<b>Institute of Management Accountants, USA</b>
<b>ISIC</b>	<b>International Standard Industrial Classification (ISIC) codes (United Nations Statistical Department, 2011)</b>
<b>IT</b>	<b>Information Technology</b>
<b>KPI</b>	<b>Key Performance Indicators</b>
<b>MiP</b>	<b>CIMA Member in Practice</b>
<b>ROI</b>	<b>Return On Investment</b>
<b>RQ</b>	<b>Research Question</b>
<b>SMA</b>	<b>Strategic Management Accounting</b>
<b>SPMS</b>	<b>Strategic Planning and Management System</b>
<b>Theory X</b>	<b>Employees dislike &amp; avoid work, need coercing and control</b>
<b>Theory Y</b>	<b>Employees like work, autonomy, control over their own tasks, job enrichment and group participation (McGregor, 1960)</b>
<b>TQM</b>	<b>Total Quality Management</b>
<b>ZBB</b>	<b>Zero Based Budgeting</b>

## **CHAPTER 1 - INTRODUCTION**

This chapter leads into the subject matter of the research, namely the quest to understand why a particular management innovation in the field of budgeting has not been adopted widely.

An opening paragraph is followed by a section briefly describing the ubiquitous traditional method and a section outlining the innovation, Beyond Budgeting. The chapter continues with a synopsis of the research problem and research aim before concluding with an overview of the thesis structure.

### **1.1. Preamble**

Management accounting innovations come and go, some become accepted practice, others never make it beyond the theory stage and some are highly acclaimed before falling out of fashion and going into decline. Since being presented to the business world in 1997 Beyond Budgeting has been heralded by its proponents as a new, alternative general management model abandoning the traditional budget in favour of adaptive processes and moving on to radical decentralisation. This research aims to understand why the Beyond Budgeting management model has not been widely adopted.

### **1.2. Traditional Budgeting – an introduction**

Traditional budgeting, forming the basis for management control, was first introduced over 120 years ago (Berland & Boyns, 2002). It has served business since then as a coherent system (Otley, 1999) covering areas including planning, cost control and performance evaluation for companies as well as the managers running them. But with budgeting being accused of not evolving with the times and failing to adapt to an ever faster moving environment (Bunce *et al*, 1995; Kaplan, 1984), it is suggested that numerous managers and perhaps even the majority of companies are dissatisfied with their planning and budgeting processes (Jensen, 2001; Horngren, 2004; Neely *et al*, 2003; Welch & Welch, 2005). Criticisms extend from short-termism to the potential for counterproductive behaviour such as budget padding, i.e. budgeting costs too high (Hopwood, 1972), as well as the burden on resources in

terms of time and money invested in the budgeting system (Jensen, 2003; Jarman & Bibekar, 2009). Major and minor changes to the budgeting process have been proposed over the years including flexible budgeting, zero based budgeting, activity based budgeting, better budgeting and advanced budgeting (Neely *et al*, 2003). None have significantly changed the face of traditional budgeting. Evolving from the research into advanced budgeting a new movement, Beyond Budgeting, promoted by academics and business managers, was presented 15 years ago (Bunce & Fraser, 1997; Hope & Fraser, 1997). They put forward the concept of abandoning the budget altogether, replacing it with amongst other techniques, rolling forecasts and relative performance evaluation. The traditional command and control mechanisms are replaced with devolution and empowerment of lower level employees. The traditional budget and alternatives are discussed in detail in sections 2.2 to 2.5.

### **1.3 Beyond Budgeting – an introduction**

Beyond Budgeting has been developed primarily by three professionals, Peter Bunce, Jeremy Hope and Robin Fraser. According to Hope & Fraser (2003a), Beyond Budgeting is a new general management model implemented in two phases, the abandonment of the budget and then radical decentralisation, as described in the following overview. Bunce (2010) explains that Beyond Budgeting is not just about putting in rolling forecasts and taking out the budget, although this is a necessary first step, there is so much more to it and all the Beyond Budgeting principles are closely interlinked. He summarises that “Beyond Budgeting is about changing the way you manage your business to be more adaptive and flexible. It is applicable to both large and small organizations” (p.1). This brief introduction is followed by an in-depth discussion in sections 2.6 to 2.10.

#### **Phase one: Abandoning the budget**

In the first phase:

- The traditional budgeting process is replaced by adaptive management processes, for example rolling forecasts replace fixed budget figures.
- The fixed performance contract, i.e. performance compared to a pre-determined budget, is replaced by a relative performance contract comparing

performance to external benchmarks such as competition or market development or internal benchmarks such as peer group performance.

- The organisation's goals are disconnected from managers' performance goals and rewards.
- Evaluation and rewards for managers are based on relative improvement using hindsight.
- Instead of controlling by reporting variances to budgets, control is retained by using transparent, fast and open reporting systems with the concept of one truth.<sup>1</sup>

Major time and cost savings were reported in the cases researched by Hope & Fraser (2003a), who report that these savings were usually evident and measurable within months. The Beyond Budgeting philosophy is that managers need guidelines or targets, not detailed budgets.

#### Phase two: Radical decentralisation

The second phase builds on the adaptive processes from phase one and moves organisations from a top down command and control hierarchy to becoming radically decentralised, pushing responsibility to the front-line managers. The resulting 'responsibility model' replaces the former 'dependency model' of traditional budgeting.

Successful implementation of Beyond Budgeting in its entirety involves a major cultural change within an organisation. Because of this the authors emphasise that Beyond Budgeting is not just an information system, nor just a tool; rather it is a leadership philosophy underpinned by a guiding set of principles, a general management model. They stress that breaking free from the command and control model, opening up the reporting systems and empowerment are at the core of the Beyond Budgeting vision. "The essence of the adaptive and decentralized management model is that by giving capable and committed people the authority and

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<sup>1</sup> **One truth:** Hope & Fraser (2003a) advocate having only one set of books and one set of numbers in an organisation so that performance is transparent, visible and unambiguous. This transparency is important for example in bringing any bad news to the forefront quickly so that it can be dealt with promptly.

capability to make fast decisions in their local markets, they will act responsibly, respond appropriately to threats and opportunities confronting them and, with one eye on competitive performance, deliver consistent results” (Hope & Fraser, 2003a:198).

Criticisms of Beyond Budgeting are discussed in section 2.8.

#### **1.4 Research problem**

As a lead-in to the research problem the development of the knowledge of Beyond Budgeting and the development in practice are briefly described in the following paragraphs.

##### **Development of the knowledge**

Following work on advanced budgeting by the CAM-I organisation, an outline of the concept of Beyond Budgeting was presented in 1997 (Bunce & Fraser, 1997) and a Beyond Budgeting Round Table (BBRT) established in 1998, charged with developing and disseminating the concept. The seminal work on Beyond Budgeting was published in 2003 consolidating the knowledge gained in case study work between 1997 and 2002 (Hope & Fraser, 2003a).

##### **Development in practice**

The principles of Beyond Budgeting have been disseminated by the proponents of the concept, the BBRT and by professional institutes including the Chartered Institute of Management Accountants (CIMA). Articles are regularly published, seminars are organised and internet forums continue to attract new members (section 2.10). The benefits in the companies that follow the principles and publicise their experiences are reported by the proponents of Beyond Budgeting to be significant (Hope & Fraser, 2003a). The advocates and driving force of the movement present arguments to support their call for the traditional budget to be abandoned and for the principles of Beyond Budgeting to be implemented in its place, (these are reviewed and criticised in sections 2.6 to 2.8).

The research problem is that the level of adoption has been low, in spite of the apparent benefits brought by Beyond Budgeting based on the reported success of companies following the principles, and despite its continued topicality (section 2.9 and 2.10).

### **1.5 Research aim**

Following on from the research problem, given that Beyond Budgeting remains topical and is still being promoted 15 years on as an alternative to traditional budgeting and that the stated benefits are reported by the advocates to be significant, the aim of this research has been to understand why Beyond Budgeting, a management accounting innovation, has not been widely adopted. Aspects researched ranged from the feasibility and coherence of the technique itself, i.e. whether as an innovation it was a real alternative to traditional budgeting or whether it was seen as hype or another fad, to whether it was falling victim to a general resistance to change in the business environment. Whether the Beyond Budgeting techniques are known, have been adequately understood and the potential benefits recognised and accepted was also investigated in the research.

### **1.6 Research approach**

Following the literature review in chapter three, it was established that little literature existed that directly addressed the research problem as defined in section 1.4. Bryman and Bell (2007) point out that a more explanatory stance may be preferable “if the researcher is interested in a topic on which no or virtually no research has been done in the past” (p.33). According to the authors, qualitative research may serve the researcher’s needs better in connection with an exploratory approach. For this reason the research took an exploratory stance and sought to understand the phenomenon by fact finding and drawing conclusions from the facts gathered.

### **1.7 Thesis structure**

In chapter two the budgetary process is discussed, providing a background to traditional budgeting and its shortcomings, leading into a discussion of the major alternatives proposed up until now to address these shortcomings. Chapter three is a literature review which begins with the literature concerning the factors influencing

the adoption of new techniques before moving on to the theories relevant to innovations in management accounting and deriving the research questions. Chapter four describes the methodologies considered to answer the research questions and justifies the two phase approach selected, which involved the use of a web-based survey in phase one followed up with semi-structured interviews in phase two, designed to gather facts for this exploratory research. Chapter five presents and analyses the results and findings, then chapter six discusses the results from chapter five against the background of the literature review and draws final conclusions.

## **CHAPTER 2 – THE BUDGETARY PROCESS**

### **2.1 Introduction**

The aim of this chapter is to illustrate where the demand for a change to the budgetary process has arisen. It also provides a foundation for the rest of the thesis, by providing a history and showing how the terms ‘traditional budgeting’ and ‘Beyond Budgeting’ have been understood.

The first section describes traditional budgeting and is followed by two sections, one detailing criticisms of the traditional budgeting system and the other supporting arguments for it. The next section describes and reviews alternatives to traditional budgeting which have been presented as solutions to some of the flaws inherent in traditional budgeting. Beyond Budgeting is explained in the following section and compared to traditional budgeting in the next section, before a criticism in the subsequent section.

The last two sections in this chapter deal with the importance of the research with an assessment of the current level of adoption of Beyond Budgeting and the continuing topicality of the subject.

### **2.2 Traditional budgeting**

#### **A history**

Since the Industrial Revolution owners and managers of operations have tried to find ways to plan and monitor their businesses. From the late 1800s (at the latest), budgeting has been used to achieve this aim. The term ‘budget’ is “derived from the old French ‘bougette’, which meant a bag or sack. It referred to the sack or case of the Chancellor of the Exchequer, who read his report of governmental income and expenditures before Parliament. The term a little later came to be applied to the statement itself” Drucker (1929:175). Duden (2001) explains in more depth that the old French ‘bougette’ is a diminutive of the word ‘bouge’ which in turn comes from the Latin ‘bulga’ meaning leather bag. In the context of the country this was the amount of money at the country's disposal.



The first bodies to use budgets were governmental departments who had the resources as well as the necessity to plan and monitor their incomes and expenditures. As Drucker (1929:175) explains, “the setting up of the budget at the beginning of the fiscal period was first used in governmental institutions.” Although undoubtedly practiced in some form or other as long as mass production has taken place, the concept of budgeting was evidenced in industry no later than the end of the 1800’s. Berland & Boyns (2002) list the Royal Ordnance Factories in circa 1895 amongst known cases of the use of budgets and budgetary control in British businesses. The authors (p.1) also note that “more recent historians, such as Chandler (1962, 1977) and Johnson & Kaplan (1991), have suggested that, in America, some companies, most notably DuPont de Nemours (gunpowder) and General Motors (motor vehicles), had begun to utilise budgetary control by the 1920s.” To underline how long budgeting has been established Drucker opened a paper on budgeting in 1929 with the comment, “For years the system of setting up a budget at the beginning of the fiscal period has been urged upon business concerns” (Drucker, 1929:175). Johnson & Kaplan (1991) recount that GM had a fully articulated flexible budget at least as early as 1923.

Seeing the need for systems to determine costs, to monitor and to forecast activity, the Institute of Cost and Works Accountants (ICWA), now the Chartered Institute of Management Accountants (CIMA), was founded in 1919 to provide the information needed to plan and manage modern business (CIMA, 2009). “A basic rationale of the ICWA in its early years was the advocacy of ‘scientific costing’. Though there is some doubt over the precise meaning of the term, which appears to have been dropped in the late 1920s (see Loft, 1990), it undoubtedly encompassed budgetary control” (Berland & Boyns, 2002:21).

### The traditional budget and the budgeting process

A simple budget starts with a 12 month sales forecast usually broken down by weekly, monthly or quarterly periods. The production, purchase and/or service activities required to achieve the forecast sales are calculated and the costs matched by period to the sales to arrive at a budgeted profit or loss by period. In the ‘CIMA Official Terminology’ the budget is defined as a “Quantitative expression of a plan

for a defined period of time. It may include planned sales volumes and revenues; resource quantities, costs and expenses; assets, liabilities and cash flows” (CIMA, 2005a:5). To demonstrate the long history of the budgeting process, Bates (1926:471) described the process three quarters of a century ago, “A financial budget breaks down estimated yearly receipts and expenditures to a monthly basis and correlates them”, adding that the financial budget is only one step in the whole process of budgetary control. Once the budget has been agreed, actual results are subsequently compared on a periodical, usually monthly, basis to the budget, the aim being to identify and analyse variances from the budget to enable corrective action and enable better forecasting (Carsberg, 1980).

Most business managers are confronted annually with the task of setting and negotiating their budget for the next fiscal year. Neely *et al* (2001:6) in a review of worldwide planning and budgeting, drawing on 100 academic books and papers and interviews with executives from 15 well-known firms, defined the traditional budget thus: “traditional planning and budgeting is viewed as the periodic process by which organizations tend to define their forward operational expenditures and forecasted incomes. In its 'traditional' sense, it is a top-down process, whereby budget packets go out from the corporate office to various divisions and operating units, accompanied by forms to be filled in and sales and operational forecasts to be completed. Once the necessary data has been entered these budget packs are returned 'bottom-up' to the corporate office. Subsequently, multiple iterations (which include the same path) are performed until final agreement is achieved. The resulting budget is usually produced weeks or months after the initial distribution of the budget forms, and this sets the 'limits' to operate within and targets to be achieved, for the next budget period (usually 1 year). Typically, monthly variance reports are produced and discussed.” Jarman & Bibekar (2009) of PricewaterhouseCoopers (PwC) quote from a February 2009 PwC survey which found that the median time taken to complete a budget is 100 days with some companies taking significantly longer.

In many cases an element of financial reward or variable salary component is based on achievement of the budget as summarised succinctly by Libby & Lindsay (2003:31), “Budgets often serve as a commitment or ‘performance contract’ between

a subordinate and a superior. Implicitly or explicitly, the nature of this contract is, if you make this target, your performance will be deemed satisfactory (or better). As such, subordinates can expect to receive a good performance evaluation and valued organisational rewards”.

### **2.3 Criticism of traditional budgeting**

The literature on budgeting has been suggesting for a long time that there is generally widespread dissatisfaction with the entire budgeting process. Over 30 years ago Wildavsky (1978:501) referred to the “perennial dissatisfaction with budgeting”. Almost 15 years later Schmidt (1992) saw conventional budgeting techniques as proving to be wasteful and ineffective. Jensen (2001:95) said that “Corporate Budgeting is broken,” it wastes time and turns honest managers into schemers. Horngren (2004) maintained, “numerous managers are extremely unhappy about budgeting.” Welch & Welch (2005:189) stated bluntly, “Not to beat around the bush, but the budgeting process at most companies has to be the most ineffective practice in management. It sucks the energy, time, fun and big dreams out of an organization. It hides opportunity and stunts growth. It brings out the most unproductive behaviors in an organization, from sandbagging to settling for mediocrity. In fact, when most companies win, it is in spite of their budgets, not because of them”.

The promoters of Beyond Budgeting are particularly harsh in their criticism of traditional budgeting. Hope & Fraser (2003a:16) purport, “the budget, or to be more precise, the budgeting process, is universally disliked. It takes too long, costs too much, and adds too little value.” Bunce *et al* (1995) write that it is clear budgeting has little to do with the new realities, time frames and language of operational management. Hope & Fraser (2003a:197) highlight the inadequacy of traditional budgeting by citing “three main criticisms of the traditional management model. First, its core budgeting process was too protracted and expensive and added insufficient value to its users. Second, it was out of tune with the competitive environment of the information economy. And third, it encouraged dysfunctional and unethical behaviour”. Bunce, Hope and Fraser, as champions of the Beyond Budgeting movement, have a vested interest in the subject and it is not surprising that their criticisms and findings should support the cause. Their techniques have been

integrated into the syllabuses of the major accounting institutes and recognised writers on management accounting comment on Beyond Budgeting (Hansen *et al*, 2003; CIMA & ICAEW, 2004; Abdel-Kader & Luther, 2006; Otley, 2008). Such is the Beyond Budgeting lobby's influence, that care needs to be taken that quotes from other writers are independent and not indirectly quoting them. An example is Neely *et al* (2003) who cite an Economist Intelligence Unit (EIU, 2000) survey as stating 80% of finance directors are dissatisfied with the budgeting process. The EIU in turn was quoting a Beyond Budgeting Round Table survey, the founders of which are Bunce and Fraser.

The most common specific criticisms of budgeting, which are discussed individually in detail later include:

- the heavy burden of budgeting on resources in terms of time and money which could otherwise be freed or used more productively (Schmidt, 1992; Libby & Lindsay, 2003; Jensen, 2003; Jarman & Bibekar, 2009).
- performance contracts based on budget achievement are conducive to dysfunctional behaviour (Hopwood, 1972; Prendergast, 1997; Libby & Lindsay, 2007).
- budgets are static and unresponsive to change (Libby & Lindsay, 2007; Jarman & Bibekar, 2009).
- budgets lead to an overemphasis on pure numbers at the expense of non-numerical factors (Hopwood, 1980; Johnson & Kaplan, 1991; Otley, 1999).
- the budgeting process is used to legitimise a 'command and control' model of management in an authoritarian culture where employees are regarded as inherently lazy, needing to be coerced to perform i.e. a Theory X management style (Drucker, 1929; Neely *et al*, 2003; Daum, 2005).

#### Heavy burden on resources

In terms of resources, the annual budgeting process ties up significant amounts of manager and employee time which arguably could be used for more customer-oriented or productive tasks. Neely *et al* (2001) report that planning and budget processes used up to 20 per cent of *all* management time at Volvo, the Swedish car

manufacturer. Libby & Lindsay (2003:32) also criticise the expense involved with budgeting maintaining that “Budgets take around four to five months to complete. They occupy up to 20 to 30 per cent of senior executives’ and financial managers’ time”. According to a widely cited quote, a Hackett Benchmarking study conducted in 1998 (Axson, 2010) found that the average organisation invests more than 25,000 person days per billion dollars of revenue in the planning process. The average time to develop a financial plan is four and a half months (Niven, 2002; Neely *et al*, 2003; Thomson, 2007). Neely *et al* (2001:4) interviewed executives from 15 different firms including Ford and report that Ford “estimated that their planning and budgeting process costs \$1.2 billion to run”.

#### A cause of dysfunctional behaviour

Under the heading dysfunctional behaviour, terms directly related to budgeting have evolved. In the Official Terminology, CIMA (2005a:7) defines budget slack as “intentional overestimation of expenses and/or underestimation of revenue during budget setting. Also known as budget padding.” Budgets are deemed counter-productive as they lead to dysfunctional behaviour in managers including budget padding or budget slack, where costs are overestimated or revenues underestimated, and *budget gaming*. An example of *budget gaming* is cited by McVay & Cooke (2006) in health services, where supplies were always over budget because managers deliberately underestimated the supplies budget to preserve their salary and wages budgets. Regarding the subject of budget padding Hopwood (1972:157) explains, “Other investigators have noted the tendency of managers to pad their budgets either to make the reported variances more favorable or in anticipation of cuts by either superiors or accountants.” Although it is difficult to prove, it is accepted that budget slack is endemic in business today. In a study interviewing 32 managers Onsi (1973:537) found that “80% were willing to state explicitly they bargain for slack.” Prendergast (1997) quoting the Onsi survey goes further and reckons the figure is likely to have increased with greater competition and increasing pressure to meet budgets. He concludes that it seems there will always be some budgetary slack in any organisation.

On the negative impact of budgeting Welch & Welch (2005) assert, “making a budget is an exercise in minimalization. You’re always trying to get the lowest out of

people, because everyone is negotiating to get a lower number.” Libby & Lindsay (2007), having surveyed 212 IMA members (Institute of Management Accountants, USA), remark that some people consider budgets the cause of gaming and earnings manipulation by managers.

Further dysfunctional behaviour deemed to be directly caused by budgeting is the tendency for ‘short-termism’. The term ‘short-termism’ is coined where managers’ performance and variable pay are based on performance in relation to budget, leading into a focus on the short-term budget period, usually at the cost of long-term profitability. Merchant (1990) puts this down to pressure to meet financial targets. Hopwood (1972:160) refers to this phenomenon as ‘Budget Constrained Style’, “the evaluation of managerial performance is primarily based upon the cost center head’s ability to continually meet the budget on a short-term basis. This criterion of performance is stressed at the expense of other valued and important criteria and a cost center head will tend to receive an unfavorable evaluation if his actual costs exceed the budgeted costs, regardless of other considerations.”

The negative effects of extreme dysfunctional behaviour leading to a breakdown of corporate ethics and sometimes downright dishonesty were seen in the case of WorldCom, now bankrupt and criminally investigated, where the CEO “mandated expense performance at least 2% below budgeted amounts” (Thomson, 2007:23).

#### Budgeting has not kept pace with business change

The budgeting process has not evolved in line with the development of business. The basic premise of a fixed plan, against which actual results are measured, dates from the end of the 19<sup>th</sup> century (Kaplan, 1984). He explains referring to management accounting as a whole, “there have been virtually no major innovations by practicing managers or management accountants during the most recent 60 years to affect contemporary management accounting thought” (p.401). He re-affirms seven years later, this time more specifically to the budgeting process, “before World War I, the DuPont powder company was using almost every management accounting procedure for planning and control known today” (Johnson & Kaplan, 1991:93).

### Static and unresponsive to change

Although the pace of change in business has accelerated continuously over the last decades the budgeting process has remained fundamentally unchanged. Thus further condemnation of the budgeting process concentrates on the static nature of an annual budget which is quickly out of date and unresponsive to change. Fixed budgets can act as a barrier to change as managers strive to meet pre-determined budget goals in a changed environment and market instead of adapting to the new situation. Even in companies where forecasts are revised during the year, managers' incentives may remain based on the budget targets and not on the later, more relevant forecast targets. On the subject of the changing business environment Hope & Fraser (2003a:16) opine, "the budgeting model is also out of kilter with a competitive environment that is now subject to discontinuous change". Libby & Lindsay (2007) also note the budget may be considered a barrier to change. Jarman & Bibekar (2009:46) underline the frequency aspect of annual budgeting in the context of the current world slowdown, "in most sectors, the slowdown has been so dramatic that the budgets agreed last year have become irrelevant." Prendergast (1997:44) also focuses on the inflexibility of the traditional budget commenting "By year-end the budget becomes sacred and must be achieved despite technological, competitive and other environmental changes outside of management control."

### Emphasis on financial numbers

The traditional budget is denigrated for concentrating on the numbers and thereby ignoring non-quantitative measures. Johnson & Kaplan (1991) for example point to the dangers of short-termism if the only targets are numbers. Achievement of the budget numbers in order to secure variable elements of pay or bonuses becomes the overriding goal.

Much literature has pointed out that business processes are not sterile lists of numbers but integrated processes within systems involving people, and that all too often the social aspects have been ignored. Otley (1999:371) criticises that, "The budget focuses only on financial results and, worse, does not necessarily pay sufficient attention to the means by which those results are to be achieved."

Hopwood (1987:208) referring to accounting remarks that "many organizational

enquiries into accounting have tended to see and study it in ways that are disconnected from the contexts in which it operates. It is still perceived as a relatively static technical phenomenon that enables rather than more actively shapes organizational functioning as we now know it". In 1980 Hopwood had already commented "Emphasis has been placed on the calculative procedures which give rise to 'the budget' and its subsequent comparison with actual performance, but not on the organisational processes through which budgetary pressures and demands emanate, and as a result of which budgeting achieves its organisational significance" (Hopwood, 1980:222). The budget is not just a set of figures, Argyris was already aware in 1953 that budgets tend to defeat their own purpose unless the human relations problems aroused by their use are solved (Argyris, 1953). Bringing numbers into perspective Slater (1999:90) in a biography of Jack Welch, CEO of General Electric quotes him summing up "Numbers aren't the vision; numbers are the product".

### Budgeting legitimises a command and control environment

Traditional budgeting is often seen as a rigid control mechanism in a Theory X environment. The term Theory X was first used by McGregor (1960) to describe a management style where employees are regarded as having an inherent dislike for work, avoiding it where possible, and needing to be coerced and controlled to get them to work. In the days of budgeting's infancy 1929 Drucker wrote "The budget can be used as a means for centralized executive control" (p.175). Preston (1991) sees budgeting establishing and reinforcing structures which emphasise hierarchical and rigid patterns of relationships within the organisation. Daum (2005:19) sees the traditional budget as "a control system of hierarchical, Taylor-organised mass production companies and therefore no longer a suitable control system for companies of the future." Frow *et al* (2010) share the same opinion alluding to traditional budgeting's hierarchical command-and-control orientation. The following table, table 2.1, summarises the major criticisms of traditional budgeting, which are the reason why Beyond Budgeting has emerged. .



**Table 2.1 Summary of problems inherent in traditional budgeting**

<b>Criticism</b>	<b>Reason</b>	<b>Authors</b>
Disliked	Managers are dissatisfied with the budgeting process which is universally disliked	Jensen(2001),Horngren(2004), Neely <i>et al</i> (2003), Welch & Welch(2005), Jensen(2003), Jarman & Bibekar(2009)
Burden on resources	Budgeting takes up too much time and costs too much	Schmidt(1992), Libby & Lindsay(2007), Jensen(2003), Jarman & Bibekar(2009)
Dysfunctional behaviour:		
<i>Budgets are used for performance evaluation and remuneration potentially leading to:</i>		
- Budget padding	<i>Building slack into the budget to facilitate its achievement</i>	Onsi(1973), McVay & Cooke(2006)
- Short-termism	<i>The budget is achieved at the cost of long-term profitability</i>	Hopwood(1972), Merchant(1990)
- Dishonesty	<i>Managers are tempted to scheme to meet their budget</i>	Jensen(2003), Thomson(2007)
Outdated, not evolved	The budgeting process has seen little change in 80 years	Johnson & Kaplan(1991)
Static & unresponsive	Outdated before start, process typically begins four months beforehand	Prendergast(1997)
Emphasis on numbers	Management by numbers, non-quantitative aims neglected	Hopwood(1980), Johnson & Kaplan(1991)
Command and control	The traditional budget is deemed to be a centralised control system	Drucker(1929),Neely <i>et al</i> (2003), Daum(2005)

#### 2.4 In defence of traditional budgeting

In spite of the many criticisms and documented problems traditional budgeting has its followers whose enthusiasm ranges from individuals who simply see budgets as indispensable (Libby & Lindsay, 2007) or essential (Dugdale & Lyne, 2010a) to writers seeing budgets in a positive, comforting role (Marginson & Ogden, 2005), to companies such as Johnson & Johnson whose budgetary systems are seen as examples of how budgeting can function (Simons, 1991). Budgeting is established and omnipresent, a fact confirmed by the Beyond Budgeting proponents Bunce *et al* (1995:256) who write, “Despite its limitations, the use of traditional budgeting is almost universal” and then go further to observe that “many argue that budgeting must remain as a vital part of an overall management system.” The BBRT reinforces this view, “Almost everyone in the world today uses a management model based on the traditional command and control model” (BBRT, 2009:1). Discounting widely reported dissatisfaction with budgets Dugdale & Lyne (2010a) conclude from a

survey of 40 international companies “Both the survey of financial and non-financial managers and the field study indicated that managers were largely satisfied with their budgeting systems” (p.5).

For advocates of traditional budgeting it is difficult to accept that firms can function without them; Reid & Smith (2002:24) state simply, “Bosses who don’t have budgets or targets lack a potentially useful controlling tool.” Most managers have been working with budgets for their entire careers and understandably cannot imagine managing without them and are not contemplating giving them up. Marginson & Ogden (2005:436) report that “managers welcomed the certainty created by the combination of clear goals and well-specified objectives, and a performance evaluation system that was tightly focused on how successfully those objectives have been achieved”. One of the outcomes of Libby & Lindsay’s 2005 budgeting survey was that “respondents indicate overwhelmingly that they couldn’t manage without budgets” (2007:51). Jensen (2003) comments that although everyone at all levels dislike the budgeting process and perceive the damaging effects, they cannot conceive of managing a company in any other way. The professional institutes still support budgeting, insisting it has evolved over time. In a 2004 CIMA and Institute of Chartered Accountants in England and Wales (ICAEW) Better Budgeting Forum (CIMA & ICAEW, 2004), the one overall conclusion was that budgeting is alive and well and that budgeting provides an overall framework of control without which it would be impossible to manage. Even the view that budgeting has not evolved over time is not universally accepted. In the forum there was “almost unanimous agreement amongst those present that budgets have undergone some significant changes in the last 20 or so years” (CIMA & ICAEW, 2004:3).

Budgeting works for some companies, Libby & Lindsay (2007) point out there are several well-known examples of extremely successful U.S. companies, whose budgets lie at the heart of their management control system, citing the examples of Johnson & Johnson, one of the best managed companies, according to Fortune, and Emerson Electric. The budgeting process is a mature system where the ends tie together to form a complete and coherent system, Otley (1999) sees budgeting as a central plank of most organisations’ control mechanisms and one of the few

techniques capable of integrating the whole gamut of organisational activity into a single coherent summary.

Critics of budgets often refer to ‘fixed budgets’ and criticise the fact that the budget is static and unresponsive to environmental change. However in some companies budgeting is seen as a continuous process, allaying one of the major criticisms levelled at budgeting. Simons (1991:52) describes, “Profit planning, for example, was highly interactive at Johnson & Johnson... the revision and re-estimation of profit plans by operating managers throughout the year was intense and continuous.”

In business, managers speak of meeting the budget numbers. Unlike some non-numeric measures, numbers in the context of budgeting are unambiguous and objective; performance is either above, below or exactly on budget. Specifically on the criticism that budgeting promotes a system of managing by numbers, Ezzamel *et al* (1990:153) disagreed in a review of Johnson and Kaplan’s ‘Relevance Lost’. They suggest managing by numbers “is a necessary alternative to the more visible and physical forms of control that were used in the pre-modern world and remain acceptable in Japanese industry.”

Budgeting is taught as an integral part of the path to qualification in the UK’s three major professional accounting bodies, the ACCA (Association of Chartered Certified Accountants), the ICAEW and CIMA. Budgeting is listed in the syllabuses of each one (ACCA, 2012a; ACA, 2011; CIMA, 2004). Qualified accountants are therefore knowledgeable in the technique and comfortable using it to manage large and complex organisations. CIMA supports research into management accounting and in the conclusions summarising the results of the CIMA July 2009 survey on management accounting tools CIMA comments, “Budgeting is an area where many commentators suggest that traditional practices have become outdated. Dedicated movements have evolved to champion both beyond budgeting, and better budgeting; and there is a large body of literature which comments generally on the tendency for budgets to trigger game-playing, budget-padding and other sub-optimal behaviour. However, it would need a radical re-invention of budgeting and performance

management to persuade users there are alternatives to cash forecasts, and financial year forecasts (both of which are amongst the most used tools)” (CIMA, 2010a:28).

### **2.5 Alternative models and solutions to the problems of traditional budgeting**

Wildavsky (1978:508) claimed, “So far, no one has come up with another budgetary procedure that has the virtues of traditional budgeting but lacks its defects.”

However, there have been attempts to improve budgeting including:

- Flexible Budgeting
- Better budgeting including:
  - Zero based Budgeting
  - Activity Based Budgeting
- Continuous budgeting
- Advanced Budgeting (which has evolved into Beyond Budgeting)

#### **Flexible budgeting**

Flexible budgeting is defined by Johnson & Kaplan (1991:110) as follows: “The flexible budget distinguishes between variable and fixed costs and thereby forecasts total costs and profits at any level of actual output”. Flexible budgeting addresses the criticism that the fixed budget is too static and unresponsive as the costs are adapted to the actual output levels theoretically enabling variances to be analysed free of the volume variable. However, flexible budgeting does not address the issues of the management time and resources required to create the budget which, given the increased complexity, is likely to be even longer than the fixed budget. Nor are the issues of dysfunctional behaviour resolved. Furthermore flexible budgeting evolved early in the history of budgeting with GM having a flexible budgeting system by 1923 (Johnson & Kaplan, 1991), and as such is unlikely to provide new answers to today’s problems.

#### **Better Budgeting**

The term ‘Better Budgeting’ has been used by Neely *et al* (2003) to encompass alternative budget approaches. The authors evaluated five ‘Better Budgeting’ approaches; Activity Based Budgeting (ABB), Zero based budgeting (ZBB), Value based management, Profit planning and Rolling budgets and forecasts.

Activity Based Budgeting starts by relating the costs of outputs to the underlying activities. Neely *et al* (2001:9) describe ABB as “planning and controlling along the lines of value-adding activities and processes”, with origins related to ABC (Activity Based Costing) and ABM (Activity Based Management). According to Cooper & Kaplan (1998:114) “Activity Based Budgeting demolishes standard conventional thinking about fixed and variable costs.” ABB “traces costs from products to activities and then from activities to resources” (p.116). As such ABB is more modern and adaptive than traditional budgeting. Cooper & Kaplan continue, ABB is complex to manage, “an organization has to specify far more details for Activity Based Budgeting than it would for conventional budgeting” and underline the complexity of ABB, pointing out it has only moved from a theoretical to a practical possibility with the advent of significant computing power. Neely *et al* (2003) expound that the problem with ABB, is that it requires more work than traditional budgets. ABB is currently not a viable alternative to traditional budgeting due to its complexity and hunger for resources.

Zero based budgeting (ZBB) is based on the concept that businesses should restart at zero at the beginning of each budgeting period. Instead of taking prior period actual figures and using these as a basis for the calculation of the new budget, a ZBB examines and justifies each element from zero as if it were being done for the first time. Neely *et al* (2003:24) explain “expenditures must be re-justified during each budgeting cycle, rather than basing budgets on previous years and periods”. The authors conclude that the problem shared by both ABB and ZBB “is that they tend to involve *even more work* than traditional budgets – so they are best used on a ‘one-off’ basis rather than a regular one”. ZBB as an approach concerns itself only with the calculation method of the numbers going into the budget and does not address the on-going issues of dysfunctional behaviour nor, once the budget has been set, the static and unresponsive nature of traditional budgets and cannot therefore be considered a radically improved alternative.

Value based budgeting entails focussing on the value of activities to be budgeted, appraising and assessing all expenditure plans in terms of the shareholder value they will create. Profit planning assesses whether units generate sufficient cash and create

economic value. Both approaches are deemed to be theoretical approaches with little evidence to suggest they will simplify the process of budgeting (Neely *et al*, 2003).

Neely *et al* see rolling budgets and rolling forecasts as having the best potential as these solve problems associated with infrequent budgeting and eliminate the dubious practices encouraged by year-end cut-offs. “However none of these approaches provides a complete solution. At best they are point solutions designed to overcome some of the specific weaknesses” (Neely *et al*, 2003:25).

For the professional accounting institutes the term Better Budgeting has a broader meaning. In 2004, seven years after the inception of Beyond Budgeting, CIMA and the ICAEW jointly sponsored a ‘Better Budgeting forum’ with the participation of 32 “large and respected companies” (CIMA & ICAEW, 2004:1) to discuss “the latest thinking on budgeting from thought leaders, financial directors and financial controllers.” The overall conclusions drawn were that “budgeting is alive and well” and that the majority of companies are trying to improve the process continuously to meet the demand set for management in creating sustainable value. As this forum acknowledged that at least some of the changes in the budgeting process highlighted were inspired by the calls for fundamental change in the years prior to the forum, discussion of the findings takes place after the discussion of Beyond Budgeting at the end of section 2.9 ‘Assessment of the level of adoption of Beyond Budgeting’.

### Continuous budgeting

The concept of Continuous Budgeting was put forward by Frow *et al* (2010) and is intended to address the criticism of traditional budgets being static and unresponsive. They explain “Continuous Budgeting seeks to avoid the inherently restrictive nature of budgetary control by enabling managers, when confronted by unexpected events, such as problems with the preparation and launch of new products, to consider, and if necessary implement, a revision of plans and reallocation of resources in pursuit of strategic organizational objectives” (p.2). There is no direct link between an individual’s target achievement and financial reward which serves to pre-empt dysfunctional behaviour. Continuous budgeting goes a long way to eliminating the criticisms of traditional budgeting. However, the time and cost requirements are

potentially higher than traditional budgeting due to the necessity to negotiate non-financial goals and go through the iterative participative goal setting process.

### Advanced budgeting

The concepts of Advanced budgeting originated from a CAM-I organisation (Consortium for Advanced Manufacturing – International) initiative to find a replacement for the flawed traditional management model. The investigation concluded that a new advanced management system was required with a need for a process orientation linking strategy with operations. Bunce *et al* (1995) naming the key components include externally-focused, market driven targets, continuous planning and improvement; a balanced set of performance measures; simplified, flexible and responsive structures; strong communications, teamwork and involvement. Reporting on the ‘Advanced Budgeting study group’ they emphasised that “key goals will not be met simply by finding a better budgeting system to replace the old one”. The authors acknowledged however that “even the most advanced companies are not yet fully achieving the key goals of advanced budgeting” (p.264).

## **2.6 The Beyond Budgeting solution**

The alternatives or further developments to traditional budgeting have gone some way to addressing the criticisms of it but there has been no solution to date which has solved the overarching problems and could be conceived to be a replacement for it. The Beyond Budgeting movement sees Beyond Budgeting as such a solution.

### The birth and origins of the Beyond Budgeting movement

First presented as a concept in 1997, being researched and developed until 2002, the Beyond Budgeting movement is relatively new and, before investigating the reasons for the slow take-up in practice, the background of the origins of the movement and its thinking should be briefly covered to complete the picture. The concept stemmed from the CAM-I Advanced Budgeting research and three key people connected with CAM-I championed the principles of Beyond Budgeting: Dr. Peter Bunce, a Chartered Engineer and academic, Robin Fraser a management consultant and a former Coopers & Lybrand (C&L) partner, who specialised in business planning and

performance improvement and Jeremy Hope, a chartered accountant and business author, experienced in venture capital and business management. (See appendix 1 for more detailed biographies). Their work culminated in the establishment of the 'Beyond Budgeting Round Table' (BBRT). The BBRT disseminates information on Beyond Budgeting via its web-site <http://www.bbtt.org> and by means of seminars. It describes itself as "an independent, international research and shared learning collaborative. It is a network of member organizations with a common interest in transforming their management models to enable sustained, superior performance... The BBRT's research continues with its outputs (e.g. case studies and papers giving insights into the model and how to implement it) being shared internationally among our expanding global network" (BBRT, 2009:1).

In 2003 Jeremy Hope and Robin Fraser published "Beyond budgeting: How managers can break free from the annual performance trap" reporting on the results of five years case-based research between 1997 and 2002. They 'challenged' traditional budgeting and presented an alternative which they describe as "an alternative coherent management model tailored to today's business conditions" (Hope & Fraser, 2003a:ix). This work lays the foundations for the Beyond Budgeting management model.

As a basis for their research they visited 20 companies, selected because they had abandoned or radically changed their planning, budgeting and control processes. They also included some decentralised companies and some with unusual reward systems. They sought opinions from CEO down to unit supervisor level from different functions and levels. Their research questions were:

- 1) Is there an alternative to budgeting?
- 2) Is there a better management model?
- 3) What lessons can we learn about implementation?

Through this questioning they identified common principles to build the Beyond Budgeting model. They applied the model in an exploratory survey of 200 companies where they tested for correlation between progress toward the Beyond Budgeting model and improved competitive performance.



For Hope & Fraser (2003a) budgeting is fundamentally flawed and the solution is not better budgeting, but rather abandoning budgeting entirely and building an alternative management model. This conclusion arose out of the research in CAM-I's advanced budgeting forum. They report that, at that time, few shared their view and "fewer still were prepared to fund serious research into it" (Hope & Fraser, 2003a:xiii). Their prospects changed, however, and they got the stimulus they needed when they heard that companies in Sweden had actually abandoned budgets and that one of these had been working without budgets for thirty years (Hope & Fraser, 2003a). Thus began the Beyond Budgeting project.

### Beyond Budgeting – the rationale

The CIMA Official Terminology defines Beyond Budgeting as an "idea that companies need to move beyond budgeting because of the inherent flaws in budgeting especially when used to set incentive contracts. It is argued that a range of techniques, such as rolling forecasts and market related targets, can take the place of traditional budgets" (CIMA, 2005a:7).

According to Hope & Fraser (2003a), Beyond Budgeting is more than just a tool or just abandoning budgets. They call it a new general management model, a cultural change, implemented in two phases, firstly the abandonment of the budget and secondly the move to radical decentralisation. General aims are to make the organisation outward-looking, focusing on external factors such as satisfying customer needs rather than inward-looking trying to achieve a pre-determined fixed annual plan. The radical decentralisation involves front-line managers, close to the customer, in setting strategy and gives these managers the authority to act and responsibility for the results of their actions. To eliminate gaming, organisation aims are de-coupled from individual managers' bonus targets. Managers are incentivised on relative targets, compared against external benchmarks such as industry growth or to performance of competitors or peer groups. Bonuses are calculated in hindsight freeing managers to take decisions in the interest of the organisation as a whole and not just with the aim of maximising their own bonuses. The culture is supported by fast and open reporting, good and bad performance is visible quickly and everyone is aware of positive results to be imitated or negative trends to be corrected. They

describe the Beyond Budgeting culture as one of responsibility, where managers themselves are responsible for the performance of their business areas rather than one of dependency on central decision-making within a rigid budget framework.

The vision of the champions of Beyond Budgeting is to create a new alternative management system. “By replacing the dependency culture with one based on personal responsibility, leaders shift the burden of performance improvement from the top to the middle, and often to the bottom, of the organization” (Hope & Fraser, 2003a:204).

*Phase one: Abandonment of the budget*

According to Hope & Fraser (2003a), the radical underlying principle of the Beyond Budgeting movement is the abandonment of traditional top-down, command and control budgeting. Instead of fixing targets for a whole year in advance and evaluating performance against these pre-determined standards, organisation targets are reviewed continuously, for example with rolling forecasts, and adapted to the prevailing market conditions. Underlining the extent of the change process and the importance they recount “abandoning the budget is one of the most positive actions that leaders can possibly take that says to people, ‘we really mean it’. Managers are immediately aware that there is no detailed plan that dictates their action. They must think for themselves and take responsibility” (Hope & Fraser, 2003a:165).

Intrinsically tied to the abandonment of the fixed budget is the replacement of the fixed performance contract, i.e. performance compared to a pre-determined budget, by a relative performance contract. Under Beyond Budgeting, the organisation’s goals are disconnected from managers’ performance goals and rewards. Evaluation and rewards for managers are based on relative improvement in hindsight. Scarlett (2007:54) contrasts the ‘dependency model’ of traditional budgeting to the ‘responsibility model’ of Beyond Budgeting: “Budgeting is what's known as a ‘dependency model’, whereby action is guided by fixed plans that are based on information that quickly becomes obsolete. It is most suitable for use in a centralised organisation where actions are decided at the top and delegated to subordinates for execution.” “Beyond Budgeting is a ‘responsibility model’, whereby managers are given goals based on benchmarks linked variously to world-class performance, peers,

rivals and/or earlier periods. This requires an adaptive approach that devolves authority to managers.”

(Hope & Fraser, 2003a) describe how, instead of controlling by reporting variances to budgets, control is retained by using transparent, fast and open reporting systems with the concept of one set of numbers and one truth. The fixed dollar target is replaced by an agreement to maximise profit potential by continuous improvement against agreed benchmarked key performance indicators (KPIs). Resource allocations are regulated by keeping within agreed KPI boundaries.

In summary Hope & Fraser (2003a:93) put forward the following “six key principles that organizations should adhere to if they wish to manage without annual budgets:

1. Base goals on external benchmarks rather than on internally negotiated targets
2. Base evaluation and rewards on relative improvement contracts with hindsight rather than on fixed performance contracts agreed upon in advance
3. Make action planning a continuous and inclusive process rather than an annual and restrictive exercise
4. Make resources available as required under KPI accountability rather than allocated in advance on the basis of annual budgets
5. Coordinate cross-company actions dynamically according to prevailing customer demand rather than a predetermined annual master budget
6. Base controls on effective governance and on a range of relative performance indicators rather than on fixed reviews against annual plans and budgets”

The authors declare however that abandoning the budget is only the first step. They talk of the “twin peaks of Beyond Budgeting” (p.36). The first peak is the abandoning of the budget “reducing the costs of budgeting and making the performance management process more relevant to its users”. Most of the organisations they examined who had reached the first peak “achieved significant cost savings, less gaming, faster response, better strategic alignment, and more value from the finance team”. Then, “many of them realized that the results would be more sustainable if they were supported by leadership actions that were more in tune with a radically decentralized organization model. This is what the next peak offers”

(p.36). Thus, according to the authors, “abandoning the annual budgeting process opens up two opportunities. One is to enable a more adaptive set of management processes, and the other is to enable a radically decentralized organization.”

***Phase two: Radical decentralisation***

Hope & Fraser (2003a) explain that the second phase builds on the adaptive processes from the first phase and moves organisations from a top down ‘command and control’ hierarchy to becoming decentralised, pushing responsibility to the front-line managers. They list six principles which cover corporate governance, performance evaluation, empowerment, teams, responsibility and the importance of a single set of numbers in the organisation. These concepts amount to a major cultural change which the authors acknowledge is far from easy to implement. Each principle has associated best practices. The six principles with their associated best practices are listed in table 2.2 following.

**Table 2.2 Six Principles of Radical Decentralisation**

<b>1.</b>	<b>Provide a governance framework based on clear principles and boundaries</b> <ul style="list-style-type: none"> <li>- Provide clear principles and boundaries</li> <li>- Bind people to a common purpose and shared values</li> <li>- Adopt a “Coach and Support” leadership style</li> </ul>
<b>2.</b>	<b>Create a high-performance climate based on relative success</b> <ul style="list-style-type: none"> <li>- Champion relative performance</li> <li>- Challenge ambition</li> <li>- Balance competition and cooperation</li> </ul>
<b>3.</b>	<b>Give people freedom to make local decisions that are consistent with governance principles and the organisation’s goals</b> <ul style="list-style-type: none"> <li>- Challenge assumptions and risks</li> <li>- Involve everyone in strategy</li> <li>- Empower teams to make decisions</li> </ul>
<b>4.</b>	<b>Place the responsibility for value creating decisions on front-line teams</b> <ul style="list-style-type: none"> <li>- Create a network of small, customer-oriented teams</li> <li>- Base recruitment on fit with the team</li> </ul>
<b>5.</b>	<b>Make people accountable for customer outcomes</b> <ul style="list-style-type: none"> <li>- Enable teams to respond to customer demand</li> <li>- Encourage teams to share knowledge across the business</li> </ul>
<b>6.</b>	<b>Provide open and ethical information systems that provide “One Truth” throughout the organisation</b> <ul style="list-style-type: none"> <li>- Make information fast and open</li> <li>- Set high ethical standards for information flow</li> </ul>

*Summarised from Hope & Fraser (2003a:143-159)*

The authors believe that once these principles have been adopted organisations can experience the full power of information systems and tools such as shareholder value

models, Balanced Scorecard (BSC) and rolling forecasts. For the example of the balanced scorecard they explain how a tool originally designed as a strategy map of the business unit, when not well implemented effectively becomes a fixed performance contract similar to the budget. Within the Beyond Budgeting model the scorecard should engage people at different organisational levels with the strategies and KPIs appropriate to their scope and results. They cite the case of Borealis where scorecards have as much impact as the financial accounts, which according to them “shows how the use of such tools as the balanced scorecard and rolling forecasts can help to manage the organisation effectively without the need for annual budgets” (Hope & Fraser, 2003a:59).

### Benefits promised by BB

#### Cost reductions

The authors claim that significant resources in cost and time can be freed up when companies no longer go through the budgeting process, referring to these cost reductions as short-term wins as these are usually evident and measurable within months. Further cost savings accrue as standard reports no longer need to be generated as part of the budget monitoring procedure. The assumption the authors make is that the replacement adaptive procedures are less resource-hungry. One of the cases they cite, Rhodia, a \$7 billion sales chemical company, saved up to 95% of the time that used to be spent on budgeting and forecasting after replacing a traditional budget, which took more than six months to complete, with targets based on high-level KPIs such as return-on-capital, free cash flows or cost-to-income ratios. According to the authors, Svenska Handelsbanken uses performance rankings based on a few KPIs and since abandoning budgets has outperformed its Nordic rivals on practically all measures including total shareholder return, cost-to-income ratio and earnings per share.

#### Elimination of gaming

The Beyond Budgeting logic is that the time otherwise wasted by managers in gaming, for example by moving sales and order entry into different periods to maximise bonuses, is freed up to be used externally, rather than internally, to achieve the organisation’s targets. The adoption of adaptive processes enables managers to focus on continuous value creation. “By removing the budgeting process and fixed

performance contract, firms are able to change the attitudes and behaviors of people at every level of the organization. In particular, they are likely to eradicate the undesirable behaviors that result from setting a fixed target that must be met even though the outcome is highly uncertain” (Hope & Fraser, 2003a:93). The authors allude to the success in reducing gaming by CIBA Vision who based targets on competitor and market performance.

#### *Strengthening of ethical behaviour*

Hope & Fraser (2003a) maintain that ethical problems are less likely to occur inside adaptive and devolved companies as there is no direct connection between fixed targets and rewards. The principles of Beyond Budgeting dictate that clear stated governance and ethical policies are laid down to give little leeway for unethical behaviour. Transparency of reporting, meaning open systems where key information is visible throughout the organisation, is a cornerstone of Beyond Budgeting. The numbers should be seen by everyone in their raw state without misleading changes. The transparency of reporting reduces the scope for hiding any dubious transactions or practices. Their Borealis case reports being ruthless on violations, generally sanctioning with dismissals. The simple ethics test for Borealis managers is to ask themselves if they would accept seeing the result of their actions on the front page of a newspaper.

#### **Beyond Budgeting diffusion and dissemination – the BBRT**

The principles of Beyond Budgeting are of little benefit unless they are generally known and managers or owners can choose to implement them. Central to the dissemination of the Beyond Budgeting principles is the Beyond Budgeting Round Table (BBRT) as described previously in this section.

### **2.7 Comparison of traditional budgeting to Beyond Budgeting**

Summarising the points from the above sections, the following table, table 2.3, highlights the major differences between traditional budgeting and Beyond Budgeting.

**Table 2.3 Comparison - traditional budgeting to Beyond Budgeting**

<b>Traditional 'Command &amp; Control' Model (Dependency model)</b>	<b>Beyond Budgeting 'Devolved &amp; Adaptive' model (Responsibility Model)</b>
Fixed annual plan with variance control	KPIs & rolling forecasts, continuous & inclusive process
Goals based on internally negotiated targets.	Goals based on external benchmarks
Fixed performance contract agreed in advance	Target KPIs, incentives in hindsight, relative improvement
Dependency, command & control model	Responsibility, adaptive model
Resources allocated in advance	Resources allocated as and when required
Actions on predetermined annual master budget	Cross-company actions according to customer demand
Central planning & coordination. Theory X	Adaptive, supportive culture. Theory Y
Responsibility to achieve budget	Responsibility to maximise profit potential compared to peers
Formalised reporting against budget	Fast actuals, comparisons to prior year

*Adapted from Hope & Fraser (2003a:70) "Six key principles", from Max (2005:8) "Command & Control" vs. "Devolved & Adaptive" and BBRT (2009)*

To illustrate the differences between traditional budgeting and Beyond Budgeting Hope & Fraser (2003a) used the example of the replaced budgeting processes at Borealis where:

<u>Previously</u>	<u>Now</u>
Budget was used to set targets	Medium term relative targets set with KPIs aligned to goals
Budget was used to control fixed costs	Trend reporting and moving averages are used with benchmarking
Performance compared to budget	Fast actuals compared with prior periods and rolling forecasts five periods ahead are calculated. KPIs are related to last year.

They note that probably the major change was in controlling performance. There is a potential time saving when the creation of a formal budget is no longer necessary.

**2.8 Criticism of Beyond Budgeting**

The Beyond Budgeting concept of abandoning budgets has attracted much criticism. A major discussion is whether budgets should be abandoned altogether or whether the process itself should be retained and improved. Hansen *et al* (2003:96) write "firms face a critical decision regarding budgeting: maintain it, improve it, or

abandon it?” but question whether giving up budgeting is a necessary precondition for the performance improvements that the Beyond Budgeting movement suggests.

Taking issue with the insistence on abandoning budgets and the reasons presented for the proposal Howard (2004:22) writes “it does seem somewhat illogical to call for budgeting to be scrapped on the grounds that some companies make a complete hash of it.” Otley (1999) reminds us that the budgeting process still often represents the only central co-ordinating mechanism in organisations and is therefore not to be discarded lightly. In 2008 he says of Beyond Budgeting that “what seems to be lacking in this approach is some way of maintaining the holistic overview that traditional budgeting systems provided” (Otley, 2008:234). Jensen proclaims, “Corporate Budgeting is broken – let’s fix it” (Jensen, 2001:96) and opines that the process itself is not the root cause but rather the use of budgets to determine compensation. In 2003 he described the budgeting process as akin to paying people to lie but still believes the key lies not in destroying the budgeting systems (Jensen, 2003). Pilkington & Crowther (2007) conclude that developing some kind of budgetary procedure, formal or informal, seems to be a necessary factor for growth and at times survival. Suggesting there are alternatives to abandoning the budget, Frow *et al* (2010) refer to continuous budgeting as a reconciliation of budgeting flexibility with budgetary control and conclude that the abandonment of budgeting is not the only, or necessarily the best, option for organisations to pursue.

The mutual exclusivity of the budgeting process *or* adoption of the principles of Beyond Budgeting has been questioned. In the CIMA October 2008 Info-cast on Beyond Budgeting (CIMA, 2008a) the use of budgeting and the principles of Beyond Budgeting are seen as compatible and the presentation concludes, “Budgeting is not dead – long live budgeting!” On the same slide a quote from the Better Budgeting Forum from 2004 reiterates the view “one man’s budget is another man’s rolling forecast”, a criticism that Beyond Budgeting is just budgeting under another name. In a similar vein Howard (2004:23) maintains, “It doesn’t really matter what you call budgeting. The reality is that ‘relative improvement contracts’, ‘intuitive forecasting’ and ‘budgeting’ amount to the same thing. If you get it right, it will work well. If you forget the basic principles, it won’t work at all – regardless of what you call it.” A



similar, if less charitably worded view came from Neely *et al* (2003) who contended the tendency is simply to eradicate the term 'budgeting' and soften some of its past blame related connotations, while several of the other inherent weaknesses remain - such as the time and effort it takes to create them.

The underlying premise of the Beyond Budgeting movement's call to abandon budgets is that the budgeting process itself is directly to blame for planning problems and dysfunctional behaviour. This premise is refuted, even Bunce & Fraser (1997), the instigators of the Beyond Budgeting movement, accepted it is probably unfair to lay the blame for any weaknesses at the door of budgeting just as Howard (2004:22) does when he remarks, "This was clearly a management problem not a budgeting problem."

Beyond Budgeting "is nothing less than a fundamental change" (Hope & Fraser, 2003a:172) and as such complex and difficult to implement. Rickards (2008) reviewing recent surveys on budgeting quotes a German survey (Dressler, 2006) and presents a graph depicting Beyond Budgeting as the most complex of 12 management tools. Hope & Fraser (2003a:161) discussing decentralisation regard changing mind-sets as "extremely difficult".

Relative performance measures are not as clear cut as performance evaluations compared to a fixed budget. Hansen *et al* (2003), comparing research on abandonment versus improvement of budgets, cast doubt on the prevalence and feasibility of relative performance evaluation in practice, conjecturing that companies do not have good relative performance data. They also highlight that subjective performance evaluations require unbiased judgements. Otley (2008) sees difficulties because details of competitor performance may not be available. He also puts into question the substitution of rolling forecasts for fixed annual budgets pointing out it is difficult to keep the focus on annual financial targets during the revision processes.

The champions of Beyond Budgeting present decentralisation as if it were a solution for all organisations. This view is not universal and others see different models as

being appropriate to different situations. Kocourek *et al* (2000) in a study commissioned by Booz, Allen and Hamilton identify four organisation models ranging from Model 1 'The Financial Holding Company' such as Hanson Trust with minimal centralised corporate functions to Model 4 'Operationally involved / Command and Control' at the other end of the spectrum, as exercised by companies such as Emerson and General Electric, with large central head offices. The authors put forward factors dictating which management model is appropriate. On decentralisation Otley (2008) concedes its usefulness in some circumstances, but is not clear how it would apply in complex organisations requiring a great deal of planning and co-ordination. Dugdale & Lyne (2010a:5) learned from their study that decentralisation "might impact on different tiers of an organisation in different ways, some of which may not be practical or desirable."

Malmi (1997) examined ABC implementation failure in two case studies of Finnish companies. He examined the decision to implement ABC in the organisational context and, relevant here to Beyond Budgeting, asked who would reap the benefits and who would take the cost. In one of the cases, where ABC was not permanently adopted, the information provided by ABC was not seen as useful by the local management and the visibility afforded to top management was seen to be threatening to the local power base. It is questionable also with Beyond Budgeting whether sufficient benefits accrue to local management, particularly from the transparency in reporting. As a parallel to ABC, visibility may not be seen as a benefit to a local management concerned about its power base.

Regarding ethics, it is questionable whether a replacement for the budgetary system is the right vehicle for reinforcing ethical behaviour or even whether it can reinforce ethical behaviour. The issue of ethics is wide and it could be argued that just following the rules has nothing to do with ethics on the part of the individual. Ethical behaviour suggests reasoned evaluation and the adoption of a particular activity or not. A company's stance and policy on ethics should be the same regardless of its planning system.

In summary the arguments against Beyond Budgeting include:

- The issue of whether the shortcomings of traditional budgeting may be solved by budgeting better
- The suspicion that it is budgeting under another name or that the word 'budget' is simply avoided
- Beyond Budgeting is addressing the wrong problem as the budget itself may not be to blame for the dissatisfaction with the planning process
- The argument that getting rid of a system because people do not use it properly may not be the only solution
- The move to Beyond Budgeting is complex, implementing Beyond Budgeting is a "significant change programme", changing mindsets, (Hope & Fraser, 2003a:96)
- Questions on the feasibility and subjectivity of relative performance evaluation
- The suitability of radical decentralisation for all organisations

## **2.9 Assessment of level of adoption of Beyond Budgeting**

The promoters of Beyond Budgeting and the accounting press provide little concrete information on the current level of adoption of Beyond Budgeting. An assessment has therefore been made based on the number of the overtly interested organisations who are members of the BBRT and based on the small number of surveys carried out on the matter to date.

An Economist Intelligence Unit article in the year 2000 put the number of organisations "known to have made the change" to no more than 20-30 (EIU, 2000:4). 68 members were listed on the BBRT Website on 5<sup>th</sup> December 2009 under 'current members' rising to 94 on 29<sup>th</sup> November 2011 (BBRT, 2011). There is however no indication which of these companies have already adopted some or all of the principles of Beyond Budgeting. On the other hand, some companies quoted by Daum (2006) as having abandoned budgets or having Beyond Budgeting projects i.e. the German ALDI group, The Swedish IKEA group, the French chemical company Rhodia, the British retailer Boots and Boots Healthcare and the Danish petrochemical group Borealis are not on the list of members. The total number of companies associated with Beyond Budgeting i.e. included as examples in Beyond Budgeting articles or showing an overt interest, would seem to be around 100, and

even if *all* these organisations had adopted the principles, they would still represent a very low percentage of all organisations in the world. A number of surveys have been carried out to assess, amongst other management accounting tools, the adoption of Beyond Budgeting. Abdel-Kader & Luther (2006:12) concluded in their survey of the usage of management accounting techniques in the British Food and Drinks industry that almost all companies which use budgeting for planning and control noted that “there seems to be little support in firms for the concerns expressed by Hope & Fraser (2003a), and others, in the Beyond Budgeting literature.” Schäffer & Zyder (2003:4), on Beyond Budgeting, remark, “few companies have any experience with the concept.”

Rickards (2008) quotes a survey in the automotive industry – a four country analysis covering France, Germany, Great Britain and Poland in which 12 tools were selected for a survey on adoption. Beyond Budgeting was the least used with 25% of companies surveyed showing regular or occasional use. The other tools surveyed were used by 39% to 94% of the companies surveyed. Confirming the low take-up in the recent CIMA survey completed in July 2009 and published in January 2010, Beyond Budgeting was the least popular of the budgeting tools surveyed, being used by less than five per cent of the organisations surveyed (CIMA, 2010a).

On the North American continent adoption is also low. In a recent survey of US and Canadian companies Libby & Lindsay (2010) inquired about North American practitioners’ perceptions of budgeting. 83% of those surveyed used budgets for control purposes. Asked whether they were planning to abandon budgets only one per cent indicated they were definitely planning to do so in the next two years.

The companies cited in the Beyond Budgeting literature as having abandoned fixed budgets did so before the Beyond Budgeting movement came into being, and were one of the reasons the early advanced budgeting considerations were further developed in 1997 into Beyond Budgeting. Bunce & Fraser (1997:26) explain that Handelsbanken replaced internal budgets with “other forms of steering mechanisms” in 1970. IKEA abolished internal budgets in 1992. Volvo dropped its once-a-year

traditional budgeting process and introduced a new 'concurrent' planning process in 1994. These companies cannot be regarded as having *adopted* Beyond Budgeting.

In summary the low level of adoption estimated by adding the absolute number of organisations openly showing an interest as members of the BBRT to the number of companies listed as examples in articles is confirmed by the various surveys which have been made on the adoption of management accounting tools.

### Partial Adoption

Some seven years after the advent of Beyond Budgeting the CIMA & ICAEW (2004) forum concluded that instead of abandoning the budget companies are adapting it and that, contrary to the views of Kaplan (1984), budgets have undergone some significant changes in the last 20 years or so. It is interesting to note that participants in the forum reported developments which closely resemble the Beyond Budgeting principles disseminated since 1997.

Amongst other changes, the forum participants listed the move from centralised and highly bureaucratic control to an emphasis on value creation and an evolution in the use of budgets which now inform strategy implementation, risk management and resource allocation and are generally regarded as an integral part of running the business. The participants also reported that better technology has led to higher speed and accuracy in preparing budgets freeing up time to focus on value added activities, and working from a single data set (compare with the concept of one single truth) has helped align budgets to operational plans and strategic objectives ensuring a visibility of underlying assumptions. 'Those closer to the coalface' are now involved improving the quality of the assumptions and budgeting should become less centralised, supported by a culture of trust and empowerment. One of the cornerstones of Beyond Budgeting was broached when it transpired "few of the companies had remuneration tied to achievement of budgetary targets" (CIMA & ICAEW, 2004:5), continuing that "in some companies pay is deliberately linked to other targets. For senior executives this can be total shareholder returns relative to peers."

The major measure not adopted was the abandonment of the budget, on the contrary the forum concluded the budget was alive and well. Thus, together with the CIMA Info-cast ‘Long live budgeting!’ (CIMA, 2008a) the argument has come full circle, arriving back at a point where the principles of Beyond Budgeting, with the exception of the original core concept, the abandonment of budgeting, are seen as capable of being integrated into a budgeting process. What is being witnessed here is what Rogers (1995:17) refers to as “re-invention” which is measured as “the degree to which an individual’s use of a new idea departs from the mainline version of the innovation that was originally promoted by a change agency.” However, despite the partial adoption of Beyond Budgeting witnessed amongst the participants at the forum, it should be pointed out that the 32 participants were a selected sample of progressive organisations and subsequent surveys have confirmed a generally low adoption rate of Beyond Budgeting measures.

### **2.10 Relevance of Beyond Budgeting today (continuing topicality of Beyond Budgeting)**

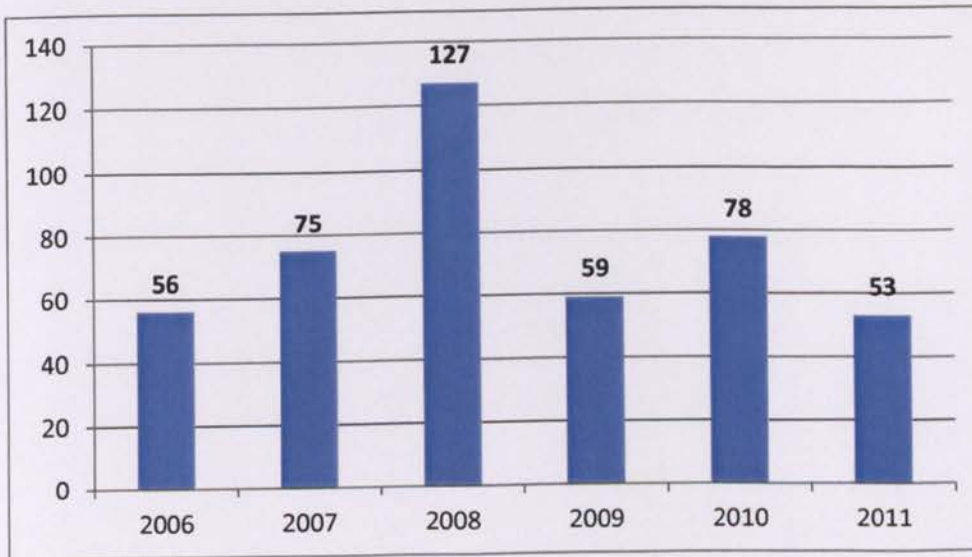
Beyond Budgeting was presented as revolutionary in 1997 in suggesting that budgets be abandoned altogether. It was added to the CIMA syllabus in 2005 when the 2000 syllabus was replaced. It became one of the subjects liable to be examined in the ‘P1 Management Accounting – Performance Evaluation’ examination. In the student guidance notes (CIMA, 2004:4) the ‘learning outcome’ was listed as “evaluate the criticisms of budgeting particularly from the advocates of techniques that are ‘beyond budgeting’”. In the 2010 syllabus (CIMA, 2008b:42-43) Beyond Budgeting is part of the ‘P2 Performance Management’ paper at management level. Knowledge of Beyond Budgeting has been a requirement to answer questions in four examinations since 2005:

- May 2005, P1 (CIMA, 2005b)
- November 2007, P1 (CIMA, 2008c)
- November 2009, P1 (CIMA, 2010b)
- September 2010, P3 (CIMA, 2010c)

Beyond Budgeting is also included in the ACCA P5 syllabus (ACCA, 2012a). A question on the subject was set in the December 2010 examination (ACCA, 2012b).

As evidenced by Libby & Lindsay's 2010 paper analysing their recent survey and the new Dugdale & Lyne (2010b) book on budgeting practice assessing the impact of Beyond Budgeting, there is still an interest in the subject. In order to make an indicative assessment whether interest in Beyond Budgeting is waning or on the increase, the following easily accessible methods were used: a search in 'Google Books' for the number of publications mentioning Beyond Budgeting in the last seven years, a check whether CIMA courses are still run and an analysis of the number of mentions in CIMA's monthly 'Financial Management' magazine. Additionally Beyond Budgeting web-sites were sought and listed. The results are shown in figure 2.1 as follows:

**Figure 2.1 Number of Beyond Budgeting publications in Google by year**



The number of new publications has fallen off since the peak in 2008 but, on the assumption that the years are comparable, interest does not seem to be waning dramatically and there is still sufficient interest for the subject to be covered in new books.

CIMA held a Beyond Budgeting related Mastercourse with Jeremy Hope in November 2009 and two Mastercourses with Jeremy Hope as speaker on five dates in 2010. CIMA Mastercourses including elements of Beyond Budgeting such as rolling forecasts continued in 2011. According to the 2012 CIMA Mastercourses

brochure, two workshops are planned in a new ‘CFO of the future – workshop series’ in which the subject ‘how to move towards a more devolved and adaptive (beyond budgeting) management model’ is included. A Budgeting basics course, taking place five times in 2012, lists ‘an insight into the beyond budgeting school of thought’ as a programme point.

However, using the frequency of Beyond Budgeting articles in CIMA’s monthly magazine as a barometer of continuing topicality there is a significant drop in interest as there have been no articles on Beyond Budgeting in 2008 or 2009. A CIMA survey (CIMA, 2010a) of the usage of management accounting tools and techniques, including Beyond Budgeting, announced in the June ‘Financial Management’ magazine was carried out in July 2009. 439 CIMA members completed a web-based survey for which the results were published in January 2010. In 2011, apart from an invitation to participate in this research, there were no further mentions of Beyond Budgeting in the magazine as shown in the following table, table 2.4.

**Table 2.4 Barometer of continuing topicality (References to Beyond Budgeting in FM)**

Year	Articles	Mention / Comment	Letter	Diary entry / Seminar	Months
1997	2				Feb., Dec.
1998	1				June
1999	3			1	Jan., Sep., Nov.
2000				1	Jan.
2001	1		1		Feb., Sep.
2002			1		Feb.
2003	3			1	Sep., Nov. (x3)
2004	1				Mar.
2005	1	1		1	Apr., Jul./Aug.
2006	1			2	June, November
2007	3		1	1	Mar., Jul./Aug., Sep.
2008				2	May, June
2009		1 (CIMA Survey)		1	June, Nov./Dec.
2010	1				Jan.
2011					This research: only mention of BB in 2011

**Note:**

*Until August 2000 'Financial Management' was published under the title 'Management Accounting'*



CIMA's monthly magazine 'Financial Management' is distributed worldwide ten times per year to the Institute's members and interested parties. Circulation figures in May 2011 amounted to 184,613 (section 4.7.4). Space is limited and the decision to include an article on a given topic has been assumed to have been made on the basis of current interest in it. Based on an analysis of the 10 monthly issues in 2008 the magazine contained between 12 and 18 full articles per month with an average of 14. There were between three and five letters published per month with an average of four. Each month between seven and 13 short mentions or comments were published – generally less than half a page. The number of seminars and diary entries depended on the period covered and ranged between 21 and 93 with an average of 83 per month.

Not to be forgotten when assessing topicality is the main Beyond Budgeting web-resource, the long established Beyond Budgeting Round Table web-site, [www.bbtt.org](http://www.bbtt.org). From 18-20<sup>th</sup> April 2012 the 11<sup>th</sup> Annual BBRT conference took place in Houston, USA. Interestingly a spin-off organisation, the 'Beyond Budgeting transformation network' was set up in April 2008. Renamed the 'beta codex network' on 1<sup>st</sup> December 2009, the community can be accessed under [www.betacodex.org](http://www.betacodex.org). Between July and December 2012 five events were listed in the event calendar on the site. Additionally there is an active Beyond Budgeting forum in the 'LinkedIn' business social network. The German equivalent Beyond Budgeting online forum in [www.xing.de](http://www.xing.de) had 1,768 members in May 2012 (1,688 in December 2009).

This chapter has shown where the demand for a re-think of the budgeting procedure has come from and the development leading up to the conception of Beyond Budgeting. The chapter concludes that in 2011/12 Beyond Budgeting is still topical, justifying research into the reasons why levels of adoption are so low in spite of this continuing topicality.

The following chapter, chapter three, identifies the factors and theories influencing the adoption of new management accounting innovations in a review of the relevant literature, leading to a theoretical framework and the determination of research questions.

## **CHAPTER 3 - LITERATURE REVIEW**

### **3.1 Introduction**

A review of the literature has been carried out with the following objectives:

- To identify the factors influencing the adoption of management accounting innovations
- To discover existing relevant theories relating to the management accounting change and the adoption of management accounting innovations in order to find explanations on why innovations may or may not be widely adopted
- To define the research questions as a basis for the decision on which research method to use and to provide an orderly framework for carrying out the research

This chapter commences in section 3.2 with an examination of factors found in the literature that influence the adoption of new management accounting techniques and management accounting change. Section 3.3, following, starts by identifying explanatory theories for the factors examined in section 3.2, deriving a theoretical overview where the factors are mapped to the theory deemed most relevant. This is followed by a review of each theory in turn leading into the penultimate section which develops a theoretical framework. The final section concludes with the research questions derived from the literature review.

#### **Sources**

Articles on academic theories and the history and development of management accounting techniques were sourced mainly from ABS Grade Four and Three ranked journals. The Grade Four ranked journals consulted included 'Accounting, Organizations and Society', the 'Journal of Accounting Research', the 'Harvard Business Review' and the 'Academy of Management Review'. Rankings were checked in the ABS (Association of Business Schools) Academic Journal Quality Guide (ABS, 2010). News and opinions on emerging innovations were taken from trade journals and the financial press. Some survey results were picked up from leading business consultancies.

### Management accounting change

Change is ever present in business and it can be expected that management accounting will change in line with business requirements. Hopwood (1987) confirms accounting is not a static phenomenon, accounting systems change over time and new techniques have been incorporated into the accounting craft. He reports that most accounting research however, has adopted a rather technical perspective, ignoring the significance for accounting of the wider economic and social setting of the organisation. Research has also tended to concentrate on the normative view of accounting. He maintains that most historical analyses of the accounting phenomenon see accounting change as a process of technical elaboration and improvement and “rather than being perceived as an outcome of processes that could make accounting what it was not, accounting has more frequently been seen as becoming what it should be” (Hopwood, 1987:208). He continues, “as a discipline, accounting has invested a great deal in the articulation of abstract bodies of knowledge concerned with what it should be. Ideas exist as to good, indeed, ‘best’, costing practice, good planning, good modes of management reporting and good approaches to the appraisal of new investment possibilities” (p. 210).

As little is known of the preconditions of accounting system change Hopwood expounds the need for an alternative view of accounting in action and notes that accounting research is beginning to probe into the wider organisational and social origins of accounting rather than restricting itself to the technical rationality of accounting. There is an increasing tendency for accounting systems to be assessed in terms of their actual as well as their intended organisational consequences.

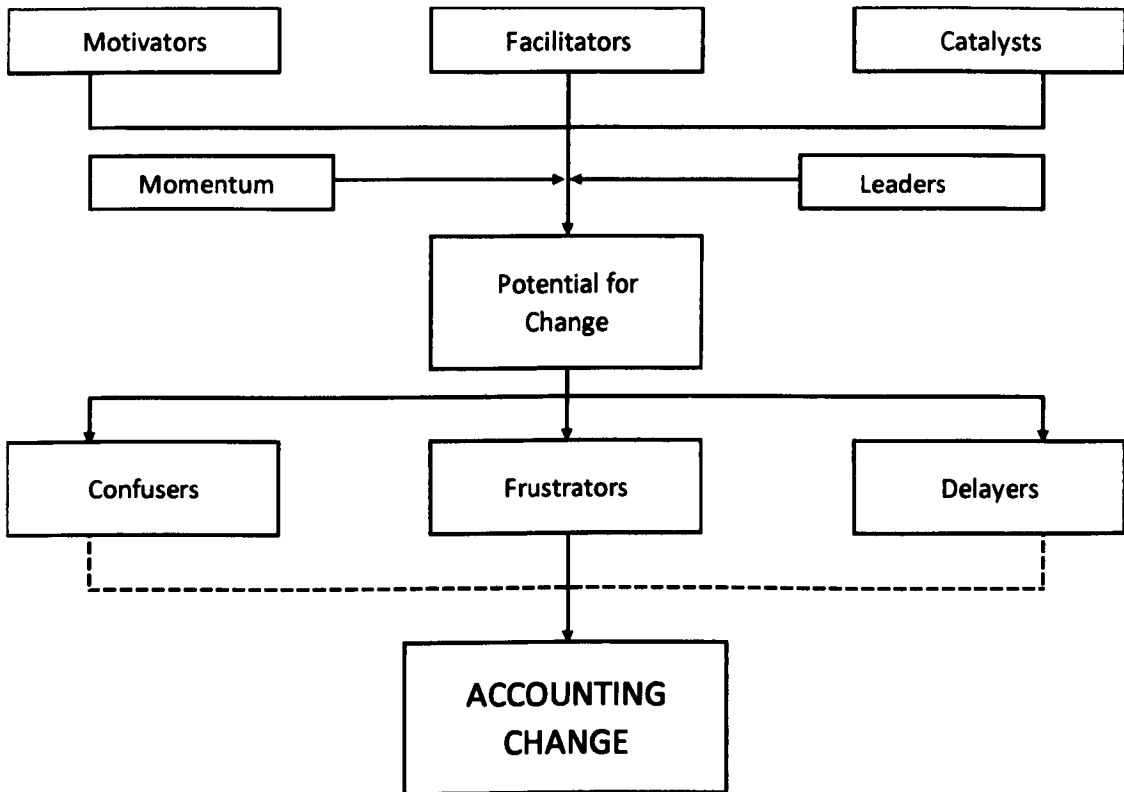
Modell (2007) confirms the Hopwood (1987) assertions that research into management accounting change was rare prior to the early 1980’s and that most early theorising had a prescriptive and normative emphasis. Research into factors stimulating management accounting change has subsequently taken place and is described in the following section

### 3.2 Examination of the factors influencing adoption of new techniques

An existing framework for the adoption of management accounting innovations or management accounting change was sought as an entry point for the examination of the factors influencing the adoption of new techniques. The Modell (2007) framework was chosen because of its clarity to the researcher, its focus on change and because the other frameworks and papers examined were specialised in their scope; these included Burns & Scapens (2000), an institutional framework, Otley (1980), a contingency framework, Macintosh & Scapens (1990), a structuration framework and Baiman (1982), the implications of agency in management accounting research.

In the Modell (2007) framework for studying management accounting change, illustrated by figure 3.1 following, Modell has adapted the Kasurinen (2002:38) 'Revised accounting change model'. Modell explains that the framework draws and expands on the work of Innes & Mitchell (1990), who classified the factors stimulating change in management accounting techniques into three categories, motivators, catalysts and facilitators. These factors when supplemented by momentum for change and leaders, as identified by Cobb *et al* (1995), lead to the potential for change. Barriers to change are categorised using a classification from Kasurinen (2002) into confusers, frustrators and delayers.

**Figure 3.1 - Framework for studying management accounting change**



*Modell (2007:342)*

Innes & Mitchell (1990) define their classifications as follows:

*Facilitators:* Conditions conducive to management accounting change. Necessary but not sufficient for change to occur. Examples include adequate accounting staff, computer resources and authority.

*Motivators:* Factors influencing change such as competitive market and production technology.

*Catalysts:* Factors directly associated with the changes with their occurrence corresponding closely to the timing of the change. Examples include loss of market share, deterioration in profit or the arrival of a new accountant.

Motivators and catalysts generate change but only where suitable facilitating conditions exist.

Cobb *et al* (1995) refined Innes & Mitchell’s model with:

*Leaders:* Change agents, key individuals with a pivotal role to overcoming barriers to change.

*Momentum:* Momentum for change over time is a pre-requisite for continuing or enduring change.

Kasurinen (2002) split the Cobb *et al* barriers to change into three subcategories:

*Confusers:* For example differing goals and uncertainty within an organisation disrupting the change process, including individual aspects such as diverging goals of key individuals.

*Frustrators:* Examples include organisational culture, existing reporting systems and power distribution suppressing change in the organisation.

*Delayers:* Technical and temporary barriers such as inadequate computer systems or lack of clear cut strategies.

Most organisations are in a constant state of change. Kotter & Schlesinger (1979) reported that, in response to environmental change, most companies or divisions of major corporations find that they must undertake moderate organisational changes at least once a year and major changes every four or five. The necessity for organisational change can be brought about by an external event forcing an organisation to re-think its systems and methods. Abrahamson (1991) discusses *demand-pull* and *supply-push* influences causing change. Demand-pull arises where environmental changes can engender new performance gaps prompting organisations to adopt innovations to close these gaps. Abrahamson's demand-pull concept of external factors influencing change equates to Modell (2007)'s catalysts for change. On change in general being brought about by external events, Rogers (1995) cites political revolutions, droughts, earthquakes and government regulation as examples. The motivators listed by Modell such as production technology are classified by Abrahamson as supply-push. "Supply-push explanations focus on how changes in scientific or technological knowledge present organizations with innovations that either reveal new performance gaps or close old ones" (Abrahamson, 1991:592).

Working from the Modell (2007) framework, factors influencing management change and the adoption of innovations have been examined under the following headings:

- **Resistance to change:** Modell's 'confusers' and 'frustrators' disrupt and suppress change in organisations and the subject of resistance to change recurs in his study. This became the starting point for the examination of factors
- **Social norms and peer pressure:** 'Frustrators' including organisational culture and power distribution were discussed under this heading
- **Circumstances and environment:** Internal 'facilitators' such as adequate computer systems and external influences or 'motivators' influence management accounting change. This part starts with the feasibility of a universal solution for all circumstances
- **Problems implementing complex systems:** Modell's 'delayers' include technical barriers as a hindrance to change. The cost / benefit aspect was also discussed
- **Gestation period for the adoption of new innovations:** Related to Modell's 'momentum' pre-requisite for management accounting change, the time taken to adopt new innovations is discussed under this heading
- **Change agents, management capacity and ability:** Modell's 'leaders' have a pivotal role in overcoming barriers to change, while 'facilitators' for change include staff resources
- **Innovation or fad:** Modell refers to prior studies on difficulties with implementation of ABC and BSC. Prior innovations were examined for their relevance in the case of Beyond Budgeting

The Modell (2007) framework is concerned with the implementation and change aspects of new innovations and not on the diffusion of such innovations. An examination of the diffusion is however within the scope of this research and is discussed under the heading:

- **Awareness of new techniques and channels of communication**

The discussions overlap; the issue of legitimation, for example, is touched upon under the headings resistance to change and social norms. Wherever possible the discussions have been directly related to the traditional budgeting and Beyond Budgeting procedures.



### 3.2.1 Resistance to change

Although Hopwood (1990) states “We live in a world in which there is an acute consciousness of both change itself and the necessity for it”, change is not always welcome in organisations. Many authors have reported experiences and effects of resistance to change. “Organizational change can generate scepticism and resistance in employees, making it sometimes difficult or impossible to implement organizational improvements” Folger & Skarlicki (1999:35).

The influence of individual managers in resisting change, ‘confusers’ in Modell’s framework, is widely documented. ABC (Activity based costing), as a previous highly publicised innovation, required changes in costing systems that were similarly fundamental to those required in the budgeting procedure by Beyond Budgeting. Anderson (1995) drawing on Kaplan (1983) and Shields & Young (1989) in discussing ABC argued that “ABC data are not universally preferred because ABC data changed the political landscape by creating embarrassing or threatening conditions for existing managers who responded defensively to block implementation. Implementation of ABC Systems is unlikely to succeed until the stakeholder's concerns are addressed”. “Several managers cited GM's strong finance function and its historical independence from operations as the greatest source of resistance to ABC at both the plant and corporate levels” (Anderson, 1995:36). Hopwood (1983:302) points out that accounting needs to be seen in its social context remarking, “the ways in which accounting has sought to further a particular hierarchical order within organizations cannot be seen outside of the context of the conflicts between different social groups.” Also with the social setting in mind Anderson (1995:8) commenting on the implementation of ABC at General Motors writes “the ABC literature did not recognise that ABC Systems exist in social settings in which technical rationality may diverge from individual rationality.” Bromwich & Bhimani (1994) also emphasise the large part played by organisational context and managerial ethos in determining the worthwhileness of accounting approaches. Cultural influences or ‘frustrators’ in Modell’s framework are key influences on resistance to change. From case study research Malmi (1997) cited organisational power and politics as well as culture as sources of resistance.

Kotter & Schlesinger (1979) list the four most common reasons people resist change: a desire not to lose something of value, a misunderstanding of the change and its implications, a belief that the change does not make sense for the organisation, and a low tolerance for change. On the human element of resistance, Bromwich & Bhimani (1994) give the example of salesmen's resistance to ABC where they may prefer to ignore signals generated by an ABC system if their incentive remuneration is greater under traditional cost systems. Building on papers researching cost accounting change they cite the necessity for attention to the 'human behavioural element of change' and the recommendation to re-educate individuals not receptive to change given careers built on traditional cost accounting systems. They also highlight the adverse effect of implementation on short-term profits and the compensation of executives as well as the potential for unfavourable performance reports for certain employees. As a remedy they quote education or re-education in the new techniques. They are also aware that employee acceptance is of paramount importance and declare that "accounting changes deemed desirable cannot overlook employee attitudes and organisational culture which can in large part determine the success/failure of an accounting information system implementation irrespective of technical merits" (p. 236).

#### Command & Control and conflict of interest as barriers to change

The threat of a loss of power and control over an organisation can lead to resistance to change at managerial level. Carsberg (1980) underlines the conflict of interest managers have, writing that the interests of managers and investors are not identical and the primary goal of managers is more likely to maximise their own wealth and other aspects of the satisfaction they get from their employment. Given this conflict of interest it is debatable whether managers share their investors' or the higher level managers' desire for more transparency in the organisation. Modell (2007) also raises the question of whose interests are being served by the implementation of new management accounting systems.

The decision on which control mechanism is appropriate is ultimately top management's, and currently the traditional budgeting model is prevalent. In its function as a control mechanism the traditional budgeting model may be seen as a

rigid, formal hierarchical system with fixed lines of control from the top to the bottom of the organisation. The BBRT (2009:1) refer to traditional budgeting as the 'command and control model' and criticise it for being a barrier to change, "the command and control mental model is pervasive in business today. It represents the greatest barrier to change. Command and control leaders invariably see the organization as an obedient machine comprising of replaceable parts (the parts determine the performance of the whole). This mental model also assumes that organizations comprise of 'cause-and-effect' relationships that are predictable. It takes managers down a pathway of central planning, coordination and control (Theory X management). And it assumes that change is reactive, often involving extensive restructuring and reorganizing of the organization's parts. This has been the standard model for hundreds of years. It descends from Newtonian physics (clock-like mechanisms and cause-and-effect linkages), from the work of Frederick Taylor, and from military and church command and control management models."

Opposing the view of the BBRT, there is evidence that the traditional system leads to the achievement of company goals. Johnson & Kaplan (1991) maintain the mechanisms for compliance in General Motors' decentralised management accounting system increased the probability top management's goals would be achieved and the likelihood that top management's goals would be synonymous with those of the company's owners. They warn however that precautions need to be taken to avoid dysfunctional behaviour.

Daum (2005) reports that budgeting, as the current planning standard for over 40 years with U.S. origins which date back almost 100 years, is a control system for hierarchical Taylor-esque organized mass production companies. Scarlett (2007:54) sees traditional budgeting as "most suitable for use in a centralized organization where actions are decided from the top and delegated to subordinates for execution" and the Beyond Budgeting responsibility model as an "adaptive approach that devolves authority to managers." This devolving of authority is likely to be perceived as an erosion of the monitoring capabilities of the top management, which in turn could be beneficial to the owners/shareholders if the flow of information back up the hierarchy is less impeded under a transparent reporting regime.

Budgeting is seen as legitimising command and control in an impersonal formal control structure. Covaleski *et al* (2003:6) referred to sociology-based budgeting research which “argued that budgeting could reduce resistance to the exercise of power by concealing it in apparently neutral routine or technical procedures such as budget formulas.” Preston (1991) defines budgeting as a political bargaining process which reflects systems of power and influence in organisations. As long ago as 1929, when budgeting was still relatively young, (Drucker, 1929:175) reflected, “the budget can be used as a means for centralized executive control”. Studies of the development of budgetary control in the USA in the early years of the twentieth century have suggested a close link with the rise of big business since the technique made it possible for those at top management levels within new, decentralised organisational structures such as the multi-divisional form, to control those at lower i.e. divisional level (Chandler, 1962, 1977; Chandler & Hikino 1990; Johnson & Kaplan, 1991), quoted in Berland & Boyns (2002). For Bruns & Waterhouse (1975:180) “a control system typically incorporates measures and techniques which conform to the responsibilities delegated to managers under the organization’s structure.” Hope & Fraser (2003b:115) summarise the negative effects the command and control budget model has on business as follows, “so long as the budget process dominates business planning, a self-motivated and adaptable workforce is a fantasy, however many cutting-edge tools and techniques a company embraces. That’s because all of the principles and practices of budgeting assume and perpetuate central control.”

At the other end of the spectrum, not all elements of devolvement of authority are universally accepted, for example whether participatory budgeting is more successful than non-participatory. Bruns & Waterhouse (1975) refer to Morse & Reimer (1956) who reported results showing that non-participatory groups outperformed participatory groups. To temper this finding it should however be mentioned that only one measure of performance, the clerical costs, was used in reaching this conclusion. Rogers (1995:29) maintains that “generally, the fastest rate of adoption of innovations results from authority decisions.” For him authority innovation decisions are choices to adopt or reject an innovation made by a relatively few individuals in a system who possess power, status or technical expertise. Such

individuals who overcome resistance to change fall into Modell's definition of leaders.

There are pressures to retain traditional budgets from stakeholders external to the organisation. Bhimani & Bromwich (2010) explain that, in the quest for transparency, regulatory environments use standardised forms for valuation and financial representation, imposing demands for uniformity on the management accountant. These may also be seen in part as resistance to change.

### **3.2.2 Social norms and peer pressure as barriers or motivation**

Standard practice amongst peers can be seen as a norm and as such peers may feel compelled to follow or adopt the standard practice to be accepted as part of the group or be legitimised. The budgeting process has become standard practice for organisations, is long established and still used in the vast majority of companies. Berland & Boyns (2002:6) quote Willsmore (1960:vii) who "felt able to claim that in Britain by the beginning of the 1960s, 'Budget techniques are now so firmly established that they are virtually standard practice for all large and medium-sized concerns'". In 1973 Willsmore prefaced the 5<sup>th</sup> edition with the comment "It is now forty years since I wrote the first edition...Then only a few companies in this country were using the budget idea, and my original book was largely an attempt to 'sell' budgeting as a new management technique. Things are now very much different. Budgeting is no longer a business novelty. It is now the rule rather than the exception for companies to use business budgets" (Willsmore, 1973:vii). More than three decades later, Rickards (2008:575) quotes from a Horvath & Partners 2006 survey that "most enterprises still remain committed to the old-fashioned, static annual budget as their primary controlling instrument." Specifically on the subject of budgeting Covalleski *et al* (2003:6) identify budgeting as a social norm, "Budgeting could also be identified with a social norm of rational organizational behavior, thus conferring legitimacy on decisions reached through the budgeting process." On legitimacy Preston (1991:157) reported that "budgets are synonymous with good management and confer legitimacy upon the organisation."

Whether traditional budgets are appropriate for all organisations is questionable but traditional budgeting is accepted as the norm. DiMaggio & Powell (1983:148) discussing institutional isomorphism state, “Strategies that are rational for individual organizations may not be rational if adopted by large numbers. Yet the very fact that they are normatively sanctioned increases the likelihood of their adoption.” According to the authors, drawing from Hawley (1968), “isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions” (p. 149). They identify three mechanisms of isomorphic change: *coercive isomorphism* stemming from political influence and the problem of legitimacy, *mimetic processes* where uncertainty encourages imitation, organisations also tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful, and *normative pressures* under which organisational change stems primarily from professionalism. In the context of traditional budgeting this kind of normative pressure could be perceived as coming from accountants using a, for them, known and proven technique. Scott (2005:485) underlines this latter professional aspect commenting on the influence of groups, “Many of the models giving rise to organizations are based on ‘rationalized myths’ - rule-like systems that depend for their efficacy - for their reality, on the fact that they are widely shared, or have been promulgated by individuals or groups that have been granted the right to determine such matters.”

Until a new theory or innovative technique is generally adopted, it may require a critical mass of early adopters to be reached in order that organisations see it as a norm. Abrahamson (1991) alluding to the work of DiMaggio & Powell under the heading of 'Fashion perspective' summarises that organisations will tend to imitate other organisations. Organisations' decisions centre less around which technology they should adopt and more on which organisation they should imitate. He also discusses what he calls the efficient choice perspective which assumes that organisations know their preferences or goals and the efficiency of new innovations as measured with the ratio of outputs to inputs. They will therefore rationally choose the innovation that will allow them to most efficiently produce the output that is useful for attaining their goals. Furthermore, he states, that organisations with similar

goals tend to react to performance gaps by adopting the same efficient administrative technology.

### **3.2.3 Circumstances and environment or a universal solution**

Bunce (2010) sees Beyond Budgeting as a solution for large and small companies. However there is doubt as to whether there is one universal solution for any management accounting problem. On the question of appropriateness of measures to organisations, Bromwich & Bhimani (1994:245), in the context of ABC, concluded that “the problem with activity based costing is not that certain enterprises are unwilling to partake in it; it is that activity based costing is itself inappropriate for the enterprises in question.” In the Beyond Budgeting context the abandonment of budgeting, as proposed by Hope & Fraser, is presented as a universal prescription (Libby & Lindsay, 2010). However it seems difficult to accept that organisations would continue to use budgeting if it was fundamentally flawed. Dugdale & Lyne (2006:33), commenting on the success of Svenska Handelsbanken attributed by Hope & Fraser (2003a) to Beyond Budgeting methods, state more bluntly “effective though these methods are for banks, it does not follow that the same radical decentralisation can be adopted by all organisations.” Speaking about innovations in general, (Rogers, 1995:12) also expresses the notion that, “the same innovation may be desirable for one adopter in one situation but undesirable for another potential adopter in a different situation.”

The usage of the budget information differs according to the organisation.

“Budgeting is used for many purposes, including planning and coordinating an organization’s activities, allocating resources, motivating employees, and expressing conformity with social norms” (Covaleski *et al*, 2003:3-4). Bruns & Waterhouse (1975:177) see an interrelationship between organisation structure and the use of budgets by managers, the structure itself being contingent upon environment, size, technology and dependence. They define control as “the successful exercise of power to influence behavior available to an organization”. For the purpose of discussion they categorise strategies for two different organisation types. “Administrative Control Strategy” is used for decentralised but structured organisations where control is exercised by means of an impersonal formal structure and “Interpersonal Control

Strategy” is referred to for centralised organisations which are small or dependent on other organisations. So, far from seeing the traditional budget typifying a centralised organisation, Bruns & Waterhouse believe that a “decentralised and structured organisation operating in a stable environment seems particularly suited to the use of budgetary control”. They believe there is still a place even for traditional budgeting which they see as suited to organisations in a stable environment who can plan with a “fairly high degree of certainty” and can measure “role performance with a relatively high degree of accuracy” (Bruns & Waterhouse, 1975:181).

The technical environment may be crucial to the development of a management innovation. Modell (2007) lists computer resources as one of the ‘facilitators’ for management accounting innovation. Becker *et al* (2010) see the diffusion of ABC and BSC as having been enabled by the work of software firms, consultants and professional organisations. The existence of suitable software for PC use was given as one reason for the timing of the adoption of ABC in Finnish companies (Malmi, 1999). Al-sayed *et al* (2008) however, examining the impact of information technologies on ABC adoption, could not corroborate the findings of other researchers that “IT has played a vital role in ABC dissemination and illumination of its managerial role through ABC software” (p.2), so the influence of appropriate software on the implementation of new innovations is not clear.

### Uncertainty

A common thread of uncertainty runs through the literature which puts into question budgeting and long-term planning. Stacey (1995), in a paper on the science of complexity, maintains that planning processes and analytical techniques are employed in circumstances which are inappropriate and are processes which have for a long time been shown to be inapplicable to conditions of great uncertainty and yet they are used in just such circumstances. He suggests that managers use such routines and procedures to defend themselves against the anxiety which great uncertainty provokes. Bunce & Fraser (1997:26) pleading the case for moving from traditional budgeting to Beyond Budgeting point out “we are demanding much more of budgeting today than it was ever intended to deliver.” Uncertainty complicates organisational control and Hansen *et al* (2003) report that conventional budgets



cannot capture the uncertainty involved in rapidly changing environments. Stacey (1995) uses as an example of chaos in organisations, the opposing behaviours of managers who operate within budgetary controls to keep the organisation stable and those who are getting around budgetary controls and engaging in political activities to undermine the status quo. A planning system where gaming and the incentive to circumvent the budget was minimised would go some way to eliminate these influences.

### **3.2.4 Difficulty implementing complex systems**

A fundamental change such as the abandonment of budgets and replacement with a new system is a big upheaval. Rickards (2008:585) targets Beyond Budgeting specifically and claims, “the complexity involved in implementing Beyond Budgeting surely is the largest among the twelve tools examined, because it tries to integrate so many different and challenging instruments with one another. In particular, small automobile suppliers, with fewer than 100 employees, are unlikely to have sufficient know-how in-house to introduce a Beyond Budgeting concept, even with help from external consultants”.

Even Hope & Fraser (2003a) acknowledge the scale of the change to be made, “Implementing Beyond Budgeting, whatever the initial scope of the changes envisioned, is a significant change program and needs to be handled accordingly. It is not just about changing a process and putting in an alternative process or set of processes. It is about changing mindsets and achieving a different coherence in the way the organization as a whole is managed” (p.96). Bruns & Waterhouse (1975) suggest complex systems may not be well understood and may be perceived as limiting activities or may be ignored. In discussing the small number of enterprises making a permanent switch to novel accounting practices generally, Bromwich & Bhimani (1994) conclude that many firms have reported unanticipated difficulties at the implementation stage.

Implementations of new techniques cost considerable amounts of time and effort and the cost/benefit relationship is not always clear. “Managerial accounting theories and frameworks often contend that the relations among accounting and control practices,

other organizational design choices, and performance can be characterized by complex interactions among the practices and non-linearities (e.g., the costs from more elaborate managerial accounting systems may exceed the benefits at higher levels of system complexity)” (Ittner & Larcker, 2001:400). Howard (2004), discussing budgets, maintains that like all forms of management accounting the value of the benefit gained from the exercise must exceed the cost of doing it. Anderson (1995:17) discussing the GM ABC implementation makes a similar observation, “Management wanted to have a dollar benefit to implementing ABC”. He concludes that technical factors influenced the non-usage of ABC data at GM discussing complexity, lack of integration and the concern that ABC is too costly to maintain relative to its perceived benefits.

Bromwich & Bhimani (1994) find it difficult to believe that almost all innovations in accounting fail the cost benefit test as has been suggested by many US commentators as an explanation of the relatively low take-up of innovations. They point out however that many reformers, in making wholesale changes to the entire accounting system, have generated very large costs in consultation, re-programming, system reconfiguration and hardware costs. However they suggest “the reason that changes in the accounting systems lag production process changes is that the incremental benefits of changing the accounting system are less than the incremental costs” (p.201). Even the cost of training the managers involved may be one factor hindering implementation. Bromwich and Bhimani (1994) using ABC as an example suggest the implementation from a cost perspective may be prohibitive in itself, if the expense of training managers to understand its complexities, until they find its logic compelling, is accounted for.

Even internally within the organisation the cost/benefit element needs to be apparent if new innovations are to be adopted. Malmi (1997:474) depicts the dilemma of front-line management with an ABC project, “Cost/profit responsibility provides negative incentives at the local level to maintain accounting and information systems serving mainly the top level management.”

### 3.2.5 Gestation period for the adoption of new innovations

The diffusion of new ideas takes time. The difficulty in quickly winning over new adopters for innovative new techniques, using the example of the budgeting process, was recognised already in 1929 by Drucker (1929:175) who reported, “but in spite of all these arguments in its favor, the budget has never appealed to the business executive. In fact some of those who were first induced to try the budget idea have given it up as useless.” Traditional budgeting took a long time between its origins in the late 1800s to become as established as it was by the 1960s. Beyond Budgeting is now 15 years old and whereas Harold Wilson remarked in 1965 that, “A week is a long time in politics” (Moore, 1996:5), 15 years may not be a long time in management accounting. Beyond Budgeting is not alone in experiencing a slow take-up, which is the fate of many innovations generally. Quoting a survey on cost practices undertaken by Cohen & Paquette in 1991, Bromwich and Bhimani (1994:201) cite that “changes in management accounting practices occur slowly”, and conclude later that changes in practice appear to lag behind the views voiced by certain consultants, academics and practitioners. Scapens & Arnold (1986:92) cite, “one commonly expressed reason for the gap between the theory and practice of management accounting, is that it takes time for new ideas to become fully developed, accepted and implemented.”

Identifying the need for time for an innovation to become established some authors describe the product or innovation as being ‘ahead of its time’ (Chesbrough & Garman, 2009). McIntyre (1988) defined ‘ahead of its time’ as being ahead of its infrastructure where an adequate infrastructure does not exist. In the case of Beyond Budgeting such an infrastructure would include competent qualified employees and software programs, ‘facilitators’ in Modell’s innovation framework.

### 3.2.6 Change agents, management capacity and ability

Referring to ABC implementations Anderson (1995) tells us that the early days of experimenting with costing systems were populated by entrepreneurial individuals who championed the cause of ABC. These people embraced change and had the ability and desire to drive change. Modell (2007) refers to Cobb *et al* (1995) who drew attention to the pivotal role of certain individuals, defined as ‘leaders’, in

overcoming barriers to change and reinforcing the momentum for change over time. Shields (1995) lists top management support as one of the factors influencing ABC success. Malmi (1997) witnessed the negative side in practice when the group level sponsor of an ABC project left which contributed to the failure of the project.

Managers today work in a lean environment where time is at a premium and there is little spare capacity for the implementation of significant changes to the management system. Furthermore, non-accountants may not be well versed in budgeting theory. Management accountants who qualified before the advent of Beyond Budgeting may not be conversant with the techniques or possible advantages. In discussing a previous management accounting innovation, 'Strategic Management Accounting', Roslender (1995) comments that most UK accountants were wholly unsuited for SMA due to their experience of an essentially quantitative number crunching approach to accounting education and training and that simple and soft accounting numbers may not appeal to many within the accounting profession; a point also alluded to by Lord (1996). Specifically referring to the accounting profession, Langfield-Smith (2008:208) reports the view that accountants do not "have the ability to learn 'new tricks' being intellectually and emotionally unequipped for transformations", a view attributed to Harvard's Robin Cooper. Implementing new management systems, especially those involving radical change, need sufficient management capacity and leaders who are able and qualified to implement them if they are to be implemented successfully. Change agents and management characteristics represent the human or social influences on the adoption of new innovations.

External consultants and commercial enterprises as change agents may also have a bearing on the adoption of new innovations. Mol & Birkinshaw (2009) looked at the effect of contact with external market-based and professional knowledge sources on the implementation of new management practices. They concluded the more a firm interacts with these sources the higher the level of introduction of new management practices. Birkinshaw & Mol (2006:88) listed external actors explaining "there is value in selectively making use of outsiders such as academics, consultants, media organisations and management gurus".

### 3.2.7 Innovation or fad

Scepticism or perception of any innovation as a fad will affect the willingness to adopt it. In discussing fads in management accounting Luft (2006) visiting CIMA in January 2006 remarked that “attempts at innovation in recent decades had often resulted in a cycle of adoption, disappointment and abandonment.” Decentralisation, an approach advocated by Beyond Budgeting, has been criticised as a fad as long ago as 1979; commenting on it coming into and going back out of fashion, Mintzberg (1979:294) wrote “the swings between centralization and decentralization at the top of large American corporations have resembled the movement of women's hem lines”. The benefits of decentralisation obviously need to be proven and accepted by the majority if decentralisation is to be accepted as an improvement in management processes. Abrahamson (1991), arguing that a sceptical view of innovation has emerged, reviewed claims that fads and fashions have repeatedly diffused technically inefficient innovations among U.S. organisations and caused technically efficient innovations to be rejected. “The development of a new technique raises a number of issues, including who would want to implement the technique, why they would want to do so and under what conditions. In part, of course, the answers to such questions are tied up with the precise nature of the technique and what it is able, or perhaps perceived to be able, to achieve” (Berland & Boyns, 2002:8). Mintzberg (1979) draws attention to the dangers of adopting the latest fad using as an example the premature heralding of the death of bureaucracy in the 1960s, pointing out that “many organizations took this seriously, some to their regret” (p.293).

Parallels to Beyond Budgeting can be found in Strategic Management Accounting (SMA), a phrase coined by Simmonds (1981) for the accounting information that would assist strategic decision-makers. According to Langfield-Smith (2008) SMA techniques have not been widely adopted, nor is the term SMA widely understood or used. Here, case studies on both sides of the Atlantic demonstrated the superiority of SMA over traditional forms of management accounting and the need to take a strategic perspective to management accounting became the accepted wisdom. Lord (1996) had already commented one decade previously on the paucity of examples of strategic management accounting actually being used in spite of many papers on the subject, asking whether SMA was the emperor's new clothes and suggesting that

“perhaps the widely touted ‘strategic management accounting’ is but a figment of academic imagination” (Lord, 1996:364). Further parallels with Beyond Budgeting can be drawn with ABC, a much discussed innovation in the 1990’s. Langfield-Smith (2008:217) draws attention to the ‘ABC paradox’, that is, while ABC is considered by many accountants and managers as very attractive, well known and accepted as a valuable technique, and studied in most business schools, the research evidence points to a lower level of adoption globally.

Some innovations are partially successful, with some aspects being implemented and others ignored. Given that Beyond Budgeting proposes six key principles for managing without budgets, it is conceivable that for example the concept of budgeting as a continuing process may be implemented and found in use in companies while internal benchmarks are retained. Examples in previous innovations are highlighted by Lord (1996) where techniques and elements of SMA may in many cases already have been found in firms, used and collected not by management accountants but by the operational management, and by Langfield-Smith (2008) who talks of not only some SMA and ABC techniques infiltrating management but also the language, it not being unusual for accountants and management to talk about activities and drivers even though the take-up of ABC as a whole has been low.

Some managers have not associated what they are doing with a specific innovation. Langfield-Smith (2008:222) remarks “the apparent low adoption of ABC systems may not take into account that many aspects, that form part of an ABC system, may now have slipped into accepted practice. This includes the more informed use of overhead cost drivers and the broadening of product cost beyond manufacturing, to include up-stream and down-stream costs. The term ‘activity-based costing’ may not be used in these situations.” Bhimani & Bromwich (2010:49) comment on a similar situation with SMA “the SMA 'brand name' is not well recognised across the globe but many of its techniques are used in practice”. Becker *et al* (2010:58) note that “many organisations now also consider some of the managerial principles that Beyond Budgeting has called for, such as greater decentralisation or empowerment. In most cases, this does not happen under the label of Beyond Budgeting, and sometimes occurs without any knowledge of the corresponding movement”.

Writing on SMA, Roslender & Hart (2010) noted “the term SMA continues to be neither widely current nor widely understood in practice, or among some researchers”. This is a parallel with Beyond Budgeting where the label has also drawn criticism. Becker *et al* (2010) found that although it has been presented as a general management concept it is perceived more narrowly as falling into the domain of management accounting or financial management. They report on an interview where one of the originators of the concept, Robin Fraser, said “the label ‘Beyond Budgeting’ was not particularly helpful for diffusing the concept, because people have generally assumed that the solution lies within the area of responsibility of financial people in a company. And financial people are not able to make all of the changes that are necessary to change a management model, obviously” (p.56). They continued with the theme, “indeed, membership of the BBRT consisted mostly of corporate representatives with a background in finance or accounting, rather than of managing directors or general managers. And ‘it is difficult, when you have got a network established, to change it’ (Robin Fraser, interview). To bring about such a change, some, like Fraser or Pfläging, have moved away from the initial label and now talk of ‘radical decentralisation’ and ‘the Beta Codex’, respectively. Whether this will help them to attract more attention in the marketplace for their ideas remains to be seen” (p.56).

In contrast to Kaplan’s assertions (Kaplan, 1984) that there have been no innovations in management accounting, Bromwich & Bhimani (1994) see management accounting as having had a rich past, subject to much thought as to how particular enterprise problems could be addressed by designing new accounting techniques. Management accounting as it stands today is the product of historical forces of change which cannot be ignored in conceiving novel pathways leading to further transformations. Furthermore the authors relate one lesson learned, that the experimenting with novel approaches in management accounting can be of much value as long as more traditional accounting tools are not jettisoned prematurely. This comment is relevant to the radical abandonment of traditional budgeting as advocated by the Beyond Budgeting movement. In a further caveat, the authors stress that any one novel technique or even a combination of techniques can neither shore up a poorly managed organisation nor convert badly managed firms into leading

edge firms. Howard (2004) simply sees the idea of scrapping budgets as another fad that will not stand the test of time.

### **3.2.8 Awareness of new techniques and channels of communication**

Scapens & Arnold (1986:78) find that it would be reasonable to expect textbook techniques to become widely adopted if they are 'ideal techniques' which offer real benefits. This assumes however that managers become aware of the techniques and implement them. In an examination of the dissemination process Berland & Boyns (2002:2) find "the dissemination of new ideas can occur through a number of mechanisms, but the most obvious ones are through the literature (both published and unpublished) and through the presentation of talks and seminars." Referring to budgetary control "the development of the literature on budgetary control in Britain during the late 1920s, and especially the 1930s, clearly helped disseminate knowledge of the technique and potentially encouraged a more widespread diffusion of the technique into practice". "The precise relationship between dissemination and diffusion, however, is clearly a complex one, and the relative impact of theoretical works as opposed to those detailing actual case studies of the implementation of budgetary control has still to be distinguished" (Berland & Boyns, 2002:6). "It is clearly not possible for a technique to be utilised before it has been developed, whether in a primitive or fully-fledged form. Those engaged in its early development and/or refinement, if practitioners, will clearly have an advantage over competitors, who will not be able to utilise the technique until knowledge of its existence has been spread. This will only occur if there are individuals and/or groups willing to emphasise the possibilities of the technique and to help in the processes of its dissemination. Diffusion also requires individuals and/or groups (possibly the same, possibly different to those involved in the dissemination process) who are willing to help with the practical implementation of the technique" (Berland & Boyns, 2002:10).

DiMaggio & Powell (1983) discussing the similarities between organisations see professional bodies as important actors in dissemination of new techniques, "Two aspects of professionalization are important sources of isomorphism. One is the resting of formal education and of legitimation in a cognitive base produced by



university specialists; the second is the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly. Universities and professional training institutions are important centers for the development of organizational norms among professional managers and their staff. Professional and trade associations are another vehicle for the definition and promulgation of normative rules about organizational and professional behavior. Such mechanisms create a pool of almost interchangeable individuals who occupy similar positions across a range of organizations and possess a similarity of orientation and disposition that may override variations in tradition and control that might otherwise shape organizational behavior” (p. 152).

Hopwood (1986:15) refers to the influential role of agents external to the organisation, “whether they be agents of the state or the capital markets, their regulatory intentions and requests for information have served to expand significantly the activities which are enshrined within the organizational record.” Malmi (1999) identified the enthusiasm of the external consultants as a motive for adopting ABC. Berland & Boyns (2002) pointed out that external organisations were the main facilitators in the promotion of budgetary control between the wars. The authors distinguished between the academic organisations concerned with dissemination and other organisations concerned with more practical matters.

Bromwich & Bhimani (1994) see lack of understanding as an issue in the adoption of new management accounting techniques and suggest that once users comprehend more fully the implications of rationales underlying the use of the techniques, increased application will follow. Regarding the dissemination of new techniques the authors recommended, as far back as 1994, that practising management accountants should continue to be encouraged to attend professional development courses exploring new theoretical techniques. Compulsory CPD (Continuing Professional Development) has been a reality for CIMA members since 2006.

Rogers (1995:13) said that “Mass media channels” are often the most rapid and efficient means of diffusion, defining them as “all those means of transmitting messages that involve a mass medium, such as radio, television, newspapers, and so

on, which enable a source of one or a few individuals to reach an audience of many.” Since 1995 the number and importance of mass media channels has gained momentum with the advent of the internet, encompassing e-mail, social networks such as Facebook, webinar capabilities and forums, as well as mobile communication with SMS texting and smart devices receiving graphics and video as well as text.

In summary, the major channels identified in this section were textbooks, literature, talks and seminars, champions and implementers (individuals and groups), formal education and professional institutions, also with requirements for Continuing Professional Development. New channels based on digital technology have emerged in the last decade (e.g. LinkedIn established 2003, Facebook 2004, Twitter 2006) and, as they are growing, are becoming more important for the dissemination of information of all kinds.

Section 3.2 has examined the factors influencing management change and the adoption of management accounting innovations. Section 3.3 identifies existing explanatory theories from the literature and maps the factors identified in 3.2 to these theories.

### **3.3 Identification of relevant Management Accounting theories**

Due to the continuously changing environment, accounting has been forced to change over the last 40 years and keep up, providing grounds for new research and literature. Hopwood (1987:207) emphasises “Accounting is not a static phenomenon. Over time, it has repeatedly changed”. For literature on innovations there has been no shortage of new ideas which have experienced varying degrees of adoption and are subject of a body of literature. Luft (2006), for example, listed JIT, EVA, ABC, TQM, Lean, BSC, ROI, SPMS, Beyond Budgeting and ABM in a history of recent innovations in management accountancy.

As reported at the beginning of section 3.2 researchers have tended to explain the theoretical underpinning of management change in the context of a single theory such as institutional or contingency. Modell (2007) comments that numerous frameworks geared towards understanding management accounting change have

been advanced, mainly based on institutional theory and adds, “however, research on management accounting change has been guided by a very broad range of social theories”. The author refers to agency, institutional and contingency theories in the course of his review of the literature on management accounting change. These theories were selected for examination of their relevance to the adoption of Beyond Budgeting. Dissemination and diffusion of innovations was not covered in the Modell (2007) review. Research by Rogers on innovations has been selected to fill this gap and has been referred to as diffusion theory. Modell intimated that the complexity involved in effecting management accounting change is seldom reflected in the literature. A theory dealing with complexity in business was therefore sought.

Scapens (2006) talks about a considerable theoretical diversity in management accounting with researchers using many different theoretical approaches. He lists the broad trends assigning them roughly to decades: economic theory (1970s), contingency theory (1980s), structuration theory (1990s), and institutional theory (2000s).

The normative view of Economic theory, with its basic premise that rational individuals and companies will take the path leading to the maximum benefit, provides the motivation to adopt new innovations. Becker (1962) concludes, the consensus view is that rational behaviour implies consistent maximisation of a well-ordered function such as a utility or profit function. Under the normative view of economic theory organisations and individuals will adopt new techniques if they believe they will maximise benefits. According to Larrick *et al* (1993:331) a normative model “depicts how people ought to make decisions in order to maximise their personal outcomes” as opposed to how they actually make decisions. The normative view of economic theory is taken as a given underpinning any decision to take the best course of action and therefore has not been discussed in any further detail.

Contingency theory on the other hand, seeing decisions as a function of the environment in which they are taken, and Institutional theory emphasising

organisational norms and legitimisation, formed the basis for informed research questions.

According to Macintosh & Scapens (1990), Structuration theory is concerned with the interplay of agents' actions and social structures in the production, reproduction and regulation of any social order. In the context of management accounting the authors discuss the elements of 'Signification structure' or communication, where management accounting provides managers with a means of understanding and communicating the activities of the organisation, and 'Legitimation structure' where the right of some participants to hold others accountable in financial terms is embedded. Barley & Tolbert (1997) regard structuration theory as largely abstract claiming it is a process theory of such abstraction that it has generated few empirical studies. Structuration theory has not been dealt with as a separate issue as there is an overlap with agency and institutional theory covering the elements pertinent to the adoption of new innovations and the theory has found little practical application.

Complexity theory takes the view that real life is too complex to fit into a theory. This view was also examined as was diffusion theory which deals with the dissemination and diffusion of ideas. Diffusion is key to the spread of new innovations and is therefore relevant to research on the adoption of new management techniques.

In explaining the reluctance to implement systems which push down authority the issue of the control of the principal or owner over the agent or manager is broached. Agency theory deals with monitoring of agents, agents' behaviour and aligning the agent's goals with the principal's aims. A discussion of the impact of agency theory therefore belongs in the research of innovations potentially eroding a principal's power base.

### **3.3.1 Theoretical Overview**

The 'Theoretical Overview' in table 3.1 maps the factors influencing the adoption of innovations in the context of the research problem, i.e. the low take-up of Beyond Budgeting, to the aforementioned theories. The overview serves as a reference and is

developed later in the light of a detailed review of the theories into a ‘Theoretical Framework’ to include seminal writers and lead into the research questions.

**Table 3.1 Theoretical Overview**

<b>THEORIES TO BE EXAMINED IN THE CONTEXT OF INNOVATION ADOPTION</b>					
<b>Theory</b>	<b>Diffusion theory</b>	<b>Contingency Theory</b>	<b>Institutional / Legitimacy theory</b>	<b>Agency theory</b>	<b>Complexity theory</b>
<b>Basic premises of theory</b>	Dissemination and diffusion of innovations	Decisions as function of the environment	Influence of norms  Decisions legitimised by following norms	Goal congruence of agent and principle  Monitor agents' behaviour  Importance of power and conflicts of interest	Business is too complex to be reflected in a model or theory
<b>Applicability of theory to decision to adopt Beyond Budgeting</b>	Technique itself discounted or discredited  Innovation or fad  Resistance to change  Inadequate dissemination	Usage of budgeting  Matching the method to the organisation	Waiting for widespread adoption  Mimetic isomorphism  Pressure to adopt innovations	Loss of management control	Obstacles to implementing new systems (Cost, management capacity, ability, complexity)

**3.3.2 Discussion of the theories identified**

Each theory is described individually in the following sections referring back to factors identified in section 3.2 and to the specific case of Beyond Budgeting as appropriate.

**3.3.2.1 Diffusion theory**

Rogers (1995) uses the term diffusion to describe what other authors separate into dissemination and diffusion. He defines diffusion as “the process by which an innovation is communicated through certain channels over time among members of a social system. It is a special type of communication, in that the messages are concerned with new ideas” (p. 5). He categorises four elements in the diffusion of innovations: the innovation, communication channels, time and the social system. Ever-present in any discussion of diffusion is the subject of resistance to change, Rogers (1995) illustrates this with the example of the Dvorak typewriter, a typewriter with an improved layout apparently leading to greater ease of use and productivity which never got adopted.

**The innovation element or the innovation itself**

An innovation must be seen to bring benefits if people are to be persuaded to adopt it, and “it should not be assumed that the diffusion and adoption of all innovations are necessarily desirable” (Rogers, 1995:12). “Innovations that are perceived by individuals as having greater relative advantage, compatibility, trialability observability, and less complexity will be adopted more rapidly than other innovations” (p.16). He comments, “Many technologists believe that advantageous innovations will sell themselves, that the obvious benefits of a new idea will be widely realized by potential adopters, and that the innovation will therefore diffuse rapidly. This is seldom the case” (p.7). Support for the importance of the innovation element in Rogers’ diffusion theory could be seen in the discussion on fads and fashions section 3.2.7, where scepticism of or acceptance of the value of new techniques was deemed to influence whether they were successful or not.

**The communication element**

As mentioned at the beginning of this section, “Diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system” (Rogers, 1995:5). The communication factor is key to diffusion as people must be aware of innovations to implement them.

There is a body of enthusiastic Beyond Budgeting champions who are driving efforts to both disseminate and assist in the diffusion of Beyond Budgeting through channels such as forums and the BBRT. In order to understand why, despite this, Beyond Budgeting has not been adopted more widely, it is important to find out from whom managers have been informed about the principles and whether the arguments for Beyond Budgeting have been brought over in a convincing manner.

The various channels through which management accounting innovations are diffused were described in section 3.2.8 ‘Awareness of new techniques and channels of communication’. In the context of diffusion theory and the key element of communication channels in the diffusion of innovations, this research aimed to investigate the adequacy of the channels being used to disseminate the Beyond Budgeting.

### The time element

Rogers (1995:1) upholds that “many innovations require a lengthy period, often of many years, from the time they become available to the time they are widely adopted” and remarks that “a common problem for many organisations is how to speed up the rate of diffusion of an innovation.” He goes further commenting “Most innovations, in fact, diffuse at a disappointingly slow rate” Rogers (1995:1). Under the heading of ‘Gestation period’ in section 3.2.5 writers supported the diffusion theory view that innovations need time to be adopted.

### The social system

Rogers (1995:4) stresses the importance of the social system, the fourth of his main elements of diffusion theory, “an important factor regarding the adoption rate of an innovation is its compatibility with the values, beliefs and past experiences of individuals in the social system”. He underlines that the success of an innovation is not just dependent on its technical excellence and talks of the “the importance of interpersonal networks in the adoption and rejection of an innovation,” and “the diffusion of innovations is a social process as well as a technical matter.” This aspect of Rogers’ work is particularly relevant to the discussion of social norms as barriers or motivators to change as discussed in section 3.2.2.

The dissemination of innovations by professional bodies discussed earlier under the heading of channels of communication (section 3.2.8) underlines the importance in practice of communication between like individuals. Rogers (1995:18) maintains, “an obvious principle of human communication is that the transfer of ideas occurs most frequently between two individuals who are similar or homophilous” and contends, “the tendency for more effective communication to occur with those who are more similar to a change agent occurs in most diffusion campaigns” (p.5).

Under the social system element of diffusion, Rogers (1995) lists the effects of norms and the roles of opinion leaders and change agents. The influence of the structure of social systems on facilitating or impeding diffusion is also expounded.

The role of professional institutes, including the CPD aspect, for disseminating information on new innovations amongst accountants needs to be ascertained. It would be enlightening to find out who managers see as responsible for informing them of potentially ground-breaking new techniques and how they think an appropriate target audience can be reached.

### **3.3.2.2 Contingency theory**

The basis of contingency theory is that appropriate methods will be used as required in different situations in order to achieve effectiveness. Otley (1980:413) states “the contingency approach to management accounting is based on the premise that there is no universally appropriate accounting system which applies equally to all organisations in all circumstances.” Burrell & Morgan (1979:164) explain that contingency theory came into prominence in the 1970s and that results of empirical research “assert that the effective operation of an enterprise is dependent upon there being an appropriate match between its internal organisation and the nature of the demands placed upon it by its tasks, its environment and the needs of its members”. Moores & Chenhall (1991) report that this line of thinking developed in the mid-1960s from the work of organisational design researchers and that the “application of contingency frameworks to management accounting research commenced in the mid-1970s with studies by Bruns & Waterhouse” and various other authors so that “contingency research dominating organizational level research throughout the 1980s”. Several decades later applying contingency theory directly to the management accounting context Luft & Shields (2003:202) state, “the contingency theory of organizations, like economics, assumes that organizations tend to use the management accounting that is best for them (i.e. the management accounting that fits).” Otley (1999:367) had gone further, discounting the illusion of a unique solution to management problems explaining, “the contingency theory of management accounting suggests that there is no universally applicable system of management control but that the choice of appropriate control techniques will depend upon the circumstances surrounding a specific organization”.

In sections 3.2.1 ‘Resistance to change’ and 3.2.3 ‘Circumstances and environment’, writers such as Bromwich & Bhimani (1994) and Dugdale & Lyne (2006) were



quoted on the appropriateness of different measures for different circumstances offering a practical confirmation of contingency theory's premises. Others also point to innovations such as decentralisation, SMA and ABC and their low levels of adoption despite giving the impression they were universal solutions. The question of applicability of a command and control environment under certain circumstances at certain times is also a contingency theory debate. As seen in section 3.2.1 there are opinions that this command & control structure contributes to the success of companies such as Johnson & Johnson and General Motors. In research on innovation and new management practices Mol & Birkinshaw (2009) found that larger firms were more likely to introduce new management practices than small ones confirming earlier research which concluded that "larger firms are both under more pressure to introduce new practices, when compared to smaller firms, and more capable of doing so" (p. 1,271).

The applicability of contingency theory to management accounting is however subject to certain limitations. Innes & Mitchell (1990) point out there is no unanimity on which contingent variables affect firms or the definitions of such variables and that contingency theory provides only a static analysis at a given point in time, ignoring the dynamics of how the management accounting system arrived at its given state. Otley (1980) levels various criticisms at contingency theory seeing a general case for the theory supported, but sparse specific findings and few significant new results. He is also sceptical that "The idea that 'it all depends' tends to be used as a means of avoiding rather than addressing design implications" (p. 414).

In spite of the limitations of contingency theory there is a relevancy to the adoption of new innovations such as Beyond Budgeting where there is a question of whether it or any other innovation in management accounting can be expected to be universally applicable.

### **3.3.2.3 Institutional theory & Legitimacy**

Institutional theory sees organisations following and fitting into norms, compelled by diverse pressures and influences to behave in certain ways to earn legitimacy.

Defining Institutional theory Scott (2005:481) writes, "Institutional theory attends to

the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse". Organisational legitimacy is where an organisation's social values associated with or implied by their activities are congruent with the norms of acceptable behaviour in the larger social system of which they are a part (Dowling & Pfeffer, 1975).

In the budgeting context institutional theory underlines the importance to companies of legitimacy within their peer groups and, with the concept of imitation or mimetic processes, presents a reason for the following that traditional budgeting enjoys (section 3.2.2). In section 3.2.8 legitimation by inclusion in cognitive bases in universities was mentioned as an example. Until a new budgeting technique becomes a norm organisations may be reluctant to risk adopting it. Equally, however, once a technique becomes fashionable companies will imitate and adopt because others are doing so. Malmi (1997:465) believed the reason ABC was chosen to accomplish a change in one of the cases he studied "related to institutional pressures and managerial fads and fashions". ABC seemed at that time to be the way cost accounting was developing.

Institutional theory and legitimacy go a long way to explaining the influence of social norms and peer pressure on the adoption of new management accounting techniques as reviewed in section 3.2.2.

Institutional theory has also drawn some criticisms, Covalleski *et al* (1993) point to the issue of power. Theorists ignore the influence of the actors who have the power to lay down the institutionalised rules. This criticism however is at a high level and only seems to be levelled at one aspect of institutionalism and does not detract from the relevancy to the adoption of new innovations. Modell (2007:351) mentions that "institutional research has paid scant attention to the role of economic and technical factors" and points to evidence that institutional, economic and technical factors interact in shaping power relationships and change.

Research questions also aimed to reveal whether institutional influences, such as waiting for others to adopt first, have a bearing on the adoption of new innovations.

#### **3.3.2.4 Agency theory**

Agency theory deals with the relationship between principals and agents engaged to carry out tasks on their behalf. Jensen & Meckling (1976:307) define an agency relationship as “a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”. In a business context Johnson & Kaplan (1991:174) report “The numbers produced by accounting systems are often used as the basis for contracting between economic agents, such as between managers and subordinates or between managers and shareholders.” Ideally there is goal congruence between the principal and the agent with the aims of the principal being automatically achieved when the agent achieves his objectives. In a simple example a small business owner (the principal) might present the sole manager he has appointed (the agent) with budget targets, the achievement of which maximise the wealth of the owner. However, there is an inevitable relinquishing of an element of direct control when using agents in a multi-person setting or a large and complicated organisation. Jensen & Meckling (1976:307) warn “there is good reason to believe the agent will not always act in the best interests of the principal”. Fama & Jensen (1983:301) were “concerned with the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions”, i.e. there is separation of decision and risk-bearing functions. Boyd (1995) seized on this idea and talks about the ‘agency problem’, finally concluding that “senior executives are more likely to pursue strategies which: (a) maximize personal welfare at the expense of shareholders; and (b) minimize their personal risk”.

Agency theory can be applied to the conflict of interest between managers and owners or managers and senior managers as discussed previously in section 3.2.1 under the heading of command and control where budgeting facilitated control of top management (principals) over lower levels (agents) during the rise of big business. The threat of loss of this control may lead to resistance in adopting new innovations.

Further complicating the role of budgeting under agency theory is that in most corporations it is not the owner / shareholder (the principal) who decides on the control mechanism such as budget control but management (the agent) and that within the term 'management' there are multiple agency relationships, for example between the board of directors and top management and between the management and subordinate levels of management down to the lowest level of responsibility. Each level thus attempts to assure through a control mechanism that their own interests are being served by their agents. As long ago as 1932 Berle & Means (1991:4) viewed the modern corporation as "a means whereby the wealth of innumerable individuals has been concentrated into huge aggregates and whereby control of this wealth has been surrendered to a unified direction." The authors then explicitly mention budgets as a control mechanism when they suggest the principal can limit divergences from his interest by incurring monitoring costs designed to limit the aberrant activities of the agent, monitoring being defined as including efforts on the part of the principal to 'control' the behaviour of the agent through budget restrictions, compensation policies, operating rules, etc..

This leads to another aspect of direct principal / agent control in implementing new innovations. Rogers (1995:29) sees adoption of innovations occurring fastest where the decision is made by an "authority who possesses power, status or technical expertise."

Critics of agency theory question the implicit assumption that executives are inherently opportunistic agents who capitalise on every chance to maximise personal wealth at the expense of shareholders (Boyd, 1995). The author writing on CEO duality reports Donaldson & Davis (1991) voicing concern about the failure of agency theorists to address organisational behaviour and comments the desire to maximise income might be counterbalanced by a larger range of human motives such as need for achievement or responsibility, altruism or belief.

In spite of the criticisms, agency theory raises questions for principals and agents concerning the command and control aspects of budgeting, and a possible perceived loss of control over their organisation if this is abandoned.

### 3.3.2.5 Complexity theory

Complexity theory questions the validity of trying to plan or forecast the long-term future at all. Stacey (1995:490) contrasts established perspectives on the strategy process, where specific actions are assumed to lead to specific outcomes enabling a leader to lay down a master plan for an organisation and others to follow it, with the science of complexity and concludes that “quite clearly no expert outsider and no privileged insider can know what the destination or direction will be until it occurs”. The key finding of complexity theory, and chaos theory as a mode of behaviour within it, when applied to social organisations is the “effective unknowability” of the future (Rosenhead, 1998:4). If this is accepted, long-term planning becomes an irrelevance if not a hindrance. “The science of complexity is concerned with the fundamental logic properties of the behavior of nonlinear and network feedback systems” (Stacey, 1995:480). He regards organisations as feedback systems because every time two humans interact there are consequences and feedback loops set up forming a network which is nonlinear. According to Stacey (1995:491) the complexity theory framework poses the question of how managers do or should conduct themselves in the presence of irremovable, indeed desirable, uncertainty, surprise, unknowability, and open-endedness. Analytical thinking and planning processes can only apply to repetitive, predictable activities. New strategic directions must be negotiated in real-time and cannot be arranged in advance. Complexity / Chaos theory is therefore highly relevant to a discussion on controls in organisations.

Complexity theory is not however above criticism, Rosenhead (1998) points out that there is no unified field of complexity theory. He could also find “no formally validated evidence demonstrating that complexity theory based prescriptions for management style, structure and process produce the results claimed for them” (Rosenhead, 1998:8). He questions the practical relevance of chaos/complexity theories and whether the natural scientific theories also hold for management.

Keeping in mind the criticisms of complexity theory research, questions needed to be asked from a complexity theory background to ascertain whether managers believed they are living in uncertain times and if they feel that no model is capable of planning and controlling the future in the current fast-changing environment.

### **3.3.2.6 Incommensurability**

In section 3.3 Scapens (2006) was cited assigning the theories discussed in this chapter to different decades. Drawing on the work of Kuhn (1970), the notion of incommensurability suggests that scientific theories may be mutually exclusive with later theories replacing existing theories; Kuhn (1970) wrote “The normal-scientific tradition that emerges from a scientific revolution is not only incompatible but often actually incommensurable with that which has gone before”. The theories referred to in this research were selected due to their explanatory power for the different reasons behind non-adoption of innovations and barriers to management accounting change.

Incommensurability was considered as irrelevant, as the research did not entail arguing whether one theory was more appropriate than another. Each theory was taken on its own merits and applicability and it was accepted that some issues could be categorised under different theories.

### **3.4 Summary**

When comparing and contrasting the theories underpinning the research and attempting to explain the phenomena some overlaps are apparent. The social system element of diffusion theory (Rogers, 1995) including the effects of norms is similar to institutional theory. The influence of the structure of social systems on facilitating or impeding diffusion corresponds to the influence of culture under institutional theory. The command and control structure has a place in the discussion of agency theory in the context of principal/agent control, in contingency theory as appropriate depending on the environment and under institutional theory where the culture is ingrained. Complexity theory while not providing answers, acts as a caveat to accepting that business procedures can be fully explained by theoretical models.

No one theory provides an answer to the reasons for non-adoption of new innovations but together the theories go some way to providing possible answers. The research aims to confirm and expand on the answers provided by the theories reviewed.

### **3.5 Theoretical Framework – literature review stage**

Following the review of the literature a ‘Theoretical Framework’ has been developed, as shown in table 3.2, building on the ‘Theoretical Overview’ (table 3.1). References to authors contributing to the theories discussed have been added. The theoretical overview started with the theories identified as relevant to management accounting and mapped the subject areas to the theories. The theoretical framework at the literature review stage uses the factors influencing change as a starting point and maps the most applicable theory to these, before thematically grouping key writers on the issues and cascading down to the research questions. The framework serves as an overview of existing theories used in or applied to management accounting and how they map to the factors and influences on the problem being researched (the low take-up of a new management accounting innovation). It also functions as a reference during the research process. The theoretical framework is developed further in chapter six.

**Table 3.2 Theoretical Framework – literature review stage**

**Theoretical Framework - Factors preventing adoption of Beyond Budgeting Techniques**  
**Adoption of new techniques matrix**

<p><b>Possible factors / influences upon decision to adopt Beyond Budgeting</b></p>	<p>Technique itself discounted or discredited  Innovation or fad  Resistance to change  Social norms and social structure</p>	<p>Unawareness of new techniques, inadequate dissemination  Change agents, management ability  Gestation period for adoption of innovations</p>	<p>Usage of budgeting  Matching the method to the organisation</p>	<p>Waiting for widespread adoption  Social norms and company culture Peer pressure to adopt new innovations  Budget legitimising command and control culture</p>	<p>Resistance to change  Management conflicts of interest  Loss of management control</p>	<p>Impossibility of capturing complex systems in simple models or theories  Difficulty implementing complex new systems</p>
<p><b>Theoretical Background</b></p>	<p>Diffusion theory (Dissemination and diffusion of innovations)</p>		<p>Contingency Theory</p>	<p>Institutional / Legitimacy theory</p>	<p>Agency theory</p>	<p>Complexity theory</p>
<p><b>References</b>  <i>(non-exhaustive list)</i></p>	<p>Rogers(1995)  Langfield-Smith(2008) Bromwich &amp; Bhimani(1994) Kotter &amp; Schlesinger(1979) Abrahamson (1991) Anderson(1995)  Howard(2004)  Luft(2006) Modell(2007) Lord(1996)</p>	<p>Rogers(1995)  Berland &amp; Boyns(2002) Bromwich &amp; Bhimani(1994) Dimaggio &amp; Powell(1983) Abrahamson (1991)</p>	<p>Otley(1980, 1999,2008) Moores &amp; Chenall(1991) Bromwich &amp; Bhimani(1994) Dimaggio &amp; Powell(1983) Hopwood (1980 etc.) Hope &amp; Fraser (2003a) Covaleski et al(1993,2003)</p>	<p>Scott(2005)  Berland &amp; Boyns(2002) Preston(1991)  Dimaggio &amp; Powell(1983) Drucker(1929)  Rickards(2008)  Covaleski et al(1993,2003)</p>	<p>Daum(2005, 2006) Berland &amp; Boyns(2002) Scarlett(2007)  Bruns &amp; Waterhouse(1975) Hopwood (1980 etc.) Hope &amp; Fraser (2003a)</p>	<p>Stacey(1995)  Ittner &amp; Larcker(2001) Rickards(2008)  Roslender(1995) Anderson(1995)  Hope &amp; Fraser (2003a)</p>
<p><b>Research questions</b></p>	<p>1 Do managers perceive a fundamental problem with traditional budgeting methods? <i>(Contingency, Institutional, Agency, Complexity theory)</i></p> <p>2 To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations? <i>(Diffusion theory)</i></p> <p>3 To what extent is Beyond Budgeting a solution to the problems with traditional budgeting? <i>(Diffusion, Contingency, Institutional, Agency, Complexity theory)</i></p> <p>4 What are the main reasons why managers have not adopted the Beyond Budgeting techniques? <i>(Diffusion, Contingency, Institutional, Agency, Complexity theory)</i></p> <p>5 What are the practical difficulties in introducing innovative techniques? <i>(Diffusion, Contingency, Institutional, Agency, Complexity theory)</i></p>					



### 3.6 Research questions

The research aim is to understand why apparently beneficial management accounting innovations, using the example of Beyond Budgeting, may not be widely adopted. The research questions serving to meet this aim after consideration of established management accounting theories are as follows:

**RQ1: Do managers perceive a fundamental problem with traditional budgeting methods?**

*(Contingency, Institutional, Agency, Complexity theory)*

**RQ2: To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations?**

*(Diffusion theory)*

**RQ3: To what extent is Beyond Budgeting a solution to the problems with traditional budgeting?**

*(Diffusion, Contingency, Institutional, Agency, Complexity theory)*

**RQ4: What are the main reasons why managers have not adopted the Beyond Budgeting techniques?**

*(Diffusion, Contingency, Institutional, Agency, Complexity theory)*

**RQ5: What are the practical difficulties in introducing innovative techniques?**

*(Diffusion, Contingency, Institutional, Agency, Complexity theory)*

This chapter has identified factors influencing the adoption of management accounting innovations from the literature and described underpinning explanatory theories in order to derive the research questions. The next chapter discusses the alternative methods available to answer the research questions, then justifies and details the approach taken before describing the execution in practice.

## **CHAPTER 4 - METHODOLOGY**

### **4.1 Introduction**

The research area, understanding why the innovative techniques making up the Beyond Budgeting general management model have not been widely adopted, was introduced in the first chapter with the budgetary process being described and evaluated in depth in chapter two. Chapter three, the literature review, identified theories offering explanations for non-adoption of new innovations and led to the development of research questions.

This chapter expands the research questions, describes the analysis of the data needs using a 'data needs matrix', examines different data collection methods and identifies the most appropriate method to investigate the research questions. The chapter continues with an account of the completion of the data collection in practice and a description of the analysis methods used. Ethical concerns and a discussion of reliability and validity bring the chapter to an end.

### **4.2 Review of the research questions**

The search for suitable research methods began with a review of the research questions (RQ). Each research question was broken down into a small number of targeted questions or made more specific to be deployed in a data needs matrix (DNM). The data needs matrix (section 4.3) is made up of a grid starting with questions on the left side. Completing the grid helps ensure a systematic and documented approach is taken to identify the means to answer the research questions. Each research question is considered briefly below in preparation for the data needs matrix.

#### **RQ1: Do managers perceive a fundamental problem with traditional budgeting methods?**

RQ1 was split for the DNM into the two following, more specific, questions:

- What problems do managers have with the traditional budgeting procedure?
- Can one budgeting technique be appropriate for all organisations?

**RQ2: To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations?**

The question was broken down into the following sub-questions for use in the DNM:

- Are accountants aware of the principles of Beyond Budgeting?
- Through which communication channels are accountants made aware of Beyond Budgeting or new accounting innovations?
- Which elements of Beyond Budgeting are managers aware of?

**RQ3: To what extent is Beyond Budgeting a solution to the problems with traditional budgeting?**

RQ3 was broken down into more detail deriving the following two questions for the DNM:

- Does Beyond Budgeting as a general management model provide a solution to the traditional budgeting problems?
- If not in use already, which from a list of Beyond Budgeting techniques could managers find useful in their organisations?

**RQ4: What are the main reasons why managers have not adopted the Beyond Budgeting techniques?**

For the DNM the question was turned into a practical question:

- What, from a list of alternatives, have been the barriers preventing implementing Beyond Budgeting? Were there other reasons?

**RQ5: What are the practical difficulties in introducing innovative techniques?**

Whereas RQ4 sought to discover why managers had not adopted Beyond Budgeting, RQ5 aims to identify difficulties or hurdles irrespective of whether managers have adopted the techniques. This transformed into the following question for the DNM:

- What are the practical obstacles preventing organisations from introducing new innovations such as Beyond Budgeting?

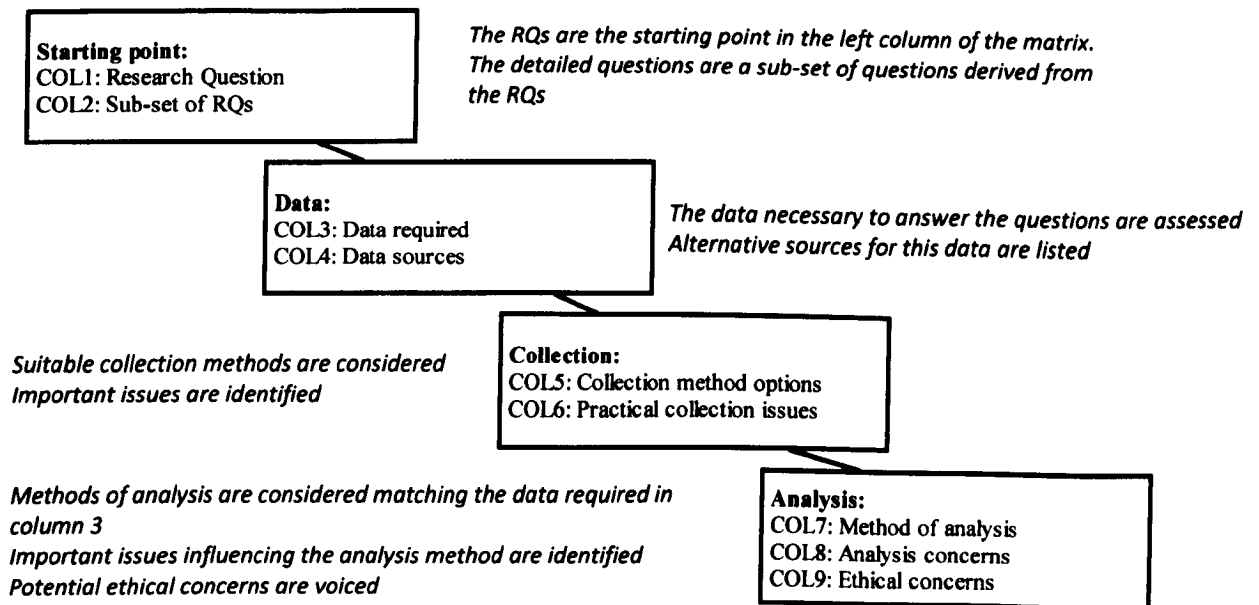
Some of the research questions overlap but the answers taken together should further the understanding of why some innovations and specifically Beyond Budgeting are not widely adopted.

**4.3 Data Needs Analysis / Data Needs Matrix (DNM)**

The data needs analysis procedure aimed to identify the information needed to answer the research questions, as well as the most suitable source and method of data collection.

The approach taken involved the use of a ‘data needs matrix’ (DNM), which provided a systematic approach for determining the data needs. The matrix comprises nine columns and the way it functions is explained below in figure 4.1.

**Figure 4.1 Data Needs Matrix – how it works, with description by column**



The key to the DNM is the discipline involved in completing it, which compels the researcher to consider in detail exactly what is required and how to meet the requirements. The information gathered in the DNM is then used as a basis for the decision on the data required and the collection methods. The completed data needs matrix, table 4.1, can be seen on the next page and is followed with an explanation of the completion procedure.

**Table 4.1 Data Needs Matrix**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Research questions	Sub-Question (section 4.2)	Data required	Data sources	Collection options	Practical collection issues	Method of analysis	Analysis concerns	Ethical concerns
RQ1: Do managers perceive a fundamental problem with traditional budgeting methods?	What problems do managers have with the traditional budgeting procedure?	Details from organisations of problems with traditional budgeting specific to their organisation	Academic Literature or documents in organisations	Secondary data Searching in literature or documents	Literature / documents: Whether appropriate literature exists. Access to relevant documents	Literature / documents: Code, summarise draw conclusions	Literature / documents: Insufficient depth, too broad, not specific enough for analysis	Negative impact on persons and organisations if: 1) answers can be traced to individuals 2) confidential information about specific organisations is published
	Can one budgeting technique be appropriate for all organisations?	Professional opinions on whether a unique, universal solution is possible in practice		Primary data Asking people using: - Interviews face-to-face or telephone - Surveys				
RQ2: To what extent are principles of BB known and understood?	Are accountants aware of the principles of Beyond Budgeting?	Data evidencing that organisations have / have not heard of BB principles	- Knowledge in the heads of people  - In organisations with planning procedures	Observing people and organisations: - Case study or observation	Interviews: Identification of appropriate interviewees and access  Survey: Identification of appropriate respondents Access, response rates  Case Study: Access, selection of a suitable organisation and employees to see why innovations not adopted	Interviews: Transcribe, code, summarise draw conclusions  Survey: Descriptive statistics, summarise, interpret, draw conclusions  Case Study: Transcribe, summarise, draw conclusions	Interviews: Unusable replies, implausible results No pattern  Survey: Unusable replies, implausible results No pattern  Case Study: Analysis of observations of people not doing something i.e. not adopting BB or new innovations	Importance of anonymity
	Through which communication channels are accountants made aware of BB? New accounting innovations?	Data indicating how organisations heard of BB and how they become aware of innovations						
	Which elements of Beyond Budgeting are managers aware of?	Data showing which BB techniques are in use in organisations						
RQ3: To what extent is Beyond Budgeting a solution to the problems with traditional budgeting?	Does BB as a general management model provide a solution to the traditional budgeting problems?	Opinions about the suitability of BB as a solution to traditional budgeting problems						
	If not in use already, which from a list of Beyond Budgeting techniques could managers find useful in their organisations?	Choices by informed persons which techniques would be useful in their organisation						
RQ4: What are the main reasons why managers have not adopted the Beyond Budgeting techniques?	What, from a list of alternatives, have been the barriers preventing implementing BB? Were there other reasons?	Reasons perceived or seen in practice for not being able or not wishing to introduce BB or other accounting innovations						
RQ5: What are the practical difficulties in introducing innovative techniques	What are the practical obstacles preventing organisations from introducing new innovations (such as BB)?							

### **4.3.1 DNM evaluation – Columns 1-2 Questions**

The first two columns are the starting point of the matrix and contain the research question and the corresponding sub-questions (section 4.2). The alternatives entered under each column are described and evaluated in the following sections.

### **4.3.2 DNM evaluation – Column 3 Data required**

The data requirements to answer each sub-question were considered and entered in this column. It was determined that empirical data are required in order to:

- Show that organisations have or have not heard of Beyond Budgeting
- Indicate how organisations become aware of innovative techniques
- List what Beyond Budgeting techniques are in use in organisations
- Gain an opinion from managers whether a universal solution is possible
- Confirm problems found in the literature with traditional budgeting
- See which innovative techniques would be useful in organisations
- Identify practical barriers to introducing innovations

### **4.3.3 DNM evaluation – Column 4 Data sources**

The top level sources for the types of data identified in column three were identified as academic data in document form (secondary data), data in the heads of people and data in organisations with planning procedures (primary data).

The sources used for secondary data to support this research would include academic literature and prior research documented in books, text-books, journals, professional magazines, articles in libraries and on-line resources.

Data not documented, such as the rationale behind decisions and knowledge about the operations of organisations, reside in the memory of the individuals involved. For such data, the source is knowledge in the heads of people.

### **4.3.4 DNM evaluation – Column 5 Collection method options**

Alternative collection methods for the data were entered in this column, comprising the use of secondary data by searching in literature and documents or by obtaining primary data either by asking people directly or by observing people.

Following the review of the alternative collection methods practical collection issues were addressed in the next section.

#### **4.3.5 DNM evaluation – Column 6 Practical collection issues**

Potential problems were identified in this column relating to the different data collection possibilities. For secondary data, the problem of insufficient relevant literature was identified as well as difficulty with access to documents within an organisation. For interviews the identification of suitable interviewees and access to them was documented as an issue. The problems associated with surveys were listed as the identification of appropriate respondents, access to them and possible low response rates. The major difficulties with a case study were finding an organisation in which it is possible with a case study to understand why Beyond Budgeting is not being adopted and, secondly, finding an organisation prepared to give access to a researcher for a longitudinal case study.

#### **4.3.6 DNM evaluation – Column 7 Methods of analysis**

Literature / documents: Information in written form needs to be coded in some way to enable the collection of relevant text sections into categories for sorting and interpretation.

Surveys: Quantitative and comparative data can be statistically analysed in detail. The questions, on which the DNM is based however, seek to find answers to understand why an innovation has not been adopted rather than to compare it with other techniques or to quantify its level of penetration. For the questions in the DNM, descriptive statistics would be appropriate before interpreting the results. Pallant (2007) lists amongst the uses of descriptive statistics the description of the characteristics of the sample and addressing specific research questions.

Interviews: rigid structured interviews are akin to surveys but in verbal form and are analysed in the same manner as surveys. Semi-structured or unstructured interviews are best recorded for transparency and avoidance of data loss. Once the interviews are transcribed the text can be coded, summarised, sorted and interpreted.

Case studies: Observations and interviews need to be or recorded as minutes or media recordings, written up and summarised. Case studies tend to produce

qualitative data, which would be analysed in the same way as unstructured interviews.

Concerns with the different analysis methods were addressed in the next column in the DNM.

#### **4.3.7 DNM evaluation – Column 8 Analysis concerns**

The concern with analysing secondary data is that there may not be enough depth of information to enable analysis.

The issues with the analysis of questionnaires and interviews are similar insofar as replies may be unusable if questions are misunderstood or care is not taken answering the questions, potentially making any results implausible. Large amounts of unstructured data may also be difficult to handle and cumbersome to sort, categorise and interpret. On the disadvantages of open ended questions, for example, Judd *et al* (1991:239) advise “the most important are the cost and difficulty of adequately coding the responses”. They point out that coding responses meaningfully requires a major effort and is sometimes impossible.

Analysing observations and unstructured case study data may be difficult for the same reasons as described for interviews. An additional problem with a case study is trying to observe a phenomenon when the aim is to understand why something is not happening.

The main concern is that a method of analysis may demand more time than is available or commensurate with the end result.

#### **4.3.8 DNM evaluation – Column 9 Ethical concerns**

Research should not have any negative impact on the organisations or persons participating. Concerns include the traceability of participants or the releasing of confidential information from an organisation.

#### **4.3.9 DNM evaluation summary**

Filling in the DNM caused the elements of the data needs to be analysed and laid the foundations for the decision on data requirements, sources and the method of collection. The data source is determined in the next section.



#### 4. 4 Determination of data source

The data requirements entered in column 3 in the DNM, as matched to the questions in column 2, concerned budgeting, accounting innovations, managers and organisations. Answers were required to ascertain why an innovation has not been adopted widely.

The option of using secondary data was reviewed. Secondary analysis is the “analysis of data that have been collected by other researchers” (Bryman & Bell, 2007:325). Following the literature review, academic literature could be ruled out as the major source for the research, as it was found that there was little literature directly addressing the research question. As insufficient secondary data were available, the research needed to use primary data.

Obtaining primary data by observing people and organisations was eliminated from the choices of a source of data, as the researcher had no access to a suitable organisation, was unavailable for observations in normal working hours and had no practical solution to solve the problem of observing why something was not happening.

It was concluded that the primary data required to answer the questions was knowledge in the heads of managers and decision makers working in organisations. Having decided to address managers and decision makers in organisations to answer the questions, the kind of managers to approach was examined as a next step. The subject matter itself is specialised, so the data needed to come from people within organisations who are competent to answer the questions, i.e. people who understand budgeting and the workings of organisations. Managers of departments using and creating budgets would be ideally placed to answer questions on budgeting, but this category is general and if a list of such managers exists there is no way of knowing how profound their knowledge of the concepts might be. Accountants belonging to the UK’s three leading accounting institutes the ICAEW, ACCA and CIMA have been trained in accounting and budgeting and are well-placed to understand and answer the questions being asked. Qualified accountants are generally in positions senior enough to have an overview on their organisation and answer questions

relating to the organisation. CIMA places the emphasis of its qualification on business as opposed to auditing or public accounting and states on the homepage, “We offer the most relevant finance qualification for business” (CIMA, 2011b). CIMA, the world’s largest professional body of management accountants, reports there are 183,000 members in 168 countries (CIMA, 2011a), of which 83,487 are fully qualified members and 99,264 students (CIMA, 2011c).

Given the knowledge and background of CIMA members in budgeting and business in general, the seniority of professionally qualified accountants and the high quantity from which to select a sample, CIMA members were selected as the ideal source for the data required by this research. Ritchie (2003) confirms the appropriateness of a ‘Specialist’ approach involving the collection of information from experts / leading professions for exploratory research. The author explains that “if their views are being sought from the vantage of their particular positions then the nature of the information is likely to require exploratory and responsive questioning. This is partly because the nature of the subject coverage is likely to be complex and /or involve aspects of system process but also because their perspectives are likely to be fairly idiosyncratic.”

Before progressing to the selection of the data collection method in section 4.6, the nature of the questions to be answered was examined in the next section to clarify the philosophical aspects of the research method to be used.

#### **4.5 Philosophical aspects**

The aim of this research (section 1.5) is to understand why the principles of Beyond Budgeting, a management accounting innovation, have not been more widely adopted. The intention was to discover ‘why’ by asking management accountants for their experiences and opinions, then to draw conclusions based on the information collected. A basic assumption thus far is that it is possible to answer research questions using empirical data, an assumption associated with the epistemology of **empiricism**. Blaikie (2007:19) states that **empiricism** is based on the idea “that knowledge comes from ‘observing’ the world around us”. He writes that “empiricism is most clearly associated with the **shallow realist** ontology” (p.19). He explains that

for the **shallow realist** “external reality consists of nothing more than objects and events that can be observed. This view is also referred to as the **naive realist**, **empirical realist** or **actual realist**” (p.14). “In a realist theory social phenomena are assumed to have an existence that is independent of the activities of the human observer” (p.13).

As the overriding aim of this research is to *understand* why some innovations, here Beyond Budgeting, have not been more widely adopted, the **interpretivist** epistemology drawing on Weber’s ‘Verstehen’ (German for ‘understand’) was examined to assess how far it was applicable to this research. Blaikie (2007) quotes Weber, explaining the core of Weber’s position is that sociology is “a science which attempts the interpretive understanding of social action in order thereby to arrive at a causal explanation of its course and effects” (Weber, 1964:88). However Blaikie continues to describe that under ‘Verstehen’ the researcher does not just try to interpret and understand data, the researcher attempts to understand “what a social actor ‘means’ by his or her action” in contrast to the meaning this action has to an outside observer (p.129). This intensity of social involvement is outside the scope of this research, meaning that Weber’s ‘Verstehen’ has been regarded as not relevant here.

The chosen way to answer the questions from a philosophical standpoint accepts the assumptions of the epistemology of **empiricism** and of **shallow realist** ontology. Therefore it was decided to collect empirical data from management accountants and to interpret the data in order to answer the research questions.

#### **4.6 Selection of the collection method**

After a comment on the nature of the questions to be answered, the collection methods highlighted in the DNM were considered and a decision made.

Although the philosophical underpinning corresponds to an **empiricist** epistemology and **shallow realist** ontology, the nature of the questions precludes a quantitative approach to the study. The emphasis on understanding why Beyond Budgeting has not been more widely adopted rather than whether it has been, or how it has fared in

comparison to another innovation, reveals that the research is qualitative in nature. Bryman & Bell (2007:402) define qualitative research as “a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data”, as is the case with this research.

Primary data collection – case study: observation was eliminated as a data source in section 4.4 and the reasons why a case study was deemed not suitable for this research were listed there.

Primary data collection method – interviews: The review of data sources (section 4.4) concluded that the data required for the research are in the heads of management accountants. Structured interviews would be an effective method of obtaining uniform data amenable to statistical analysis. Semi-structured or unstructured interviews with limited open questions would facilitate the collection of comments and information not requested by the questions alone in a structured interview. “The purpose of gathering responses to open-ended questions is to enable the researcher to understand and capture the points of view of other people without predetermining those points of view through prior selection of questionnaire categories” (Patton, 2002:21). The advantage of this approach is that it could lead to finding answers that are not in the literature and may throw up new and relevant aspects. Unstructured interviews would give interviewees the opportunity to speak freely about their experiences and opinions potentially giving a rich insight into the subject.

Primary data – surveys: The questions developed to answer the research questions can be answered either directly or as the sum of further detailed questions in a survey. Collis & Hussey (2003:174) point out that a questionnaire survey is cheaper and less time-consuming than conducting interviews. A self-completion questionnaire also has the advantage of gaining a greater volume of data from a greater geographical area using fewer resources in terms of time and money than face-to-face interviews. Dillman (1991) confirms stating “for reasons of cost and ease of implementation, mail surveys are more frequently used for social research than are either telephone or face-to-face interviews.” The data could be obtained by use of a postal, e-mail or web-based questionnaire. Telephone costs in 2011 are not

significant, as they may have been in 1991, and telephone interviews were not discounted at this stage.

Following the above assessment, it was decided to adopt a multiphase approach to the study. Daniel (2011) defines multiphase sampling as follows; “in multiphase sampling the same sampling unit is sampled multiple times”. In this case the data collection took place in two phases. In phase one a self-completion survey was used to collect data to answer the research questions and this survey provided access to respondents prepared to participate in interviews in phase two of the study. As explained earlier in this section, the research is qualitative in nature, so it was decided to use semi-structured interviews in order to allow the interviewees to explain themselves in greater depth and elicit reasons for non-adoption which were not listed in the questionnaire.

The methodology for phase one, the survey, is described in the following section, section 4.7 and the methodology for phase two, the semi-structured interviews, is presented in section 4.8.

#### **4.7 Phase one - Survey methodology**

This, the survey methodology section, starts by describing the population and the questionnaire distribution channels. The questionnaire design follows before moving on to the survey administration and the description of the methods of analysis used.

##### **4.7.1 Population and sample**

As described in section 4.4, the 183,000 members of CIMA are the population targeted to answer the survey questions. Being a qualitative research project it is not intended to generalise from the survey but rather to gain an understanding of a phenomenon based on replies from professional people. The discussion on the sample selection and sample size begins with a brief examination of existing frameworks.

Existing frameworks: There has already been research into the adoption of management accounting innovations. Past surveys on management accounting

techniques have drawn their conclusions from between 40 and 558 respondents based on the surveys quoted here and in the literature review. Libby & Lindsay (2010) examining current approaches to budgeting in mid to large North-American companies, gathered data from 558 respondents via a web-based questionnaire (3% response rate) distributed by the US Institute of Management Accountants (IMA) and the Canadian equivalent, the CMA Canada. CIMA (2010a) in an assessment of management accounting tools for today and tomorrow, surveyed 439 accountants with a questionnaire by special invitation (response rate unavailable). Abdel-Kader (2006) used replies from 122 respondents (response-rate of 18%), Neely *et al* (2001) used data from 45 face-to-face interviews and Dugdale & Lyne (2010b) 40 replies (40% response-rate).

**Sample size:** On the subject of sample size Ritchie *et al* (2003) contrast quantitative research where a sample is chosen to represent a population proportionally with qualitative research where they refer to criterion-based or purposive sampling where sample units are chosen because they have particular features or characteristics which will enable detailed understanding of the central themes. This qualitative research aimed to elicit a similar number of respondents to prior surveys.

#### **4.7.2 Survey instrument and distribution methods**

A web-based survey was chosen for the survey instrument and distributed to potential respondents via three channels, delivery through publications, distribution via internet forum and delivery by personalised e-mail. The background of the decision and the choice of channels are detailed in this section.

##### **Web-based questionnaire – delivery through publications**

The research and development manager of CIMA was approached in November 2010 in the name of the researcher, who is a long-standing CIMA member, and in the name of Kingston University. CIMA was asked for assistance to distribute a questionnaire to CIMA members. As the CIMA mail database is restricted to CIMA in-house research purposes only, CIMA offered to include an article in the monthly ‘Insight’ electronic newsletter with a link to a web-based questionnaire. This offer was accepted and the decision to use a web based questionnaire as the survey

instrument was sealed. Once the 'Insight' article had been accepted, CIMA also offered to run the item in a further electronic newsletter 'Double Entries' and to publish a paragraph in the monthly 'Financial Management' magazine. Thus, the first method of distribution became online and printed publications, both publishing an article with a link to a web-based questionnaire. Respondents to web-based surveys distributed in this way are self-selecting. Dillman (2000) does not recommend using newsletters for surveys and warns against the disadvantages of delivery of questionnaires through publications "the likely non-response error is larger and the accuracy of results much less than for a smaller number of responses from a random sample" (p256). He also draws attention to low response rates and response bias as people who respond may not be representative of all subscribers. In section 4.6 it was explained that this is a qualitative study and it is not aiming to generalise for a population. The survey is intended to further the understanding of a phenomenon by gaining access to CIMA members and asking them questions, as if to an expert panel, as well as inviting them to participate in follow-up interviews. Dillman's misgivings are therefore not regarded as relevant and the access method seen as appropriate.

### Web-based questionnaire – distribution via internet forum

CIMA research also suggested posting the link in CIMAsphere, CIMA's online forum or community for management accounting and CIMA related topics. This was also accepted. CIMA also gave approval to post an article and a link in the LinkedIn 'CIMA members (ACMA/FCMA)' group.

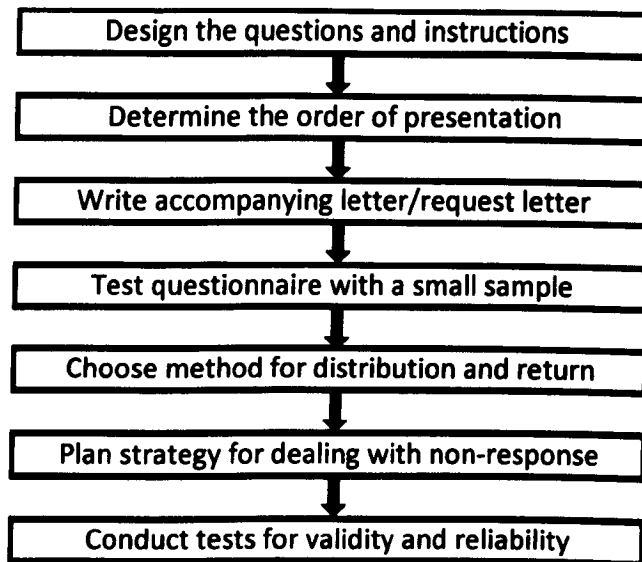
### Web-based questionnaire – delivery by personalised e-mail

The third distribution method, this time targeting a sub-group within the CIMA member population, was a highly personalised e-mail containing a link to the questionnaire sent to all CIMA Members in Practice (MiP). "Members in Practice are chartered management accountants in professional practice who provide accounting services to all types of businesses, but are not direct employees" CIMA (2012). They must register and are then regulated and monitored by CIMA. The Member in Practice database can be accessed by following a link on the CIMA web-site to 'Find a CIMA accountant' (CIMA, 2011d).

### 4.7.3 Survey design

The steps leading up to the design of the questionnaire followed the method proposed by Collis & Hussey (2009:192), whose summary of the main steps involved in designing a questionnaire follow in figure 4.2.

**Figure 4.2 – The main steps involved in designing a questionnaire**



*Collis & Hussey (2009:192) Fig. 10.2*

This procedure was followed with the exception that the method of distribution and return was known before the questions and the order of presentation were finalised. The knowledge that the questionnaire was to be delivered as a web-based survey meant that the possibilities made available by this means of distribution could be considered from the start of the design stage. The order of presentation was determined in conjunction with the question design. A short description of the characteristics of a web-based survey follows before the ‘question design methods’ are explained. Validity and reliability of both the questionnaire and the interviews are discussed in section 4.10.

Web-survey characteristics: Dillman (2000) advises that many of the design principles for paper questionnaires apply to web surveys and that “the same need exists for information organisation that is efficient and navigational guides that will encourage people to read every word in each question and all the questions in the same order” (p.376). He sees gains in efficiency as the main advantage of web



surveys, “these efficiencies include the nearly complete elimination of paper, postage, mailout and data entry costs” (p.352). He also points out that in some instances these technologies can result in entire populations being surveyed and, in addition, the implementation time can be reduced from weeks to days or even hours. There are further advantages in the navigation and order of presentation in a web-based survey. Responses can be forced insofar as progress can be prevented until a question has been answered and, based on the response, the questionnaire can branch thus skipping questions on a recipient’s organisation, for example, if the recipient has retired and is no longer working.

### **Design step 1 & 2: design questions and instructions, determine order of presentation**

The starting point for the survey questions was the research questions (RQ1-5) and the individual questions were focused on answering these. The questions were organised in three major sections:

- 1) Respondent personal and organisation data
- 2) Traditional budget related questions
- 3) Beyond Budgeting related questions

Following the questions there was a closing section to end the questionnaire.

### **Design questions and determine order of presentation**

**1) Respondent personal and organisation data:** Dillman (2000) advises that requests for personal information be kept to a minimum. This advice was followed with the personal information requested finally comprising: place of residence, date of award of CIMA designatory letters, current employment status, organisation principal activity and size of organisation in terms of turnover and employees. Using the branching logic, students, retirees and job-seekers would not be presented with questions on their organisation and would be taken to the next section without being aware they had skipped any questions.

For the dates of CIMA qualification the decades starting with 1970 were used. The ranges for the number of people in the respondents’ organisations were based on the European Commission’s SME definition (European Commission, 2009) supplemented by an interim range of 100-249 and three ranges above the SME definition maximum size. The sales ranges were also taken from the SME definition

with two additional ranges above the SME maximum. The choices of principal activity of the respondents' organisations were condensed from the United Nations International Standard Industrial Classification (ISIC) codes (U.N. Statistical Dept., 2011 & appendix 2).

2) Traditional Budget related questions: To answer RQ1 "Do managers perceive a fundamental problem with traditional budgeting methods?" views were requested on traditional budgeting with the aim of assessing the level of agreement with the literature on the criticisms and defence of the traditional budgeting procedure. Appendix 3.1 lists the statements and the sections from which they were derived with authors speaking for or against the statement. This question was followed by a question asking for the average time required in terms of months for the preparation of the annual budget.

Still in the traditional budgeting section, a list of techniques was selected for respondents to mark whether or not they were used in their organisations. The list of techniques was split into two questions, one for general management techniques and one for performance evaluation. Apart from three techniques, 'Fixed annual budgets', 'Incentives based on budget achievement' and 'Budget targets fixed in advance', the list comprised Beyond Budgeting techniques taken from the work of Hope & Fraser (2003a). These were deliberately listed at the end of the traditional budgeting section, before the question on awareness of Beyond Budgeting, in order not to signal that the techniques were associated with Beyond Budgeting. The general management techniques and performance evaluation techniques are listed in appendix 3.2 with a reference to the literature source and, where deemed necessary, a short quote or explanation by technique.

3) Beyond Budgeting related questions: Questions in this section were designed to answer RQ2 "To what extent are the principles of Beyond Budgeting known and understood?" The first question in this section asks directly, "Are you aware of the concept of Beyond Budgeting?" Respondents answering "No" are spared the questions on Beyond Budgeting and skip to the closing section. Answers in this section from respondents aware of Beyond Budgeting should also provide answers to

RQ3 “To what extent is Beyond Budgeting a solution to the problems with traditional budgeting?”, RQ4 “What are the main reasons why managers have not adopted the Beyond Budgeting techniques?” and RQ5 “What are the practical difficulties in introducing innovative techniques?”

The opening questions in this section ask the respondents when and where they first heard of beyond Budgeting and what sources of information they might have consulted to glean more information on the subject.

In the previous section respondents were asked which from a list of general management and performance evaluation techniques were in use in their organisations. The next question asks the respondents how familiar they are with the general management techniques and with some of the performance evaluation techniques. The rationale is to check whether respondents answering they are aware of Beyond Budgeting really are aware of the individual techniques and to enable familiarity to be set against usage in a subsequent analysis.

The four remaining questions ask for:

- The respondents’ perception of Beyond Budgeting
- The level of agreement with statements on the benefits of the techniques
- Agreement or disagreement with a list of barriers preventing the adoption of Beyond Budgeting
- Agreement on statements concerning the influence of organisation culture

The literature sources for the statements used in four questions, where necessary with a short note or quotation, can be found in appendices 3.3 to 3.4.

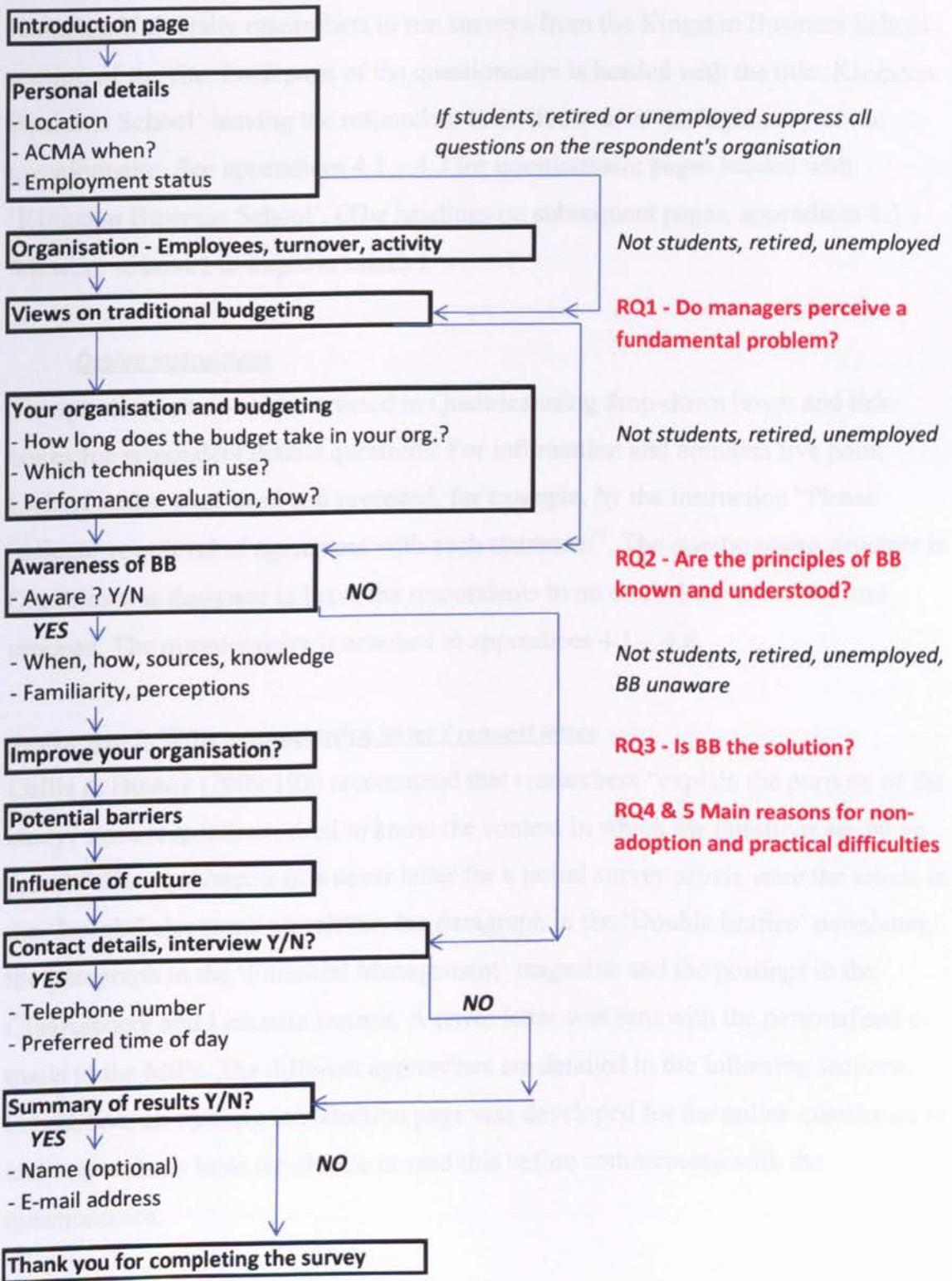
**Closing section:** The closing section of the questionnaire collects contact details for follow-up interviews and e-mail addresses for survey summaries. The questionnaire closes by thanking the respondents for their participation.

#### **Order of presentation**

The order of presentation was dictated to a great extent by the nature of the questions, i.e. it was necessary to know the employment status in order to decide

whether to skip questions on the respondent's organisation. Likewise it was desirable to have respondents focus on their opinions on traditional budgeting before moving on to the section feeding into RQ3, seeing whether Beyond Budgeting is a solution to the problems with traditional budgeting. A flow chart follows in figure 4.3, showing the questionnaire structure and the conditional navigation through it.

Figure 4.3 – Questionnaire flow chart



Kingston University provides researchers with access to Qualtrics, an online survey hosting site run by Qualtrics Labs. Inc. based in Utah, USA. The license allows Kingston University researchers to run surveys from the Kingston Business School section of the site. Each page of the questionnaire is headed with the title 'Kingston Business School' leaving the respondent in no doubt as to the legitimacy of the questionnaire. See appendices 4.1 – 4.2 for questionnaire pages headed with 'Kingston Business School'. (The headings on subsequent pages, appendices 4.3 – 4.8 were removed to improve clarity).

#### Design instructions

The questionnaire was constructed in Qualtrics using drop-down boxes and tick-boxes for respondent details questions. For information and opinions five point Lickert scales were used and preceded, for example, by the instruction "Please indicate your level of agreement with each statement". The questionnaire structure in Qualtrics was designed to leave the respondents in no doubt how to answer and proceed. The questionnaire is attached in appendices 4.1 – 4.8.

#### Design step 3: Write accompanying letter / request letter

Collis & Hussey (2009:193) recommend that researchers "explain the purpose of the study, since respondents need to know the context in which the questions are being posed." The equivalents of a cover letter for a postal survey article were the article in the 'Insight' electronic newsletter, the paragraph in the 'Double Entries' newsletter, the paragraph in the 'Financial Management' magazine and the postings in the CIMAsphere and LinkedIn forums. A cover letter was sent with the personalised e-mails to the MiPs. The different approaches are detailed in the following sections. In addition, an opening introduction page was developed for the online questionnaire and respondents have the chance to read this before commencing with the questionnaire.

#### 'Insight' article

The Insight article was written to inform CIMA members about the background of the study and to motivate the readers to respond by emphasising the importance of the contribution they would be making to their profession by completing the survey.

Dillman (2000:13) recognises that “people must be motivated to go through the process associated with understanding and answering each question and returning the questionnaire to the survey sponsor.” The text for the ‘Insight’ article was written in close cooperation with CIMA, who needed to approve the content and ensure that the journalistic style conformed to the style of the newsletter. As well as the link at the end of the article, a link to the survey was embedded near the beginning of the article to allow direct access to the questionnaire for impatient readers. According to Dillman (2000:20) “people are more likely to comply with a request if it comes from an authoritative source.” The article starts with reference to a “team of researchers at Kingston University”. Distributing via the CIMA newsletter reinforces Dillman’s recommended sponsorship by a legitimate authority. The ‘Insight’ article text is attached in appendices 5.1 – 5.3.

**‘Double Entries’ and ‘Financial Management’ text**

A short summary text and a link directly to the questionnaire were published in the ‘Double Entries’ electronic newsletter. The entry in the CIMAsphere and LinkedIn forums drew attention to the March ‘Insight’ newsletter including links to the article as well as a direct link to the questionnaire. These accompanying texts can be seen in appendix 6.

**Personalised e-mail to CIMA MiPs**

The Member in Practice database lists details for each MiP including first name, surname, e-mail address, postal address, telephone number, company name where applicable, functional specialisms and sector specialisms. These details provided ample scope to personalise the e-mail cover letter to each MiP and thus follow advice from Dillman (2000) on improving response rates by showing positive regard to respondents by personally addressing correspondence. The author points out that personalised cover letters also establish trust between the parties, increasing the chance of a reply.

Dillman (2000) suggests showing appreciation and asking for help. The e-mail subject line asked for assistance with the phrase “ACMA requesting help on a budgeting issue”. Each e-mail cover letter was sent to a single e-mail address only. Each recipient’s company name and address appeared in a small font at the top left of

their mail and were followed by “Dear” and the MiP’s first name. First names were used in preference to surnames in order not to distance respondents with too much formality and also to avoid the issue of not knowing from the forename whether the MiP was male or female. The mails were further personalised by using three versions, one for MiPs specifically offering budgeting services with the additional phrase after Member of Practice “offering budgeting and planning services”, one for MiPs not specifically offering budgeting services and a third version with a sentence, “This mail has been sent to two addressees in your organisation as the survey is intended to reflect individual details and opinions”. The mail meets the criteria in Bryman and Bell (2007:219) “topics and issues to include in an introductory statement” by making it clear who the sender is, mentioning the University, describing the research, indicating why the respondent has been selected, i.e. due to Member in Practice status, and providing full contact details in case of questions from the respondents or doubts on the authenticity of the sender. The text of the e-mail is attached in appendix 7. The issue of confidentiality and the assurance that no connection to any person or company will be possible is covered in the questionnaire introduction page as detailed in the next section.

### Questionnaire introduction page

The introduction page was designed to outline the background of the questionnaire, to motivate interested persons to participate by emphasising the contribution they would make and to assure participants of the confidentiality of any responses. A definition of the traditional budget was also included to ensure all respondents answered the questions on the same basis. The introduction was intentionally quite long, taking up to one whole page, to ensure that those respondents who skipped parts of the articles or cover letters were fully informed before they commenced answering the questionnaire. See appendix 4.1 for the questionnaire introduction page.

### Design step 4: Test questionnaire with a small sample – piloting

Collis & Hussey (2003) emphasise the importance of pilot-testing, preferably with people similar to the respondents, and suggest it may take several drafts before the researcher can be satisfied. A draft questionnaire was constructed in Qualtrics in



January 2011 and a link to the questionnaire sent to two senior finance managers, both CIMA members, and two academics for pilot testing. One academic pilot also forwarded the pilot questionnaire to two further people for testing.

Feedback from the pilot respondents resulted in the following changes to the questionnaire:

- The researcher's plan to force answers to all questions was abandoned and only a small number of questions crucial to the research or to the navigation, i.e. branching of the questionnaire, remained mandatory. This feedback from the pilot conformed to recommendations from Dillman (2000) not to force respondents to answer every question
- The number of questions were reduced and some similar questions eliminated
- The online survey pages were shortened so that the questions would not scroll off the top of the screen. This meant the whole question remained on screen during completion by the respondent
- The questions on screen were seen to be daunting where several options were listed under one another. Taking advantage of the design possibilities in Qualtrics, alternate lines were shaded more boldly to differentiate the options

During piloting it was also discovered that when the link was mailed by a web-mailer, it did not work, so the links were then sent only from a PC-installed mail program.

The questionnaire was adjusted after the pilot testing and again reviewed by the researcher and academics until all were satisfied it was fit for purpose.

#### **Design step 5: Choose method for distribution and return**

As mentioned at the beginning of the survey design section, the distribution and return methods were established before the questionnaire itself was designed. The web-based survey was distributed by publication, internet forum and direct personalised e-mail.

#### **Design step 6: Plan strategy for dealing with non-response**

Dillman (1991:228) warns that "low response has long been considered the major problem of mail surveys." Collis & Hussey (2009) talk of questionnaire fatigue

describing the reluctance of many people to reply because of the amount of surveys they are asked to complete. The main strategy against non-response was to approach the same target population, CIMA members, from several angles i.e. via two electronic newsletters, by postings in two professional forums and by sending a direct e-mail to a sub-group within the population. Furthermore techniques taken from the literature (Dillman, 2000; Collis & Hussey 2003, 2009; Bryman & Bell, 2007) were applied to maximise response rates. The make-up and coverage of the target population can be seen in figure 4.4, 'Accessing CIMA members'.

Non-response bias, according to Collis & Hussey (2009) is crucial where the aim is to generalise from the sample to the population. This is not the aim of this qualitative research, where the aim is rather to collect information from experts to help understand a phenomenon. The issue of non-response bias was therefore not regarded as crucial. It was seen as more important to reach a critical mass comparable to prior similar surveys and a further purpose of the questionnaires was to reach CIMA members willing to be interviewed.

On the issue of bias generally there was a fear that only Beyond Budgeting enthusiasts would answer the questionnaire. In the event 37% of the respondents were not aware of the concept of Beyond Budgeting (see chapter 5, section 5.2.4).

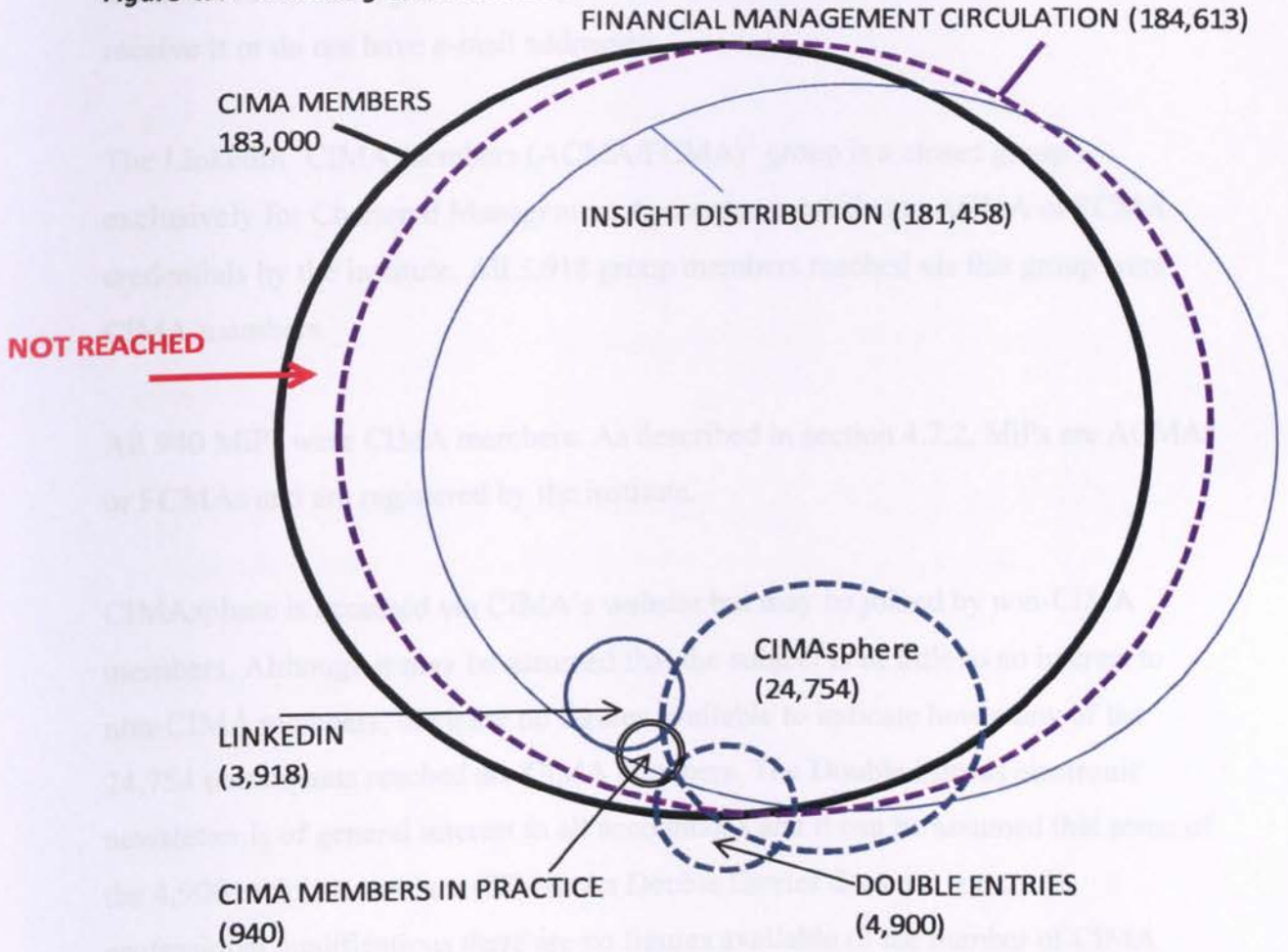
#### **4.7.4 Survey administration**

Targeting CIMA members, the questionnaires were distributed by publication in electronic newsletters, forums and a conventional magazine as well as by e-mail between March and May 2011. The links to the questionnaire were published on the following dates:

- 07.03.2011 March Insight, article and link
- 08.03.2011 CIMAsphere forum
- 17.03.2011 LinkedIn online network, 'CIMA members (ACMA/FCMA)' group
- 23.03.2011 Double Entries, article and link
- 06.04.2011 April Insight, article and link
- 10.04.2011 E-mails sent out to MiPs
- 05.05.2011 May Financial Management with paragraph and link arrived by post

The following figure, figure 4.4, illustrates how CIMA’s 183,000 members were approached from various angles.

**Figure 4.4 – Accessing CIMA members**



Circulation figures and CIMA members potentially reached can be seen in table 4.2.

**Table 4.2 Circulation figures**

Channel	Recipients / readers			Circulation Source
	CIMA	Non-CIMA	Total	
FM - Magazine	172,910	9,817	182,727	CIMA personal contact (e-mail)
FM - Email only	1,886	0	1,886	CIMA personal contact (e-mail)
FM - Total	174,796	9,817	184,613	
Insight	162,458	19,000	181,458	CIMA personal contact (e-mail)
Double Entries	Split not available		4,900	Double Entries online
CIMAsphere	Split not available		24,754	CIMA sphere on-line directory
LinkedIn	3,918	0	3,918	LinkedIn online member count
CIMA MiP DB	940	0	940	CIMA MiP DB total members

The CIMA Research and Development manager confirmed the circulation numbers. CIMA explained that Financial Management is sent to colleges and other paying

non-CIMA members as well as to the CIMA membership and that 8,204 members have opted out of receiving Financial Management. Around 19,000 non-CIMA members receive Insight each month and some CIMA members have chosen not to receive it or do not have e-mail addresses.

The LinkedIn 'CIMA members (ACMA/FCMA)' group is a closed group exclusively for Chartered Management Accountants entitled to ACMA or FCMA credentials by the institute. All 3,918 group members reached via this group were CIMA members.

All 940 MiPs were CIMA members. As described in section 4.7.2, MiPs are ACMAs or FCMAAs and are registered by the institute.

CIMAsphere is accessed via CIMA's website but may be joined by non-CIMA members. Although it may be assumed that the subject is of little to no interest to non-CIMA members, there are no figures available to indicate how many of the 24,754 participants reached are CIMA members. The Double Entries electronic newsletter is of general interest to all accountants and it can be assumed that some of the 4,900 recipients are non-CIMA. As Double Entries does not screen for professional qualifications there are no figures available of the number of CIMA members reached by the publication. The positioning of the Double Entries and CIMAsphere elements in figure 4.4 'Accessing CIMA members' is therefore only illustrative.

In summary a maximum of 8,204 out of 183,000 CIMA members, being those who had opted out of receiving the Financial Management magazine, did not have the opportunity to see and complete the questionnaire. At least 174,996 (95.6%) members therefore were reached by Financial Management alone. It is however possible that some of those opting out of receiving the magazine are on one of the electronic newsletter distribution lists or participate in forums and therefore had the chance to be reached by the survey. The majority of CIMA members were approached via two or more channels. There was however no guarantee that CIMA members reached by the magazine or newsletters would read them. It was therefore

decided to include a question in the follow-up interviews on how often interviewees read the publications (section 5.3.4).

#### 4.7.5 Response analysis

Usable replies were defined as questionnaires with questions answered which contribute to the research regardless of whether the questionnaire was 100% complete. A questionnaire which only had personal details completed and no budget or Beyond Budgeting related questions answered was classed as unusable. Finally there were 185 usable replies, mostly complete or in an advanced stage of completion.

Each distribution channel, i.e. Insight, Double Entries, CIMAsphere, LinkedIn, Financial Management and the MiP database, was assigned a separate link to the questionnaire. It was therefore possible in the Qualtrics online system to see from which link or channel each questionnaire came. The replies by channel are summarised in table 4.3 following.

**Table 4.3 Questionnaire replies per distribution channel**

Channel	<u>Recipients / readers</u>			Usable Response	
	CIMA	Non-CIMA	Total	Replies	rate
FM - Magazine	172,910	9,817	182,727	Split not available	
FM - Email only	1,886	0	1,886		
FM - Total	174,796	9,817	184,613	2	0.001%
Insight	162,458	19,000	181,458	60	0.033%
Double Entries	Split not available		4,900	9	0.018%
CIMAsphere	Split not available		24,754	2	0.128%
LinkedIn	3,918	0	3,918	5	0.128%
CIMA MiP DB	940	0	940	107	11.383%
				185	

167 replies (90%) came from two sources, the Insight e-magazine and from the MiP direct mailing. From a response rate point of view the MiP mailing was the most successful with 11.4% of the total returning usable replies. The e-mails to the MiPs (appendix 7) included a direct link to the questionnaire and a link to the Insight article. Two MiPs answered the questionnaire using the Insight link and it is possible

they accessed the questionnaire from Insight after linking to Insight from the mail. However this would increase the MiP response rate by only 0.2% to 11.6%.

The Qualtrics questionnaire software registers the date each questionnaire is completed. The frequency of replies per day starting with the receipt of the first questionnaire on 7<sup>th</sup> March 2011 and ending with the last completed questionnaire on 17<sup>th</sup> June 2011 is shown in graphic form in appendix 8 ‘Questionnaires completed by day in chronological order’. In the following table 4.4, the numbers of replies in each week following the respective ‘go live’ date of each distribution channel are summarised.

**Table 4.4 Replies per week following ‘go-live’ date by channel**

Channel	Insight	Cimasphere	LinkedIn	Double Entries	MiPs	FM
Go live	07.03.11 (06.04.11)	08.03.11	17.03.11	23.03.11	10.04.11	05.05.11
WEEK1	37	1	5	2	82	
WEEK2	5			2	16	
WEEK3	1			4	4	
WEEK4	3			1	1	1
WEEK5	5				1	
WEEK6	1				2	
WEEK7					1	1
WEEK8	4	1				
WEEK9	3					
WEEK10	1					
	60	2	5	9	107	2

It can be seen that most replies came in the first week after publication. In the case of the Insight e-magazine a summary article in April seems to have had the desired effect and re-kindled interest in the questionnaire in week 5 after first publication. However considering the Insight circulation was 181,458, overall interest was still low.

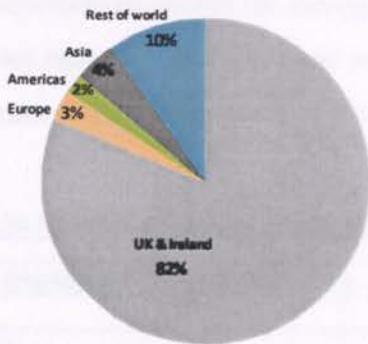
The profiles of the respondents are summarised in the following section.



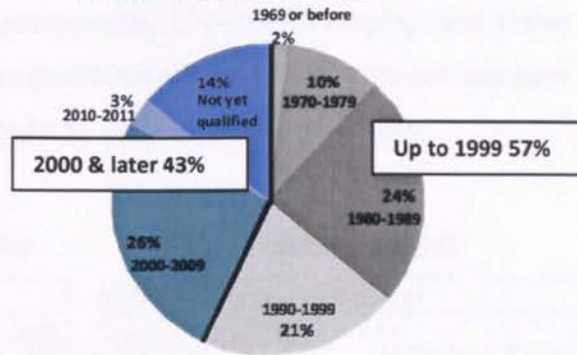
4.7.6 Respondent profile

The answers to questions one to six in the survey provided details on the respondents' profiles which are depicted below.

Q1. Place of residence



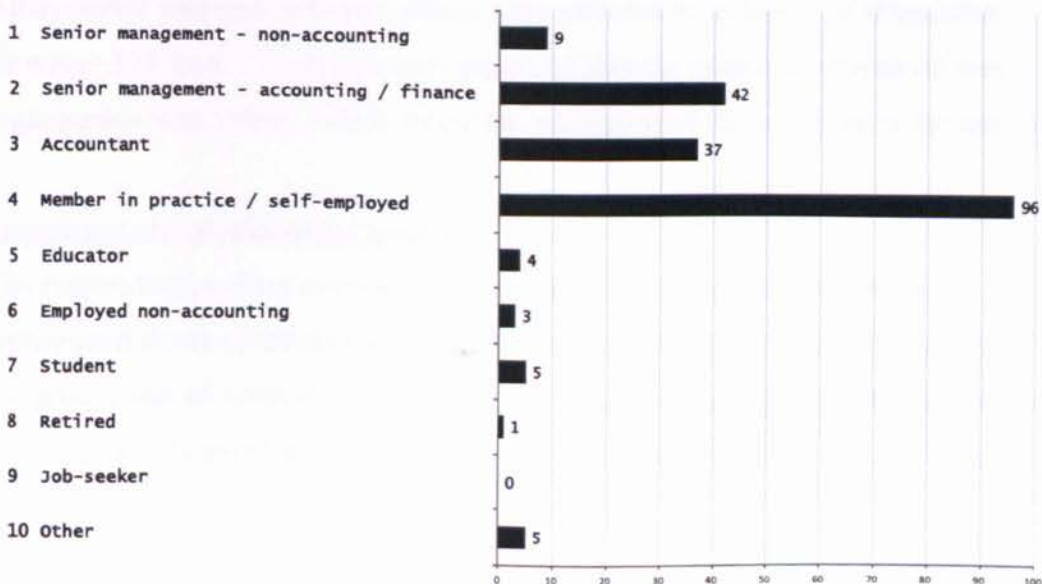
Q2. Date of ACMA award



The profiles show a diverse geographical spread with the majority of the respondents, 151 out of 185, coming from the UK or the Republic of Ireland. Six replies came from Europe, three from the Americas, seven from Asia and 18 from the rest of the world.

Every decade from the 1960s to date was represented. 105 respondents qualified before the year 2000 and 54 qualified in 2000 or later, while 26 respondents had not yet attained ACMA status. The decade best represented was 2000-2009 with 48 respondents.

Q3. Employment status



The largest group to respond by employment status were the CIMA self-employed Members in Practice (MiPs). The second and third largest categories were senior accountants and accountants, a result to be expected when targeting members of CIMA. The remainder were split over senior management non-accounting, educators, students, employed non-accounting and other. All categories were represented except for unemployed accountants. Choices for employment status were not mutually exclusive and several respondents selected more than one category. The sum of the categories therefore exceeds the total of 185 respondents.

**Q4 Number of people in the organisation**

<b>Q4. Employees in the organisation</b>		
1-9	99	55%
10-49	9	5%
50-99	4	2%
100-249	8	4%
250-999	14	8%
1000-9999	30	17%
10000 and over	15	8%
Don't know / skip question	0	0%
<b>Total</b>	<b>179</b>	<b>100%</b>

**Q5. Organisation turnover**

<b>Q5. Organisation turnover</b>		
up to € 2 million (£ 1.7 M)	99	55%
up to € 10 million (£ 8.5 M)	12	7%
up to € 50 million (£ 43 M)	13	7%
up to € 500 million (£ 430 M)	24	13%
over € 500 million (£ 430 M)	24	13%
Don't know / skip question	7	4%
<b>Total</b>	<b>179</b>	<b>100%</b>

Respondents came from all sizes of organisations listed in terms of both turnover and number of employees. There are only 179 replies because the five students and the retired CIMA were not asked to answer questions on their organisations.

**Q6. Principal activity of the organisation**

All available principal activity options were selected by at least one respondent. However 108 from 179 respondents answered that the principal activity of their organisation was 'other', which limits the usefulness of this attribute in the analysis.

**Appropriateness of respondent profiles**

The respondent profiles cover a broad spectrum; all geographic regions are represented as are all decades of ACMA qualification. Respondents came from all job groups and all sizes of organisations. In conclusion, an appropriate sample has been captured to provide information on why Beyond Budgeting has not been more widely adopted.



#### **4.7.7 Analysis of the survey data**

The replies were stored in the Qualtrics online system in a separate questionnaire for each link. Qualtrics provides summary and analysis tools. A summary of replies by question can be downloaded for printing or exported for further analysis in a spreadsheet. Further functionality allows the user to merge questionnaires into one. Once the questionnaires had been closed, all six surveys (Insight, Double Entries, MiPs, CIMAsphere, LinkedIn, Financial Management) were merged into one questionnaire or database. A summary re-formatted from the Qualtrics output can be found in appendices 9.1 – 9.7.

Although cross-tabulation tools exist in Qualtrics a greater level of control was required and the merged Qualtrics responses data were imported into SPSS (initially version 16, later PASW18). In SPSS, cross-tabulations were created to assist in understanding and illustrating the data. The data were enhanced to facilitate analyses, for example the year of award of ACMA designatory letters variable was re-coded into before and after 2000 and a supplementary variable for the main occupation derived from the employment status was added. Relationships were tested for significance, where appropriate, with Chi-square analyses. The answers to the questions and the percentages involved were highlighted and commented upon. The data from SPSS were also imported into Excel for further analysis and formatting.

The next section describes the methodology for phase two, the semi-structured interviews.

#### **4.8 Phase 2 - Semi-structured interview methodology**

As stated in section 4.6 the aim of the interviews was to gain a deeper insight into the reasons behind the non-adoption of management accounting innovations by posing open-ended questions to elicit reasons not covered in the discussion of the literature or to confirm the reasons found in the literature. This section of the methodology walks through the stages of preparation and execution of the interviews starting with interviewee selection and progressing to analytical techniques to be used.

#### **4.8.1 Interviewee selection**

The penultimate question in the questionnaire asked respondents whether they were willing to participate in a 10-15 minute interview on the adoption of Beyond Budgeting, requesting that they leave a telephone number and a preferred time of day to be called (appendix 4.7).

At the closure of the web-questionnaire it was ascertained that 59 respondents had agreed to be interviewed – see 4.8.4 ‘Interviewee profiles’ for details. Although it was not considered likely that all 59 candidates would subsequently be available or prepared to be interviewed, it was expected that an adequate amount of data for the research could be obtained from this number of respondents volunteering to be interviewed. The interviewees acquired via the questionnaire can be seen as self-selecting, as no active selection was made by the researcher. Two CIMA members known to the researcher and working in senior positions in industry were interviewed as pilots before the persons acquired via the questionnaires. Although these interviews were intended primarily to test the technical equipment and the mechanical process, they followed the same procedure as the subsequent interviews and brought to light a number of relevant points for consideration. These interviews have been included in the analysis.

#### **4.8.2 Interview design**

Interviews were planned in three phases; the opening phase where the identity of the interviewee and availability for an interview was confirmed, the research phase where the research-related questions were asked and the closing phase where the interviewee was asked for final comments and thanked for his/her contribution. The design of the research stage is outlined below in this section.

The questions posed in the questionnaire arose from the literature review and were designed to provide part-answers to specific research questions. Although the respondents were afforded the possibility at the end of selected questions in the questionnaire of making additional comments, any such comments were made in the context of the specific questions and the pre-defined response options. The semi-structured telephone interviews were designed to give interviewees the opportunity

to answer freely without a pre-determined set of response options. Therefore it could be expected that, as well as confirmation of information already gleaned from the literature review and from the questionnaire responses, there might also be replies giving an insight into areas not yet encountered in the research.

The major task in designing the research phase of the interview was to carefully word an initial open question to enable the interviewee to answer as he/she wished, while at the same time ensuring as far as possible that the answers remained relevant to the research. Finally it was decided to use the following initial open question, or a variation of it, to start the research-related phase of the interview “*Do you have any opinions on why the fixed budget procedure has remained with us so long and hasn't been replaced by new innovations in budgeting?*” This was intended to give each interviewee the opportunity to give his/her take on the subject without any influence from the interviewer or from specific questions. Next, specific questions on areas highlighted in the analysis of the questionnaire as benefitting from further investigation were developed. Finally questions were devised, to address issues, if any, arising from the individual's completed questionnaire. Where possible, questions were individualised by mentioning answers given in the questionnaire.

#### **4.8.3 Interview process**

This section details the interviewing process starting with the acquisition of the interviewee names, walking through the interviewing procedure itself and finishing with the transcription of the interviews.

Where respondents had answered in the questionnaire that they were willing to be interviewed, the questionnaire branched to questions requesting their name, contact telephone number, e-mail address and preferred time of day for a telephone call. As detailed in section 4.7.5, under ‘response analysis’, 185 usable responses to the questionnaire were received. Of these, 59 respondents had indicated they were prepared to be interviewed. On a continuing basis, from the receipt of the first replies, details of the respondents agreeing to be interviewed were extracted from the list of respondents and analysed in preparation for the telephone interviews. The details were checked for completeness, i.e. whether a name, phone number, e-mail

address and preferred time had been entered. Next the telephone country and regional codes were looked up to find the prospective interviewee's time zone and the difference in hours, as the researcher is based in Germany, to Central European Summer Time (CEST). The preferred times converted to CEST were then sorted starting with the earliest necessary and ending with planned 11 pm calls, i.e. the European equivalent of the Australian and New Zealand times the following morning.

For cold-call telephone interviews an advance letter is advocated to prepare interviewees beforehand and minimise refusal to respond (Dillman, 1978). Although not a cold call, there had been a long delay in some cases after the completion of the questionnaire, so this advice was heeded. Between 7<sup>th</sup> and 9<sup>th</sup> June 2011 each volunteer interviewee with a valid contact address was contacted by e-mail to confirm the contact telephone number. The mail was personalised addressing the prospective interviewee by forename and showing address details where known. Full contact details of the researcher were also given to help distinguish the mails from anonymous spam mails. The mail announced that contact would be made in the following few weeks in order to set a date and time for an interview (appendix 10, Example interview advance e-mail).

In preparation, each interview was formally scripted in writing for the interviewer side in advance of the telephone call. Any additional comments made in the questionnaires were listed at the end to use as prompts if necessary. A short handwritten synopsis of the questionnaire responses on one page was also prepared and a printed full copy of the questionnaire was kept at hand for reference. The script prevented any questions being omitted inadvertently. The background information on the respondent and the specific questions tailored to the individual were designed to show the respondent that he/she was getting special attention and that his/her opinions were important. The purpose of this personalised approach was to lead to more open and informative interviews than if the impression was given of a standard list of questions being ticked off one by one (appendix 11, Example interview preparation sheet).

For data accuracy the interviews were recorded. Bryman & Bell (2007) recommend researchers record and transcribe interviews, pointing out that with approaches that entail detailed attention to language the recording of interviews “is to all intents and purposes mandatory” (p.489). Amongst the advantages they list are the correction of memory limitations, the option of repeated and more thorough examination of interviews and the possibility to provide evidence of no researcher influence. Judd *et al* (1991) stress the importance of complete verbatim reporting of responses to free-answer questions.

A hardware solution was found to record the telephone interviews comprising a device installed in-line between the incoming telephone line and the telephone. The device was connected by cable to a digital voice recorder. Initial testing between internal extensions indicated the quality would be sufficient. The pilot interviews were recorded using this solution and it was discovered that the volume of the incoming voice was low and a loud hiss was audible. In the second interview the digital voice recorder suddenly stopped, probably reacting to severe interference on the line. The pilot agreed to a re-run which was recorded using a speaker phone on loud, this time with the digital recorder and a back up analogue recorder. Due to the poor quality of the pilot interviews, they were transcribed immediately after the recording to ensure all details were captured while they were still fresh in the researcher’s memory. The quality of these methods however, was clearly unacceptable for the remaining interviews, so another solution was sought to record interviews to avoid the risk of losing valuable interviews irretrievably due to technical problems.

Trials were then carried out using Skype, an internet telephony service. As well as free internet to internet telephony, Skype offers internet to land-line calls on a fee-paying basis. A free program from voipcallrecording.com, ‘MP3 Skype Recorder 1.10.1.1’, was installed and tested. The program started automatically whenever Skype started and recorded unobtrusively in the background. During the tests no problems were encountered. The hardware solution was abandoned and the interviews were carried out via Skype and recorded using the software program. In practice the phone calls were carried out using the microphone in a set of headphones

and the built in lap-top speakers as output. Each interview was recorded onto hard disk via software and simultaneously recorded as a voice recording onto a digital voice recorder next to the PC as a fall-back.

The first interview, a pilot interview, took place on 28<sup>th</sup> June 2011 with a qualified CIMA accountant working in a senior position in industry. This person had previously piloted an early version of the questionnaire but was not asked to complete the final version nor were any responses included in the questionnaire analysis. The interview followed the semi-structured interview format as planned, lasted 15 minutes and was a success from a research point of view. In view of the quality of the responses it was decided to include the interview for analysis with the interviews from the questionnaire respondents. The second pilot interview took place on 7<sup>th</sup> July 2011 with a second qualified CIMA accountant in a senior position in industry. This interviewee had not seen or completed the questionnaire. The interview content was of a high quality and this interview is also included in the analysis. The pilot interviews were successful so no changes were made to the three phase procedure originally planned.

The remaining telephone interviews took place between 15<sup>th</sup> July and 8<sup>th</sup> September 2011. Initially each prospective interviewee was approached by e-mail with a range of days and a time of day suggested for an interview and a request to the interviewee to set a convenient exact date and time. Most people however failed to answer these mails and time was lost waiting for confirmations. It was decided as an alternative to ring the interviewees unannounced at their preferred time and to ask whether it was convenient to have an interview directly or whether a later date and time should be fixed. A calling plan was made based on the interviewee list sorted by preferred times. People in New Zealand requesting a call at 10 am NZ time (+10 hours) could be rung at midnight CEST for example, while a respondent in India with a preferred time of 2 pm India time (+3.5 hours) needed to be rung at 10:30 am CEST. This strategy proved to be successful. When reached directly, most people gave an interview on the spot. The remainder set a date and time, up to one month ahead, when an interview would be convenient. The date and time of appointments made in

telephone conversations were confirmed immediately after the conversation by e-mail.

A frequently encountered problem was respondent 'no-show', where respondents did not answer at the time and date they themselves had set for the interview. In such cases respondents were called again 15 minutes after the agreed time and a message left reminding them that an appointment had been made, stating that it was assumed that the person had been inconvenienced in some way and informing them they would be called every 15 minutes for the following hour. If the person had not been reached at the end of the hour a final message was left on their answering machine telling them they would receive an e-mail with a request for a new appointment. Where these mails were unanswered the interviewee was again rung at the preferred time until reached. This strategy also proved to be successful. The interviewees usually apologised for not replying to the mails and all were polite in spite of the gentle persistence exercised to make contact with them. The 50<sup>th</sup> interview took place on 8<sup>th</sup> September and the remaining four people, all 'no-shows', had still not found a convenient time for an interview. It was decided to call a halt at this point as it no longer seemed realistic to expect interviews with these people. They were thanked for their willingness to participate and informed that the interview stage had closed.

#### **4.8.4 Interviewee profiles**

This section starts with an overview of the number of respondents agreeing to participate in the semi-structured interviews with the reasons why some volunteers were not interviewed. The section continues with a comparison of the interviewee profiles to the respondent profiles, concluding that the cross-sections were similar and appropriate for more in depth analysis.

Fifty-nine questionnaire respondents answered that they would be prepared to be interviewed. Two senior CIMA accountants approached as pilot-interviewees were interviewed and included in the analysis. The potential number of interviewees therefore amounted to 61. Finally 50 interviews took place and 11 people who had

volunteered to participate were not interviewed for the reasons listed in table 4.5 following.

**Table 4.5 Breakdown of total number of interviewees**

Volunteers from questionnaire	59
Direct contact - pilots	2
<b>Potential interviewee pool</b>	<b>61</b>
Insufficient contact details	-3
Changed jobs	-2
Long-term sick	-1
Phone number invalid	-1
'No-show' or repeatedly unavailable	-4
<b>Final number of interviews</b>	<b>50</b>

Profile comparison - place of residence

As shown in Table 4.6 following, the major feature of the questionnaire respondent regional profile, i.e. the majority of the participants residing in the UK and the Republic of Ireland, is also present in the interviewee profile. Continental Europe enjoys greater representation in the interviews with 6% of interviewees compared to 3% of the questionnaire respondents. The Americas are not represented although one questionnaire respondent signalled willingness to participate in an interview but then failed to leave any contact details.

**Table 4.6 Comparison of interviewees' and questionnaire respondents' place of residence**

Region		Interviewees		Questionnaires	
UK & Ireland	UKI	39	78%	151	82%
Europe	EUR	3	6%	6	3%
Asia	ASIA	1	2%	7	4%
Americas	AMER	0	0%	3	2%
Rest of world	ROW	7	14%	18	10%
<b>TOTAL</b>		<b>50</b>		<b>185</b>	

Except for the absence of interviewees from the Americas, the regional breakdown of the interviewees shows no marked difference to the breakdown of the questionnaire. From a regional point of view the interviewee pool was deemed appropriate for further analysis.



**Profile comparison - Date of award of ACMA designatory letters**

As can be seen from table 4.7 the biggest difference in interviewee and respondent profiles lay in the recently qualified and the long-time qualifieds. 19 interviewees (38%) qualified between 2000 and 2009 compared to 26% of the questionnaire respondents. Less marked was the shift in the 8% interviewees who qualified before 1979 against 12% of the questionnaire respondents which was mainly due to none of the four respondents qualifying up to 1969 volunteering for a follow-up interview. Only three unqualifieds (6%) were interviewed out of the 26 (14%) replying to the questionnaire.

**Table 4.7 Interviewees' vs. questionnaire respondents' year of qualification**

Qualified	Interviewees		Questionnaires	
1969 or before	0	0%	4	2%
1970-1979	4	8%	18	10%
1980-1989	12	24%	44	24%
1990-1999	10	20%	39	21%
2000-2009	19	38%	48	26%
2010-2011	2	4%	6	3%
Unqualified	3	6%	26	14%
	<b>50</b>		<b>185</b>	

In summary the profiles are comparable in terms of date of qualification. Although accountants qualified before 1970 and unqualifieds are less well represented in the interviews than the questionnaire, recently qualifieds are better represented.

**Profile comparison - employment status**

As with the questionnaire the largest group interviewed were the CIMA Members in Practice. Compared to the questionnaire a greater proportion of the interviewees were senior managers in accounting / finance with 38% compared to 20%. Four per cent of the 18% increase is explained by the inclusion of two pilot interviewees in the analysis. As can be seen from table 4.8, no CIMA members working in non-accounting positions agreed to be interviewed. All other categories are represented in similar proportions to the questionnaire. The interviewee who selected the employment status 'Other' works in accounting in a non-profit organisation.

**Table 4.8 Comparison of interviewees' and questionnaire respondents' employment status**

Employment status	Interviewees		Questionnaires	
	Count	Percentage	Count	Percentage
Member in practice / self-employed	25	50%	96	52%
Senior management - accounting/finance	19	38%	37	20%
Accountant	3	6%	32	17%
Senior management - non-accounting	0	0%	7	4%
Student	1	2%	4	2%
Educator	1	2%	3	2%
Employed non accounting	0	0%	2	1%
Retired	0	0%	1	1%
Other	1	2%	3	2%
	<b>50</b>		<b>185</b>	

**Profile comparison - number of employees in the organisation**

As with the questionnaires, the highest proportion of the interviewees came from organisations with less than 10 employees, which is a result of the high proportion of Members in Practice represented in the survey. None of the four CIMA members working in organisations with 50 – 99 employees agreed to be interviewed but the proportions in all other categories are similar, as can be seen in table 4.9 following.

**Table 4.9 Comparison of number of employees in interviewees' and questionnaire respondents' organisations**

Number of employees	Interviewees		Questionnaires	
	Count	Percentage	Count	Percentage
Question not answered	1	2%	6	3%
1 - 9	25	50%	99	54%
10 - 49	3	6%	9	5%
50 - 99	0	0%	4	2%
100- 249	4	8%	8	4%
250 - 999	3	6%	14	8%
1,000 - 9,999	11	22%	30	16%
10,000+	3	6%	15	8%
<b>Total</b>	<b>50</b>		<b>185</b>	

**Profile comparison – turnover in respondents' organisations**

The turnover cross-section was seen to be similar to the number of employees and was accepted as being appropriate. The assumption that there is a relationship between the number of employees and organisation turnover is discussed in section 5.2.1.

Conclusion on questionnaire respondent to interviewee profile comparison

The interviewee profiles show no major differences to the questionnaire respondent profiles. The only noteworthy differences are that regionally the Americas are under-represented with none of the three questionnaire respondents being interviewed, and that no CIMA members in non-accounting positions were interviewed. It was concluded that there was no obvious bias between the interviewee and questionnaire respondent profiles. Overall the profiles are deemed to be similar and the differences unlikely to detract from the value of the findings.

**4.8.5 Data coding and analysis methods**

The digital recordings made of all 50 interviews were transcribed. The two pilot interviews and eight interviews considered difficult to understand due to poor quality telephone lines or strong regional accents were transcribed by the researcher. 40 recordings were sent to a transcribing service by e-mail. Transcription took place in parallel to the interviewing process so that when the 50<sup>th</sup> and final interview ended 47 interviews had already been transcribed.

Analysis of the qualitative data

Spencer *et al* (2003:200) write that “Unlike quantitative analysis, there are no clearly agreed rules or procedures for analysing qualitative data”. Qualitative data are usually voluminous and messy and the authors report that “the researcher must find a way of getting a handle on the data” (p.202). They proceed to describe data reduction as a central task in qualitative analysis. Appropriate analysis procedures include the identification of key themes, concepts or categories.

In the DNM evaluation under methods of analysis (section 4.3.6), the analysis suggested for semi-structured interviews consisted of coding, summarising, sorting and interpreting the data. It was decided to use NVivo (version 9), a CAQDAS (Computer-Assisted Qualitative Data Analysis Software) package, to support and facilitate the analysis of the large amount of data collected in the 50 interviews. NVivo is described by QSR International, the software developer producing and marketing the program, as the world’s leading qualitative research software, used by academic, government and commercial organisations in more than 150 countries

(QSR International, 2011a & 2011b). They explain that NVivo helps people to manage, shape and make sense of unstructured information by providing a workspace for working through the information and by providing tools for classifying, sorting and arranging information.

This method of analysis is known as ‘Constant Comparative Analysis’. Leech & Onwuegbuzie (2007) explain that the method was created by Glaser & Strauss (1967) and that it was developed to analyse data collected, for example from a round of interviews, to develop emergent themes. To perform the analysis “the researcher first reads through the entire set of data (this also could be a subset of the data). After doing so, the researcher chunks the data into smaller meaningful parts. Then, the researcher labels each chunk with a descriptive title or a ‘code’. The researcher takes pains to compare each new chunk of data with previous codes, so similar chunks will be labeled with the same code. After all the data have been coded, the codes are grouped by similarity, and a theme is identified and documented based on each grouping” (p. 565).

The coding of the interviews took place in four phases: an initial framework was set up by making notes of themes on the printed transcripts, in the second phase all interviews were coded in a first pass in NVivo, in phase three a second pass through the NVivo data took place and finally a third pass through the NVivo data, in parallel with the printed transcripts, was made. The multiple passes were necessary because codes generated during the analysis of later interviews were also applicable to earlier interviews and were then applied in a subsequent pass.

Phase 1 – Initial framework: printed copies of the first 20 transcripts were read and themes were noted against text fragments or paragraphs. Based on these an initial coarse coding hierarchy was established. Full text code names were used as no advantage could be seen in this research for a numbering scheme or abbreviations.

Phase 2 – First pass through NVivo: all 50 transcribed interviews were imported into NVivo. Top level codes or themes, called ‘nodes’ in NVivo, were created as well as the codes used frequently in the manually coded printed interviews. Text blocks in

the respondents' replies were highlighted and allocated to existing nodes or to new nodes created on the spot and assigned to the appropriate hierarchy. For each node a description field was completed describing the node content. The program allows the same text or overlapping text to be allocated to more than one node. On-screen 'coding stripes' to the right of the source text show to which node text has been allocated. The program highlights the coded text if required.

Phase 3 - Second pass through NVivo: New nodes were created during the first pass interview coding. Consequently there were an increasing number of nodes available for later interviews, which had not existed, for example, when the first interview was coded in the first pass. To allocate text from earlier interviews to codes created only during later coding a second pass was made. In the second pass the opportunity was also taken to review and revise coding from the first pass and to correct any coding errors found.

Phase 4 – Third pass through NVivo in parallel with printed copies: In the final pass the coding was reviewed and in one case a code was split for clarity, as a sub-theme was seen to have occurred frequently throughout. The codes / themes were also written manually onto printed copies of the interviews for offline review and record.

The node structure in NVivo was exported into Microsoft Excel and Microsoft Word for formatting and review. Thematic overviews, where all text allocated to a node can be output, were used for the review of the major themes in chapter five, 'Results and findings'. The final node hierarchy was formatted in Excel into chart form for interpretation and presentation in the results and findings chapter. The NVivo program was constantly consulted during the presentation and interpretation of the interview findings in chapters five and six.

#### **4.9 Ethical concerns**

There are ethical concerns regarding the confidentiality of the data and the risk of negative impact on individuals or organisations if the data can be traced to them. Collis & Hussey (2003:38) hold "It is normal to offer confidentiality or anonymity to participants in a research project". In this research, privacy is being respected so that

no harm can come to any participants. It will not be possible for readers to associate any answers with any individual organisation or person. No information will be used which could have a detrimental effect on any participant.

An application for ethical approval was made to the Kingston University Faculty Research Ethics Committee (FREC) and was granted. The approval covered an online or postal questionnaire and semi-structured or unstructured interviews targeted at CIMA members, authorities on Beyond Budgeting and captains of industry. Relevant information to the Ethics Committee included the conducting of the research with informed consent and no offer of payment to respondents. Access to the data was restricted to the researcher, supervisors and examiners. A maximum retention period of five years after completion of the research was set.

Participation in the survey was voluntary; respondents decided whether or not to answer the questionnaire. Interviewees signalled their willingness to be interviewed by answering “Yes” to the question on whether they would be prepared to participate in an interview. The data were collected following the agreed guidelines of informed consent, i.e. questionnaire respondents were informed of the purpose of the research and were guaranteed anonymity. At the start of each interview respondents were informed that the interview was being recorded but that it would not be possible in the thesis to connect any comments to any individual or a company.

#### **4.10 Validity and reliability**

Kirk & Miller (1986:19) define reliability as “the extent to which a measurement procedure yields the same answer however and whenever it is carried out; ‘validity’ is the extent to which it gives the correct answer” and add that these concepts apply equally well to qualitative observations. ‘Face validity’, originally used in the context of quantitative research (Ritchie *et al*, 2003), involves judging whether a measure appears valid and at the very minimum a researcher should establish that the research has face validity (Bryman & Bell, 2007).

Bryman & Bell (2007) report that there has been some discussion about the relevance of reliability and validity to qualitative research and that “qualitative researchers

have tended to use the terms in a similar way to quantitative researchers for assessing research” (p.410). They also refer to the work of Lincoln & Guba (1985) to draw attention to alternative criteria for evaluating qualitative research. These comprise **trustworthiness**, consisting of:

- **Credibility**, which parallels internal validity in quantitative research:  
Ensuring research is carried out according to good practice and submitting research findings to the members of the social world
- **Transferability**, which parallels external validity:  
Providing a ‘Thick description’ to provide others with a database for making judgements about the possible transferability to other milieux
- **Dependability**, which parallels reliability:  
Adopting an auditing approach ensuring complete records are kept of all phases of the research process
- **Confirmability**, which parallels objectivity:  
Showing the researcher has acted in good faith and not overtly allowed personal values to sway the research findings

and **authenticity** consisting of:

- **Fairness**:  
Whether the research fairly represents different viewpoints among members of the social setting
- **Authenticity** – ontological, educative, catalytic and tactical  
Bryman and Bell acknowledge that the authenticity criteria have not been influential and are a controversial part of Lincoln & Guba’s ideas.

(Condensed from Bryman & Bell, 2007:411-414)

Ritchie *et al* (2003) draw a distinction between external reliability concerning the replication that can be expected if similar studies are undertaken and the internal reliability relating to the degree of agreement or replication internally amongst the researchers. They also split validity into internal validity, asking whether the researcher is investigating what he claims to be investigating, and external validity concerned with the extent to which the applicability to other groups within the population. The authors see a need for transparency, clear descriptions and documentation so that others can verify that the conclusions hold validity.

**Evaluation of the validity and reliability of the research**

It is evident that there are no definitive criteria for the evaluation of reliability and validity of qualitative research. Both have been assessed in the light of the criteria described in this section.

**Reliability / dependability:** Inasmuch as qualitative research can be replicated (external reliability), there is a potential to replicate elements of this research as the survey could be used again, either targeted at another sub-group within the CIMA member population or at all members. Likewise there is no reason why it should not be used with other accounting bodies. The interviews were semi-structured tending towards unstructured. The same methodology could be used with other CIMA members and other similar accounting bodies. Dependability is assured, as complete auditable records have been kept and methods have been thoroughly documented. For transparency the questionnaires with the original date-stamps and IP-addresses held in the Qualtrics system would stand audit scrutiny and the interviews were all recorded. All interviews and analyses were carried out by the researcher ensuring that there were no inter-observer inconsistencies. An analysis was made of the number of times individual interviewees and survey respondents providing voluntary additional comments were referred to in the findings chapter, to ensure the research did not just report the data and of opinions of a few strong participants (appendix 17).

**Internal validity / credibility:** Questions were derived from existing literature. The research was carried out according to accepted practice and pilots were used, also for face validity, in the initial stages to confirm the direction of the research was what was intended. The researcher considers what was claimed to be being investigated has been researched.

**External validity / transferability:** The applicability to other groups within the population was regarded as a given, as the respondents and interviewees are trained or trainee accountants in line with the overall population. A ‘thick description’ has been compiled documenting the research processes thoroughly to enable others to judge the applicability and to verify that the conclusions have validity.

**Validity: assessment of quality of responses:** At the beginning of this section, validity was defined as the extent to which the measurement gives the correct answer. This exploratory research is searching for the reasons why Beyond Budgeting has not



been widely adopted in order to understand the phenomenon. An assessment of the ability of the candidates to provide responses of a sufficiently high quality to draw conclusions follows.

In section 4.4 'Determination of data source' it was explained that the reason for sampling the CIMA-members population was that they are trained in the area of budgeting and that many are in positions responsible for the budgeting process. 185 people replied comprising, after elimination of multiple employment status answers (section 5.2.1 'Respondent profile'), 96 MiPs, 37 Senior Management Accounting, 31 Accountants, 7 Senior Management Non-Accounting, 5 Students, 3 Educators, 2 Employed Non-Accounting, 1 Retired and 3 Other. 57% of respondents, qualified before the year 2000 (section 4.7.6, Q2), would normally have gained at least 11 years working experience excluding their training period, which usually takes a minimum of three years.

The 38 Senior Management CIMA members, whether accounting or non-accounting, as well as the 31 Accountants are almost certain to have had high involvement in budgeting and therefore are capable of giving informed answers on the adoption of budgeting techniques. Three CIMA members involved in training others were also deemed capable of providing informed answers. The retired member could have long budgeting experience but there is no possibility to assess possible experience of the 'Other' CIMA members. There is no age limit for CIMA entry and the 5 Students who answered may or may not have years of experience.

MiPs: As described previously in this chapter in the section 7.7.2 under the heading 'Web-based questionnaire – delivery by personalised e-mail', CIMA Members in Practice (MiPs) "are chartered management accountants in professional practice. They provide accounting services to businesses, but are not direct employees of these businesses" (CIMA, 2012). Members in Practice generally come from industry where they gained broad experience in management accounting before applying their skills as external consultants. Of the 940 MiPs registered in April 2011, 787 (84%) offered 'Business Planning, Budgeting' in their entry in the public Member in Practice ('Find a CIMA accountant') database which would indicate they are confident in their own ability in this area. Due to the strict anonymity of the responses it was not possible to ascertain whether a comparable percentage of the 96 MiP respondents to the survey offered 'Business Planning, Budgeting' to their

clients. However, 25 from 96 MiP respondents elected to be interviewed and from this group 22 (88%) offered these services, which suggested there was no indication that the proportions amongst MiPs surveyed should differ greatly.

The responses to the survey and the insights provided by the interviews came from experienced and knowledgeable professionals and thus were deemed to be of sufficient quality to be able to answer the research questions. It is suggested that validity regarding the responses has been demonstrated.

The researcher concluded that the right people had been reached and had provided the right information for the purposes of the research. Within the context of qualitative research it was considered that the criteria for reliability and validity had been met.

#### **4.11 Discussion of sample bias**

Three potential sources of bias were identified due to the characteristics of the respondents:

- Over-representation of small organisations
- Over-representation of the specific professional grouping MiPs
- Non-response bias

The implications and possible risks are considered below.

##### **Small organisations / Members in practice over-represented**

In section 4.7.6 Respondent Profiles in Q4 it was seen that 99 replies (54%) come from respondents in organisations with between 1-9 employees. Based on this, it would seem there is a risk that views expressed may over-represent the views of small organisations. In Q3 of the same section it was established that 96 (52%) replies came from respondents whose employee status was MiP. Table 5.1 in the following chapter illustrates that there is a strong relationship between the organisations with between 1-9 employees and the MiP employment status. 90 out of 99 respondents in organisations with 1-9 employees were MiPs who had answered giving the size of their own consultancies. The number of employees

therefore gives a false impression of the level of expertise of the respondent and the interviews saw MiPs drawing on long and broad experience gained by most MiPs in industry before the step to self-employed consultancy work was taken. One MiP, for example, had worked for 15 years in a senior position in one of the UK's leading chemical companies and another 30 years in the Ministry of Defence. The risk of bias in opinions due to disproportionately high representation of budgeting procedures in small companies has therefore been discounted as negligible.

Members in Practice made up 52% of the respondents to the survey (96 out of 185). The quality of the responses from MiPs has been assessed as high due to their expertise and experience with multiple companies. It is accepted that due to the higher response rate from this section of the population that MiPs views dominate the results. However, the research aim was to understand why Beyond Budgeting has not been widely adopted by eliciting reasons from management accountants and this has been deemed to have been achieved. The over-representation is not seen as detrimental to the research.

#### Non-response bias

The response rate to the survey amounting to 0.1% (185 replies from 183,000 CIMA members) means there is a risk that the responses provided by those who responded could be different to responses which may have been elicited from those who declined.

As already mentioned in section 4.7.2 Dillman (2000) saw a risk of non-response error with the distribution by publication method of delivering a survey. The strategy adopted to minimise the error was to approach the same target population from several angles and to distribute using two methods and various channels. Dillman (1991:228) explains that "non-response error stems from the fact that some of the members of the sample population do not respond to the survey questions".

However both Dillman (1991) and Collis & Hussey (2009) emphasise that non-response is crucial where the aim is to generalise from the sample to the population from which it is drawn. This is not the case as this exploratory research adopted a fact-finding approach aiming to find reasons to explain a phenomenon either to confirm the reasons found in existing literature or to expand upon them. Descriptive

statistics on the data were restricted to their informative value solely on the sample taken.

In conclusion it has been accepted that the risk of bias exists due to the predominance of one professional grouping and a low response rate. However, given the research approach and aims, the risks have not been seen as detracting from the results achieved.

#### **4.12 Summary of methodology**

Chapter four covered the research questions as the starting point and went on to outline the process leading to the decisions on data requirements and sources as well as appropriate data collection methods. The decision to use a two phase study, comprising a survey in phase one and semi-structured interviews in phase two, was explained. The survey design and the methods used to distribute the survey as well as to obtain participants for interviews were documented. The actual collection procedure was detailed and the respondent profile described. Methods of analysis used for the survey and for the interviews were explained. Ethical concerns were dealt with and reliability and validity in the context of qualitative research assessed.

In chapter five the results and findings of phase one, the survey, are presented first, in section 5.2, followed by the results and findings of phase two in section 5.3. In chapter six, the results and findings from chapter five are discussed in the context of the research questions from the literature review and conclusions are drawn.

## **CHAPTER 5 – RESULTS AND FINDINGS**

### **5.1 Introduction**

Chapter 4 covered the research methodology describing how a multiphase approach was used to collect data from a web-based survey for phase one of the study and from semi-structured interviews in phase two. This chapter presents the responses from phase one, the survey, in section 5.2 and from phase two, the semi-structured interviews, in section 5.3.

### **5.2 Phase one – Survey findings**

The survey questions with the responses are listed in Appendix 9.1 - 9.7. The first six questions relate to the respondent's profile. Comments on noteworthy elements of the respondent profile from questions one to six are made in section 5.2.1 and lead on to section 5.2.2 which discusses question seven concerning traditional budgeting. Section 5.2.3 reviews questions eight to ten which gather information on the current budgeting procedure in the respondents' organisations. The responses to questions eleven to nineteen, covering awareness and opinions of Beyond Budgeting techniques including possible reasons why it has not yet been widely adopted, are examined in section 5.2.4. For analysis purposes the categories 'agree' and 'strongly agree' are amalgamated as are 'disagree' and 'strongly disagree'. Where the distinction within those categories was seen as important this has been commented upon.

#### **5.2.1 Respondent profile (Survey questions 1 – 6)**

In section 4.7.6 of the methodology chapter it was concluded that the respondent profile is appropriate for the research study. This section deals with transforming the data for further analysis i.e. the creation of a respondent ID and the examination of relationships between respondent attributes.

##### **Respondent ID determination**

A unique respondent ID has been created to identify each respondent anonymously when referring to quotations from the questionnaire or the interviews. The determination of the ID is described in this section.

Whereas a consecutive numbering system from one to 185 could be used, it was decided to reflect the employment status, the most important attribute as seen by the researcher, into the ID by designating the first three letters as the employment status. The following two positions are consecutive numbers for unique identification. Figure 5.1 shows the composition and lists the three letter employment status abbreviations.

**Figure 5.1 Composition of the respondent ID**

<b>SNA 01</b>
<b><u>Employment status</u></b>
SNA Senior Management Non-accounting
SMA Senior Management Accounting
ACC Accountant
MIP Member In Practice
EDU Educator
ENA Employed – non-accounting
STU Student
RET Retired
OTH Other

As already mentioned in the methodology chapter (section 4.7.6), the choice of employment status was not made mutually exclusive in the questionnaire. From 185 respondents 13 selected between two and four employment status categories. One Member in Practice (MIP) for example chose the job status SNA, SMA and ACC in addition to MIP.

For the purpose of the build-up of the respondent-ID and for analyses based on employment status, one main employment status was assigned to each person by establishing an employment status priority order. It was decided to regard members in practice (MIP) as primarily members in practice and secondarily active in other roles. Likewise ‘Senior management accounting’ (SMA) was designated a primary

role. Accountant (ACC) took precedence, after MIP and SMA, over all other roles and finally 'Senior management non-accounting' (SNA) people were deemed to be senior first and active in further roles secondly. All cases of multiple job status were covered by these four cases. The order of priority became thus:

1. Member in Practice (MIP)
2. Senior management accounting (SMA)
3. Accountant (ACC)
4. Senior management non-accounting (SNA)

Following these priority rules all respondents were assigned an ID based on their employment status and a two digit consecutive number. A reference table, appendix 12, lists the region for each respondent ID, indicates whether the respondent is qualified or unqualified and shows the level of turnover in the respondent's organisation.

#### Relationships between respondent attributes

Relationships between questions were sought and on first examination of the data it was observed that the number of employees in an organisation seemed to be related to the total turnover. If this is the case then only one of these factors needs to be used for comparisons of trends to the size of an organisation. It was also noted that there seemed to be a relationship in the sample between the respondent's employment status and the size of their organisation.

#### Relationship between number of employees and organisation turnover

99 respondents, representing 55% of the 179 people answering the question on organisation turnover, work in organisations with up to € 2 million turnover. 24 replied that their organisations have more than € 500 million and seven chose to skip the question or did not know the answer. There seemed to be a relationship between the number of employees and turnover in the respondents' organisations. Table 5.1 plots the number of employees against the turnover.

**Table 5.1 Relationship of turnover to number of employees**

Employees in the organisation	Approximate total turnover of the organisation						
	up to € 2 million (£ 1.7 million)	up to € 10 million (£ 8.5 million)	up to € 50 million (£ 43 million)	up to € 500 million (£ 430 million)	over € 500 million (£ 430 million)	Don't know / skip question	Total
1-9	93	2	0	0	0	4	99
10-49	3	4	1	1	0	0	9
50-99	0	2	1	1	0	0	4
100-249	1	2	3	2	0	0	8
250-999	0	2	5	4	0	3	14
1,000-9,999	1	0	3	15	11	0	30
10,000+	1	0	0	1	13	0	15
<b>Total</b>	<b>99</b>	<b>12</b>	<b>13</b>	<b>24</b>	<b>24</b>	<b>7</b>	<b>179</b>

The table illustrated clearly that the majority of the respondents worked in operations with less than 10 employees and with turnover under € 2 million. Likewise the employers of high numbers of staff can be seen to have high turnover. Based on the observed relationship, comparisons using employee numbers or turnover level would lead to very similar results. When performing analyses or comparisons including organisation size only one of these variables was used, i.e. either number of employees or turnover. A qualitative view has been taken as the assumption for the use of a Chi square, i.e. that “at least 80% of cells have expected frequencies of 5 or more” (Pallant, 2007:216), is violated in the turnover / employee comparison.

#### Relationship between employment status and number of employees

A high proportion of the answers, 99 (55%) out of 179, came from organisations with less than 10 employees. This is a direct result of the high proportion of Members in Practice represented in the survey as evidenced in table 5.2. More than half of the senior management accounting (SMA) respondents, 19 from 37, come from companies with over 1,000 employees.



**Table 5.2 Employment status and number of employees in the organisation**

Employment status		Number of people in the organisation							Total
		1-9	10-49	50-99	100-249	250-999	1,000-9,999	10,000 and over	
MIP	Member In Practice	90	4	0	1	0	0	1	96
SMA	Senior Management Accounting	2	4	3	5	4	15	4	37
ACC	Accountant	4	0	0	1	8	10	8	31
SNA	Senior Management Non-accounting	2	1	1	0	0	2	1	7
EDU	Educator	1	0	0	0	2	0	0	3
ENA	Employed – non-accounting	0	0	0	0	0	1	1	2
OTH	Other	0	0	0	1	0	2	0	3
Total		99	9	4	8	14	30	15	179

**Q6 Principal activity of the organisation**

108 from 179 respondents answered that the principal activity of their organisation was “other”, which limits the usefulness of this attribute in the analysis. Although it is understandable that a MiP might regard an accounting practice as “other” rather than the option “commercial service”, it seems unusual that 15 senior management accountants and 14 accountants work for organisations which do not fit into any of the categories derived from the ISIC codes (U.N. Statistical Dept., 2011). The breakdown of the principal activities by employee status follows in table 5.3.

**Table 5.3 Principal activity of the organisation and employee status**

Principal activity of respondent's organisation	Total	MIP	SMA	ACC	SNA	EDU	ENA	OTH
1 Manufacturing	14	1	8	3	2			
2 Construction	7	3	3		1			
3 Commercial Services, Energy and Utilities	17	7	4	5	1			
4 Wholesale and Retail trade including repairs	5	2	1	1				1
5 Information and Communication	9	5	2	1			1	
6 Transport	0							
7 Education, public/social services	17	4	4	5		3		1
8 Agriculture, Mining, Forestry, Fishing	2			2				
9 Other	108	74	15	14	3		1	1
	179	96	37	31	7	3	2	3

Respondents electing to be interviewed who chose the principal activity category “other” were asked what exactly their organisation does to ascertain whether the range of choices was inadequate or the question perhaps too difficult (section 5.3.4).

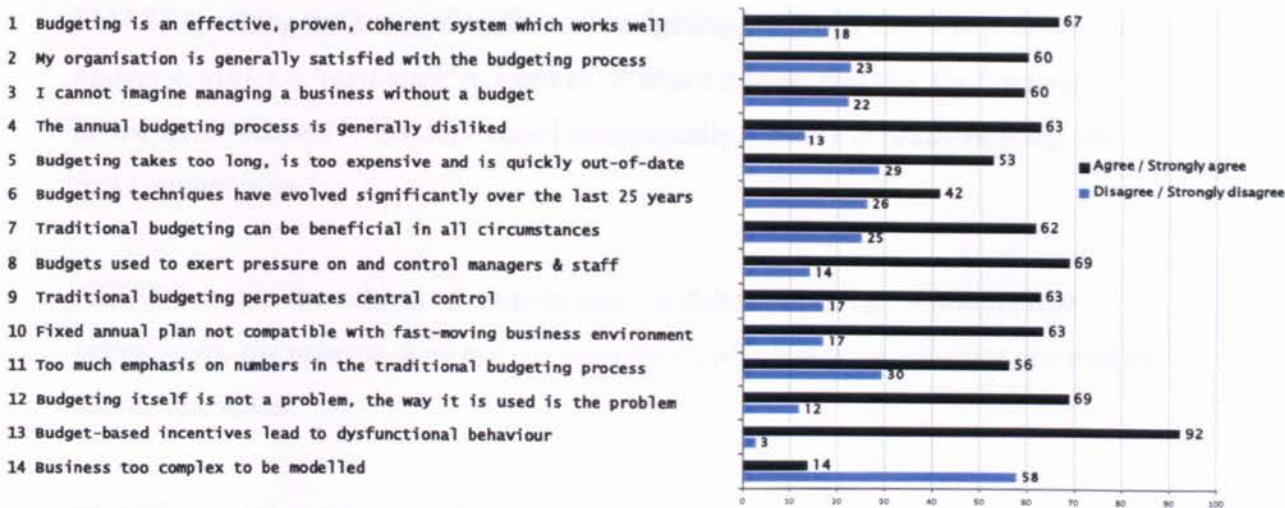
### Summary findings on questions 1 - 6

The respondent ID determined in this section has been used to identify quotations from both the questionnaire and the interviews. Based on the observed relationship in table 5.1, it was assumed that for this sample any comparisons of size using turnover as a basis would yield similar results to comparisons using the number of employees as a basis. Similarly, any analyses using principal employment status would also reflect the influence of size, as employee status and size of organisation seem related in this sample (table 5.2). It was decided to follow up the selection of “other” in the survey, as principal activity, by asking about the principal activity in the interviews.

### 5.2.2 The traditional budgeting process (Survey question 7)

Question seven requires the respondents to agree or disagree with a selection of statements relating to the traditional budget. The results are presented in figure 5.2.

**Figure 5.2 Q7 Opinions on traditional budgeting (percentage of respondents)**



As can be seen in figure 5.2 above, feelings about budgeting were mixed. In line with the view that managers perceive a fundamental problem with budgeting, 92% of respondents saw problems with budget based incentives and 69% felt they could be used to exert pressure and believed the problem is how budgets are used. 63% agreed that the budgeting process is generally disliked.

The negative feelings are counter-balanced by the fact that 60% and over saw budgeting as a proven coherent system, beneficial in all circumstances and they

could not imagine running a company without budgets. Most respondents reported their organisations are generally satisfied with the budgeting process.

Several respondents took the opportunity to record comments to expand on their answers. MIP10 summarised the budgeting paradox: *“Straightforward, easily understood, consistent - sets the goalposts / Easily manipulated; leads to game-playing; quickly out of date”*. Similar sentiments were expressed by MIP14, *“There are weaknesses with traditional budgeting but clear benefits. Much better to have a budget, than none.”*

MIP07 addressed the issue of (de-) centralisation, writing *“Much of the perceived problems relating to traditional budgeting are linked to large centrally controlled organisations”*. This put him in good company with the 63% who felt that traditional budgets perpetuate central control.

SMA21 speaking in favour of traditional budgeting, summed up, *“The traditional budget provides a 'yard-stick' to work to. Without it some feel that the 'unaimed arrow never misses!’”*. SMA17 stated categorically, *“There is really nothing like a fixed annual plan”*.

ACC09 brought the subject of training into the debate, opining *“Without clear instructions, the process does not run smoothly”*, which was an issue not covered by survey questions.

SNA05 stated that managers do not understand and proceeded to give four different ways CEOs understand the purpose and usage of budgets, a comment which calls attention to the fact that senior managers deciding on the budgeting process are not necessarily accountants. MIP89 agreed strongly that the budgeting process is not the problem, the way it is used is the problem and expanded on the view: *“The relevance will vary by type and size of organisation. A budget process focused just on preparing financial statements is not helpful but the planning process is. Budgets can be used for planning and control purposes. The two need not be linked and different people focus on different elements.”*

In summary the answers and comments on traditional budgets from this sample concur with prior research in that budgeting is seen as necessary but is perceived to have fundamental flaws such as leading to dysfunctional behaviour. The notable exception to most prior research is that most respondents in this survey are satisfied with the budgeting procedure.

### 5.2.3 Overview of current budgeting procedure (Survey questions 8 – 10)

Survey questions eight to ten took stock of the current budgeting procedure in respondents' organisations starting with the length of time it takes to compile the budget and then surveying the principles and techniques used for the budgeting procedure and performance evaluation.

#### Q8 Average number of months needed to prepare the budget

In table 5.4 below, the length of time taken to prepare the budget has been set against the turnover of the respondents' organisations, in order to assess whether there is a relationship between the size of company and the length of time required to prepare the budget.

**Table 5.4 Level of turnover and months required to prepare the budget**

Time to prepare budget	Turnover						Total
	up to € 2 million (£ 1.7 million)	up to € 10 million (£ 8.5 million)	up to € 50 million (£ 43 million)	up to € 500 million (£ 430 million)	over € 500 million (£ 430 million)	Don't know / skip question	
1 month or less	71	6	3	4	1	4	89
2 months	15	2	6	8	2	0	33
3 months	6	3	3	7	9	1	29
4 months	5	1	1	2	2	1	12
5 months	0	0	0	2	2	0	4
6 months or more	0	0	0	1	6	0	7
7 Don't know	2	0	0	0	2	1	5
<b>Total</b>	<b>99</b>	<b>12</b>	<b>13</b>	<b>24</b>	<b>24</b>	<b>7</b>	<b>179</b>

In total 122 respondents (68%) reported requiring 2 months or less and at the other end of the scale only 11 respondents needed more than 5 months. 86 respondents

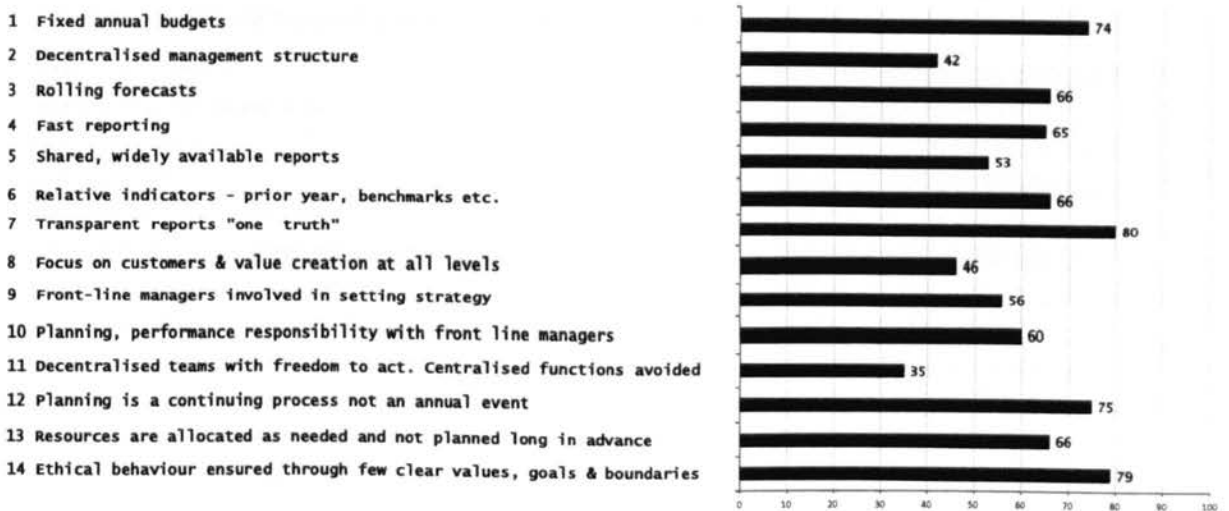
requiring 2 months or less work for enterprises with turnover below € 2 million (GBP 1.7 million) per annum, while the only organisations taking five months or more to prepare the budget are those that have more than € 50 million annual turnover. In this sample it seems therefore the larger the organisation the longer it takes to prepare the budget.

The length of time required was an issue amongst respondents. In question seven the majority (53%) agreed that the budgeting process takes too long. SMA06 went further adding the comment “*Due to the time taken to complete the exercise some premises are out-of-date before the final budget is approved.*” ACC28 wrote tersely, “*Takes too long.*” However due to the majority of the respondents coming from smaller companies the average length of time in this survey is low.

#### Q9 Principles or techniques used in respondents’ organisations

After checking for the usage of the fixed budget, question nine asks about the prevalence of Beyond Budgeting techniques in the respondents’ organisations. The responses are summarised in figure 5.3 below.

**Figure 5.3 Q9 Principles or techniques used in organisations (percentage of respondents)**



It can be seen from figure 5.3 that ten of the 13 techniques and principles listed were in use in more than 50% of the respondents’ organisations. Six Beyond Budgeting techniques were already used in around two thirds or more of the organisations. In addition, respondent SMA03 was “*about to steer the company away from annual*

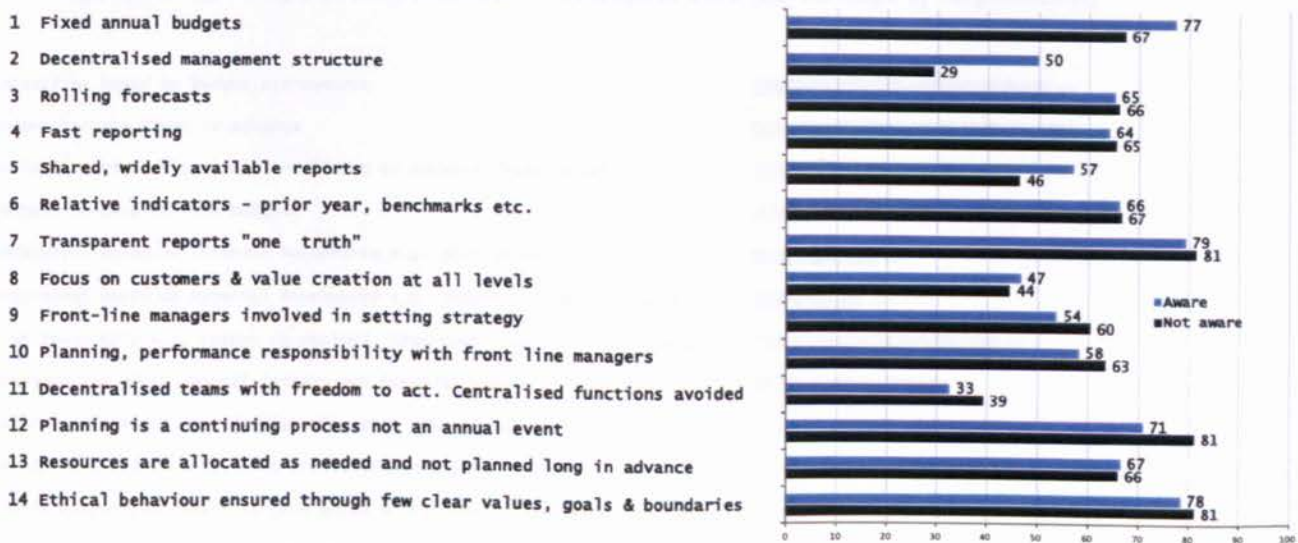


fixed budgets to rolling forecasts”, and SMA04 writes that “Relative indicators are currently being looked at”, which may indicate that the implementation is on-going and more companies will be introducing the techniques. 15 years after the first appearance of Beyond Budgeting in 1997 most techniques were present in most respondents’ organisations.

A further observation is that far from abandoning fixed budgets the respondents’ organisations were using the Beyond Budgeting techniques in conjunction with, or parallel to, the fixed budget which was still used by 74% of organisations. Two respondents (ACC17 and ACC22) explicitly mentioned that to some extent both Beyond Budgeting and traditional budgeting were practised in their organisations.

In question 11 respondents were asked, “Are you aware of the concept of Beyond Budgeting?” 100 respondents answered, “Yes” and 59 answered “No”. Figure 5.4 compares the prevalence of the principles and techniques in question nine split into respondents who answered they were aware of the concept and those who said they were not.

**Figure 5.4 Q9 Principles or techniques used in organisations split by respondents aware and not aware of Beyond Budgeting (percentage of respondents)**



One might expect organisations where the accountant is aware of Beyond Budgeting to be more likely to use the techniques. However, out of 13 Beyond Budgeting techniques nine were used in a higher percentage of organisations where the

respondent had **not** heard of Beyond Budgeting than in organisations where the respondent was aware of it.

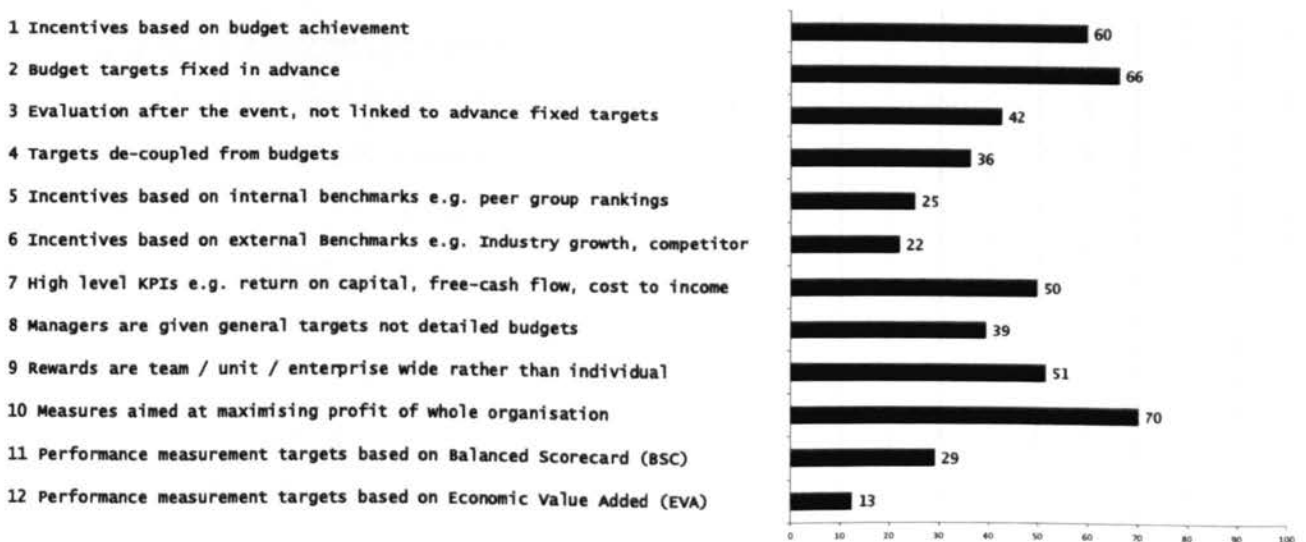
The answers to question nine seem to indicate that the individual techniques are being introduced but the term Beyond Budgeting is not identified with them. This is underlined by the fact that more organisations of respondents not having heard of the concept of Beyond Budgeting were using the individual techniques. Amongst accountants, terms are not always consistent and one accountant's rolling forecast is another accountant's "*budget is adjusted throughout the year*", as described by ACC12.

The exact numbers of respondents split into aware and not aware can be seen with the corresponding answers in appendix 13.

#### Q10 Principles used for performance evaluation

Respondents were asked to indicate from a list of traditional and Beyond Budgeting techniques whether or not they were used in their organisations. The percentage using each technique is shown in figure 5.5.

**Figure 5.5 Q10 Performance evaluation techniques used (percentage of respondents)**



Only two out of 10 Beyond Budgeting performance evaluation techniques listed were used by more than 50% of the respondents' organisations: team rewards and

measures aimed at maximising profit for the whole organisation. On the other hand traditional techniques, incentives based on the achievement of budget targets fixed in advance, were used by over 60% of the respondents. This is in direct contrast to the general management techniques examined in question nine where a high level of usage of Beyond Budgeting techniques was ascertained.

The use of high level KPIs was notable with 50% indicating they used them. In an additional comment MIP58 talked of KPIs and BSC as having taken-off; for the BSC this was not borne out in this study where only 29% used BSC for performance evaluation.

The conclusion drawn from the answers to question 10 was that individual Beyond Budgeting techniques for performance evaluation may not have enjoyed the same level of adoption as general management techniques.

#### **5.2.4 Beyond Budgeting (Survey questions 11 – 19)**

Information on Beyond Budgeting was gathered in questions 11-19. Respondents answering “No” to the fundamental question 11, whether they were aware of the term Beyond Budgeting, branched to the end of the questionnaire and skipped the questions on Beyond Budgeting.

##### **Q11 Awareness of Beyond Budgeting**

As already revealed in the commentary on question nine, 159 respondents answered the question “Are you aware of the concept of Beyond Budgeting?” as follows:

	<u>Respondents (%)</u>
Aware	100 (63%)
Not aware	59 (37%)

The way the question was worded has been considered valid as the question was asked of experts in the field of budgeting and Beyond Budget should fall in their area of expertise. Beyond Budgeting was first presented in 1997 and the seminal work of Hope & Fraser published in 2003. CIMA members studying in recent years should have covered Beyond Budgeting as part of the CIMA examination syllabus, which



begs the question whether more CIMA members who qualified later than 2000 are aware of Beyond Budgeting than those who qualified before. The relationship of the year of award of the ACMA designatory letters to the answers to question 11 was therefore examined. The respondents were split into pre-2000 ACMAs and ACMAs from the year 2000 onwards as presented in table 5.5.

**Table 5.5 Year of ACMA award to awareness of Beyond Budgeting**

Aware of Beyond Budgeting	Award year grouped		
	Before 2000	From 2000	Total
Yes (%)	47 (54%)	53 (74%)	100 (63%)
No (%)	40 (46%)	19 (26%)	59 (37%)
Total (%)	87 (100%)	72 (100%)	159 (100%)

The relationship between the dates of award of ACMA designatory letters was tested for significance using the chi-square test and the relationship was found to be significant at a 5% level of significance ( $\chi^2(1, N = 159) = 6.477, p = 0.011$ ). Respondents were deemed more likely to have heard of the concept of Beyond Budgeting if they qualified in 2000 or later.

#### Q12 First encounter with Beyond Budgeting – when?

Question 12 asked how long ago the concept was first encountered. As the majority of the respondents had heard of Beyond Budgeting in the last five years or less the year of attainment of ACMA was plotted in table 5.6 against the results to see how the results were distributed.

**Table 5.6 First encounter with Beyond Budgeting – when?**

When did you become aware of Beyond Budgeting?	When were you awarded the ACMA designatory letters?							Total
	1969 or before	1970- 1979	1980- 1989	1990- 1999	2000- 2009	2010- 2011	Not yet qualified	
5 years ago or less	0	3	10	9	19	5	11	57
6-10 years ago	2	2	3	7	10	0	5	29
>10 years ago	1	1	4	3	1	0	1	11
<b>Total</b>	<b>3</b>	<b>6</b>	<b>17</b>	<b>19</b>	<b>30</b>	<b>5</b>	<b>17</b>	<b>97</b>

As can be seen from the table, all accountants qualifying before 1970 had heard of Beyond Budgeting more than five years ago. In the other year of qualification

groupings the majority first heard of the concept five years ago or less. Considering the concept had been around for 14 years at the time of the questionnaire it seems to have taken a long time for respondents to have become aware of it. Coupled with the information that some respondents were in the process of implementing elements of Beyond Budgeting it would seem one of the problems hindering adoption is that accountants may have only recently begun to hear about it.

#### **Q13 First encounter with Beyond Budgeting – where?**

Participants were asked how they had heard of Beyond Budgeting. 97 respondents answered the question and, as the responses were not mutually exclusive; several respondents marked more than one answer. The following table, table 5.7, summarises the responses.

**Table 5.7 First encounter with Beyond Budgeting – where?**

<b>Responses</b>	<b>%</b>	<b>Where Beyond Budgeting was first encountered</b>
37	38%	Accounting Journal
24	25%	Accounting literature or textbook
22	23%	Continuing Professional Development (CPD)
15	15%	Talk, seminar or lecture
11	11%	Financial Press
9	9%	Peer, word of mouth
3	3%	Internet site, forum or blog
7	7%	Other
2	2%	<i>Other - first heard at university</i>
2	2%	<i>Other - involved in projects at work</i>
1	1%	<i>Other - during studying for CIMA P2</i>
1	1%	<i>Other - in a study on BSC</i>
1	1%	<i>Other - cannot remember where</i>

The most common way to have heard of Beyond Budgeting was through an accounting journal with 38% having heard through this medium. This is perhaps surprising when table 5.4 showed that 53% who have heard of Beyond Budgeting qualified in the year 2000 and later, when it might be expected that they would have heard via their CIMA studies i.e. in a talk, seminar lecture (15%) or from literature or textbooks (25%). The question whether participants qualifying after 2000 heard of Beyond Budgeting from their CIMA studies was earmarked as a question to be

followed up in the telephone interviews. CPD was the third most popular way of hearing of the concept and this too was noted to be followed up as a subject in the interviews.

#### **Q14 Sources used for information on Beyond Budgeting**

The aim of question 14 was to gauge the importance and respondents' awareness of the BBRT and also to gather information on any other important sources. The responses are summarised in table 5.8.

**Table 5.8 Sources used for information on Beyond Budgeting**

<b>14. Sources used to elicit information on Beyond Budgeting</b>		
	Responses	%
Beyond Budgeting Round Table ( <a href="http://www.bbrt.org">http://www.bbrt.org</a> )	25	26%
BetaCodex Network ( <a href="http://www.betacodex.org">http://www.betacodex.org</a> )	0	0%
LinkedIn Beyond Budgeting Group ( <a href="http://www.linkedin.com">http://www.linkedin.com</a> )	3	3%
Xing Beyond Budgeting Group ( <a href="http://www.xing.com">http://www.xing.com</a> )	1	1%
None of the above	59	62%
Other sources (please specify)	15	16%

*(The number of responses adds up to more than 95, as multiple answers were permitted)*

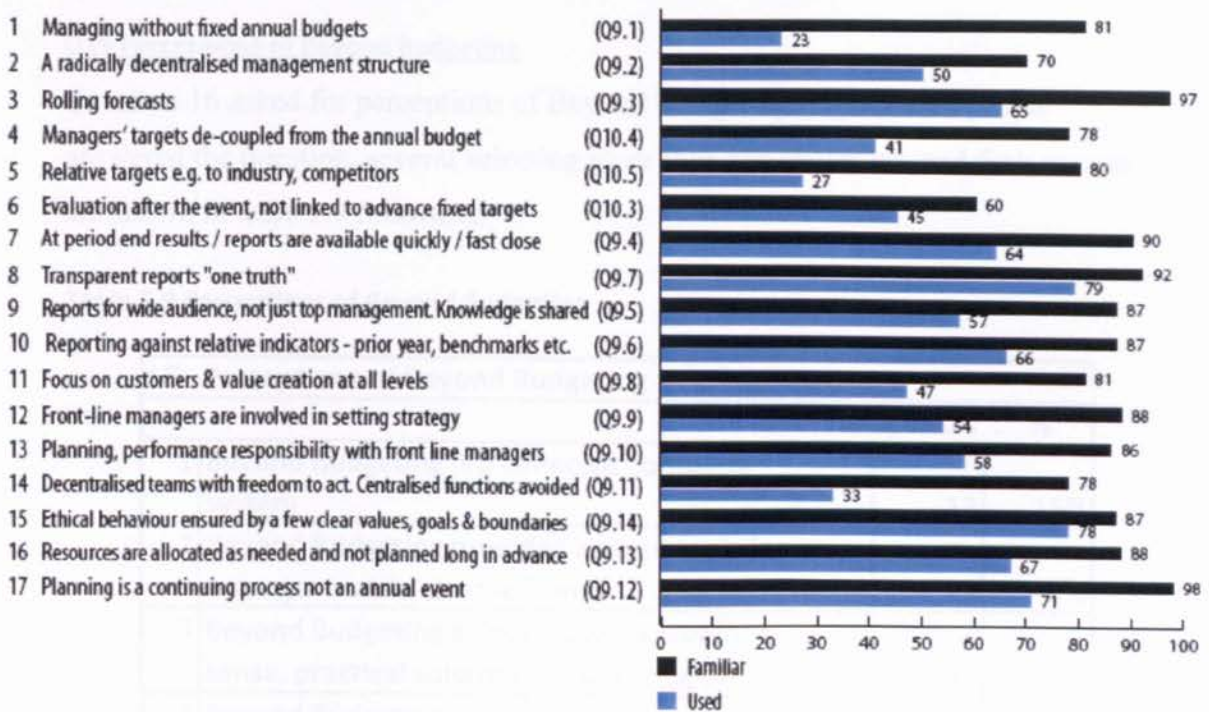
Of the 95 people answering the question, only 25 had consulted the BBRT homepage for more information. Beyond Budgeting groups in the business network LinkedIn had only been consulted by three respondents and in Xing by one. Although the question did not seek to assess awareness of these resources it would seem they are not well known and are not therefore actively increasing awareness of Beyond Budgeting.

The 15 respondents who resorted to other sources for information cited in order of importance CIMA and CIMA-related sources, books and journals and the internet generally. No sources of information not already listed were uncovered in this question. It is logical that CIMA members consult CIMA publications and the website for more information once they have heard of new management accounting principles or techniques.

Q15 Familiarity with Beyond Budgeting concepts

This question examines familiarity with the individual principles and techniques. The concepts listed are taken from questions nine and ten to facilitate a comparison of familiarity with a technique or principle to its usage. Only respondents answering that they were aware of the concept of Beyond Budgeting in question 11 could answer this question which thus works as a cross-check to probe whether they are familiar with the constituent individual principles. The responses to question 15 are shown in figure 5.6, below plotted against the response to the corresponding usage reply, as shown in brackets, from questions nine and ten. Responses from the subgroup of respondents who answered they were aware of Beyond Budgeting were used for comparative purposes and these can be seen in appendix 13.

**Figure 5.6 Q15 Familiarity with concepts and techniques plotted against usage in respondents' organisations (Q9 & Q10) by percentage of respondents**



The majority of the respondents were either familiar or very familiar with the major principles of Beyond Budgeting, ranging between 98% familiar or very familiar with planning as a continuous process and 97% with rolling forecasts to 60% familiar or very familiar with the calculating of manager bonuses after the event. The respondents demonstrated the high level of awareness that could be expected of people who had heard of Beyond Budgeting.

Large discrepancies exist between awareness and usage. For example, there is a large discrepancy between the 81% of respondents aware of the concept of managing without fixed annual budgets and the 23% of respondents who do not use budgets, or between the 80% aware of the technique of using relative targets for performance evaluation compared to only 27% actually using them.

At the other end of the scale 87% are aware of the concept of setting clear values for ethical behaviour and 78% practice this in their organisations. 60% know of bonuses calculated after the event and 45% use them for performance evaluation.

The marked discrepancy between high awareness and low usage in a number of techniques indicates that the problem of low adoption may not lie in the lack of awareness of them i.e. not at the information dissemination stage.

**Q16 Perceptions of Beyond Budgeting**

Question 16 asked for perceptions of Beyond Budgeting. Eighty-nine people answered the question, several selecting more than one statement, and their answers are shown in table 5.9 following.

**Table 5.9 Perceptions of Beyond Budgeting**

<b>16. Perceptions of Beyond Budgeting</b>			
		<b>Responses</b>	<b>%</b>
<b>1</b>	<b>Beyond Budgeting is a coherent complete system</b>	<b>13</b>	<b>15%</b>
<b>2</b>	<b>Beyond Budgeting provides a set of tools for management to choose from</b>	<b>44</b>	<b>49%</b>
<b>3</b>	<b>Beyond Budgeting principles are a common sense, practical solution to budgeting problems</b>	<b>43</b>	<b>48%</b>
<b>4</b>	<b>Beyond Budgeting is a fad, another exotic, theoretical notion</b>	<b>10</b>	<b>11%</b>

Only 15% saw it as a coherent complete system indicating that most respondents have yet to be convinced that it is a viable replacement for the whole budgeting process.

49% were of the opinion that BB provides a set of tools for management to choose from. Judging by the answers to question nine which gauged the usage of Beyond Budgeting this seems to be happening in reality with some techniques already in use in most respondents' organisations.

Only 11% of respondents discounted Beyond Budgeting as a fad, another exotic, theoretical notion. This may be an indication that this innovation still has the potential to be adopted. EDU01 remains sceptical stating, "*It's all smooth words and no action, otherwise everybody would be doing it*". This statement could be construed as saying that if everyone was doing it EDU01 would be doing it too. It may well be that accountants are waiting for others to adopt first.

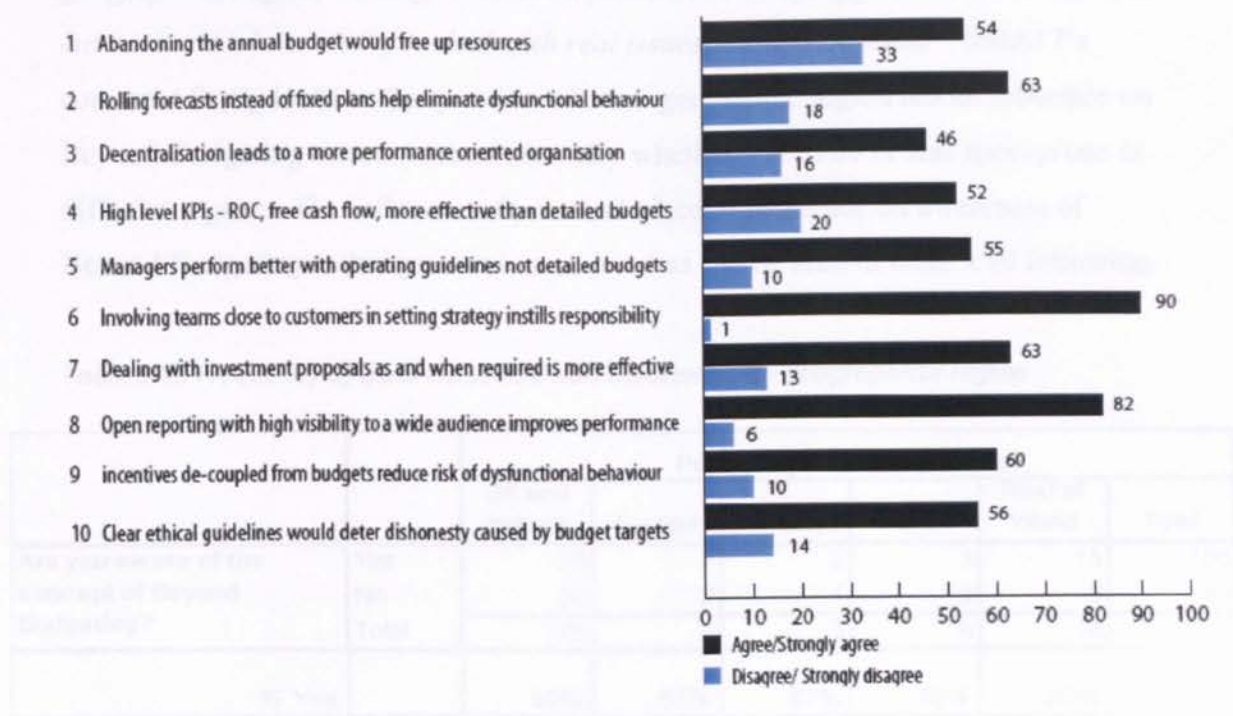
SMA20 wrote the comment, "*Used a number of techniques in differing companies, different sizes, entrepreneurship and cultures*", representing the view that techniques have their place and, while suitable in some specific situations, may not be applicable under all circumstances. SNA05, working in financial services raised the issue of external pressures on business to compile budgets noting that industry regulators require budgets even though they do not understand them. SNA05 raises a valid point, as it does not matter what one's views are on abandoning the budget if external forces make the compilation of a budget obligatory. The issue of pressure from external bodies became a point to be followed up in the interviews.

#### Q17 Appropriateness of alternatives to traditional budgeting process

In question 17 participants were requested to indicate their level of agreement with alternatives to the traditional budgeting process and to whether these could improve performance in the respondents' organisations. 86 people replied and their answers are presented in figure 5.7 following.



**Figure 5.7 Q17 Appropriateness of alternatives to improve performance in respondents' organisations (percentage of respondents)**



The majority of the respondents either agreed or agreed strongly with nine out of ten of the statements. Only 46% agreed with statement three “Decentralisation leads to a more performance oriented organisation.” This statement also had the highest number of respondents who neither agreed nor disagreed amounting to 38% and only 16% disagreed.

The highest level of acceptance was for statement six, “involving teams closer to the customer in setting strategy instills responsibility to meet targets” with 90% agreeing or agreeing strongly and only 1% disagreeing and no-one disagreeing strongly.

From the answers in figure 5.7 it can be seen that there is broad acceptance amongst the respondents who had heard of Beyond Budgeting that the techniques are viable alternatives and agreement that they could improve performance in their organisations.

On the applicability of Beyond Budgeting ACC17 commented it is “*not always feasible in all organisations*” and MIP40 wrote “*not all managers are highly self motivated individuals - motivation needs to be a mixture of ‘carrot and stick’ with*

*some managers needing more stick than carrot*". SMA17 brought up the influence of geographical region, writing *"I have not found the concept applicable to our African environment where we try to deal with real issues to run a business"*. SMA17's comment firstly leads to the question whether geographic region has an influence on Beyond Budgeting awareness and secondly whether it is more or less appropriate in different regions. The influence of principal place of residence on awareness of Beyond Budgeting techniques was considered as can be seen in table 5.10 following.

**Table 5.10 Frequency of awareness and non-awareness by geographical region**

		Principal place of residence?					
		UK and Ireland	Europe	Americas	Asia	Rest of World	Total
Are you aware of the concept of Beyond Budgeting?	Yes	76	4	2	3	15	100
	No	50	2	1	3	3	59
	Total	126	6	3	6	18	159
% Yes		60%	67%	67%	50%	83%	63%

There is no identifiable trend in the awareness by region with regions being both above and below the total average. The low frequency of responses from Europe, the Americas and Asia preclude any meaningful discussion.

The only observation made is that there is no geographical area where more respondents were unaware of the concepts than were aware. A possible explanation for SMA17's comment might be that a certain level of sophistication in management accounting needs to exist before progressing to more developed methods.

The influence of geographical region was earmarked for follow-up with non UK and Ireland interviewees.

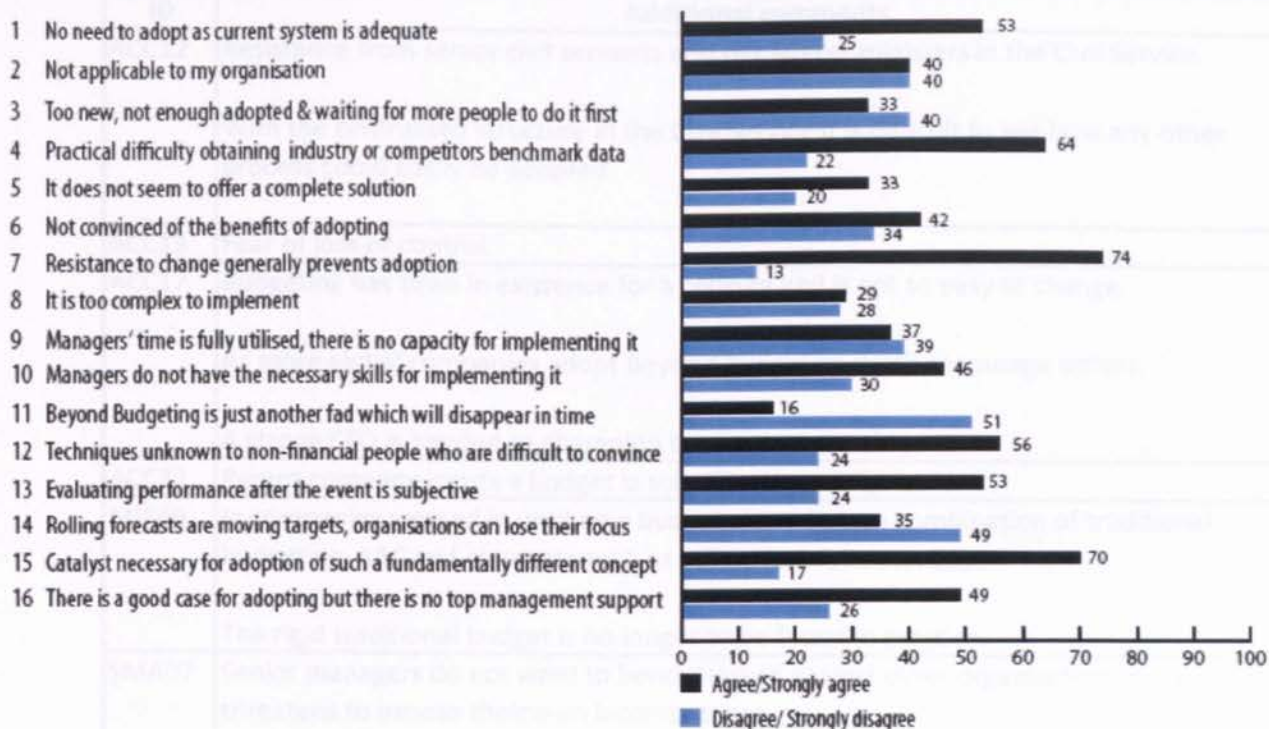
#### **Q18 Barriers preventing the adoption of Beyond Budgeting**

Question 18 coming towards the end of the questionnaire used a direct approach to try and get to the bottom of why Beyond Budgeting has not been adopted.

Respondents were asked to identify barriers to adoption from a list of 16 statements and to indicate whether they agreed or disagreed. 82 respondents assessed all 16 statements. A graphical overview in the following figure 5.8 outlines the responses.



**Figure 5.8 Q18 Barriers preventing adoption of Beyond Budgeting (percentage of respondents)**



Respondents were almost equally divided on some of the points, for example in the case of statement 2 'not applicable to my organisation' 40% agreed, 40% disagreed and 20% neither agreed nor disagreed. On other points the direction was unmistakable with the five most frequently selected statements being:

	<u>Agree</u>	<u>Disagree</u>
1. Resistance to change generally prevents adoption	74%	13%
2. A catalyst for change is required before adoption of a fundamentally different concept	70%	17%
3. Difficult to get competitors' or industry data	64%	13%
4. Beyond Budgeting a fad which will disappear	16%	51%
5. Techniques unknown to non-finance managers	56%	24%

Several respondents took up the invitation to expand on their answers with additional points not listed in the question. The most relevant are presented in table 5.11 on the next page.

**Table 5.11 Respondents' own comments on barriers to implementation**

ID	Additional comments
ACC12	Resistance from senior civil servants and risk-averse ministers in the Civil Service.  With the centralised structure in the Civil Service it is difficult to see how any other process could easily be adopted.
ACC13	Fear of loss of control.
ACC17	Budgeting has been in existence for a century and is not so easy to change.  As more global companies adopt Beyond Budgeting it will encourage others.  A strong CFO is needed to champion the implementation.
ACC32	Parent company insists a budget is submitted annually.
MIP49	In companies worked in until now budgets have been a combination of traditional budgeting, ABC and elements such as rolling forecasts and ZBB.  The rigid traditional budget is no longer to be found in practice.
SMA07	Senior managers do not want to benchmarked against other organisations because this threatens to expose their own incompetence.  Senior managers muddy the waters and restructure regularly to ensure comparisons are impossible.
SMA10	Being a part of multinational corporation governed by old people adoption of BB is impossible. New generation must take control.
SMA17	Businesses have adapted their budgets with the changes in the business environment to survive, and any concept that does not add value will not be utilised outside an examination room.
SNA04	Directors are barely aware of Beyond Budgeting.

The comments on fear of loss of control (ACC13), the perceived inapplicability for certain organisations (ACC12), lack of awareness amongst non-finance management (SNA04), difficulty of changing due to the long established nature of budgeting, the importance of a champion and the idea that companies are waiting for others to move first (ACC17) have already been encountered in the literature review or were directly addressed in the questionnaire. These comments reinforce influences already broached upon rather than bringing in new explanations to the research.

Stakeholder pressures, as referred to by ACC32, were encountered in the literature in the discussion of institutional theory and legitimacy. The comment about companies not just using a single rigid technique, but rather already using a combination of

traditional and Beyond Budgeting (MIP49) supports findings in question nine.

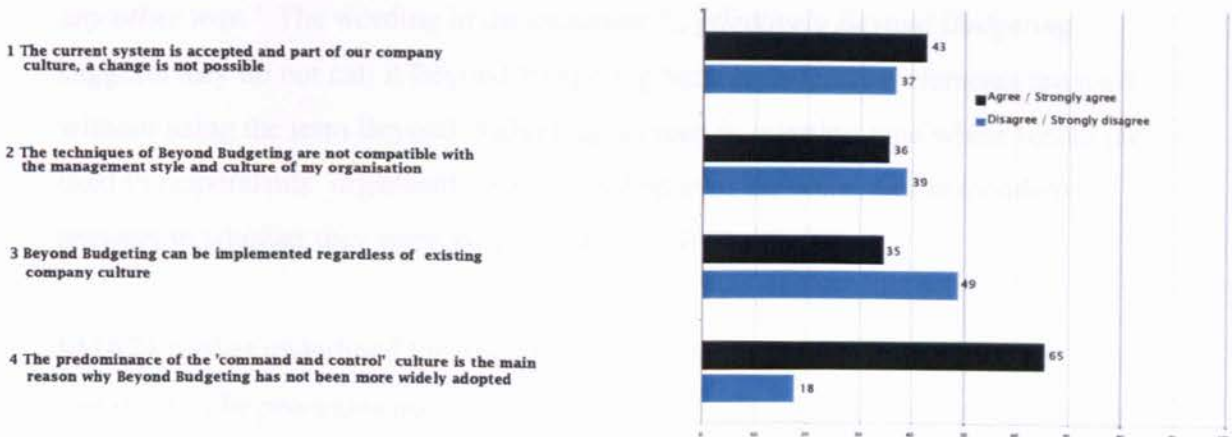
SMA17's comment on companies adapting their budgets in practice and leaving non added-value concepts in the examination room should be seen in the context of this respondent's strong agreement to the statement that Beyond Budgeting is just a fad and will disappear in time.

The statement that the advanced age of senior managers is itself a barrier (SMA10) has not been found elsewhere. Likewise, the notion that managers deliberately muddy the waters to avoid being benchmarked (SMA07) has not been found explicitly mentioned elsewhere and suggests that Beyond Budgeting techniques may not be able to eliminate all dysfunctional behaviour in managers.

#### Q19 Influence of organisational culture on the decision to implement Beyond Budgeting

The final question in the questionnaire dealt with culture as a barrier to adoption as a separate issue and participants were asked to give their opinion on four statements related to its influence on the decision to adopt. 84 respondents gave their opinions which are put forward in figure 5.9.

**Figure 5.9 Q19 Influence of organisational culture on the decision to implement Beyond Budgeting (percentage of respondents)**



Only the statement, “The predominance of the command and control culture is the main reason why Beyond Budgeting has not been more widely adopted”, attracted a high level of agreement; 65% strongly agreed or agreed with only 18% disagreeing. SMA07 reinforced the answer with the comment, “That last statement sums it up really...” while MIP40 added “SMEs with a high proportion of owner managers

*would be reluctant to move away from a command and control culture.” SMA04 emphasised the issue of trust, necessary when control is loosened, maintaining “To truly implement senior management would have to relax a little and trust their staff to do what they are paid to do - something quite radical at the moment!”*

The responses for and against the other three statements are more balanced and no strong trend could be identified. Concerning statement three, for example, ‘Beyond Budgeting can be implemented regardless of existing company culture’, 49% disagreed but 35% agreed and 16% neither agreed nor disagreed. Of those disagreeing, 10% disagreed strongly while under those agreeing only 5% agreed strongly. In spite of the preponderance of opinion that Beyond Budgeting cannot be implemented regardless of culture, there is too small a difference between agreement and disagreement to be conclusive. The difference between the number respondents agreeing and disagreeing with statements one and two is even slimmer.

SMA24 turned the tables and wrote that Beyond Budgeting was the only system appropriate for his company’s culture, commenting, *“The current system we operate is effectively beyond budgeting, which was developed as an operational requirement and is in support of our company culture. It is not possible to operate effectively in any other way.”* The wording in the comment *“...effectively Beyond Budgeting”* suggests they do not call it Beyond Budgeting but that individual elements are used without using the term Beyond Budgeting, as seen in question nine where techniques used in respondents’ organisations were looked at in the context of respondents’ answers to whether they were aware of Beyond Budgeting.

SMA24 further underlined the role played by culture in his company with the comment *“The processes adopted are just one part of the equation that determines overall business performance whatever the organisation. Of equal importance (if not more so) is the organisational culture which determines how systems and processes are applied in reality”.*

Based on the answers to question 19 the biggest cultural aspect influencing the decision to implement amongst the respondents was the command and control culture with the fear of losing control and trusting staff to perform without tight

control. Otherwise there was no agreement among respondents on the influence of company culture generally on the decision to implement Beyond Budgeting.

### 5.2.5 Summary of survey findings

In the analysis of the **respondent profile information** (survey questions 1 – 6) it was established that:

- for this sample any comparisons of size using turnover as a basis would yield similar results to comparisons using the number of employees as a basis.
- any analyses using principle employment status would also reflect the influence of size as employee status and size of organisation are related in this sample.
- “other” was selected as the organisation’s principal activity by most respondents. Possible reasons for this are the choices were insufficient or it took too long to find the category.

An examination of **respondents’ attitudes to traditional budgeting** (survey question 7) revealed the following results which were in line with prior research:

- The majority of respondents see budgeting as beneficial, effective, proven and coherent and cannot imagine managing a business without them.
- Most see some aspects of budgeting as flawed and leading to dysfunctional behaviour.
- The annual budget is generally disliked, is used to exert pressure on managers and perpetuates central control. Not the budget but the way it is used is seen to be the problem.
- A fixed annual plan is not compatible with today’s fast-moving environment

Contradicting most prior research:

- Most respondents’ organisations (60%) were generally satisfied with the budgeting process.

Analysing the **techniques currently used in respondents’ organisations** (survey questions 8-10) the following results were found:



- Most respondents took less than two months to prepare their budgets even though most feel the budget takes too long. The majority work for organisations with nine employees or less. The larger a respondent's organisation the longer it takes in the main to compile the budget.
- For managing an organisation individual Beyond Budgeting techniques are used by the majority of the respondents. 15 years after the first appearance of Beyond Budgeting in 1997 most techniques listed in the questionnaire are present in most respondents' organisations.
- More respondents claiming not to be aware of Beyond Budgeting use the individual techniques than those who answered they had heard of the concept. This may indicate that the individual techniques are being progressively adopted but are not being identified under the name 'Beyond Budgeting'.
- Respondents are adopting the techniques but retaining the fixed budget.
- Beyond Budgeting techniques for performance evaluation are used in a minority of the respondents' organisations and have not enjoyed the same level of adoption as the Beyond Budgeting general management techniques.

The replies to the **information on Beyond Budgeting** section (survey questions 11 – 19) can be summarised as follows:

- 63% of the respondents were aware of the concept of Beyond Budgeting and carried on to answer the questions in this section.
- Respondents qualifying in the year 2000 and later were more likely to have heard of it
- Most respondents have only become aware of Beyond Budgeting in the last five years indicating that information about innovations may not be being disseminated effectively and that the long time it takes for accounting innovations to become known might be slowing down adoption.
- No one information source stands out for accountants' first encounter with new innovations. The highest proportion heard via accounting journals but still only 38% heard via this medium.
- Based on the survey it seems that once accountants become aware of a new technique they are most likely to turn to CIMA as a source of information.

- There is a gulf between the awareness of some techniques and their usage in respondents' organisations. For these techniques lack of awareness was not a reason therefore for non-adoption.
- Only 15% saw Beyond Budgeting as a coherent system while 49% saw it as a set of tools to choose from. This is consistent with the widespread adoption of individual principles without abandoning the budget as observed in question nine. A minority of 11% saw Beyond Budgeting as a fad.
- Respondents seemed to be waiting for others to adopt new concepts before committing themselves.
- Part of the reason respondents had not abandoned budgets was stakeholder pressure on companies to continue producing them.
- When asked directly respondents cited general resistance to change, the necessity for a catalyst for change, difficulties in obtaining external comparative data and lack of knowledge amongst non-finance managers as major barriers to the adoption of Beyond Budgeting.
- The major cultural barrier to adoption was reported to be the predominance of the command and control culture.

#### **5.2.6 Issues arising in the survey answers to be followed up in the interviews**

The following issues arising were earmarked for further investigation by posing specific questions in the interviews:

##### **Survey question 6**

Where "other" was selected as the organisation's principal activity interviewees were asked to specify what exactly their organisation does. The researcher was then able to assess whether no appropriate category was available or whether the question was too demanding.

##### **Survey question 13**

**CIMA Syllabus:** It was expected that most candidates examined after the year 2000 would have heard of Beyond Budgeting in their CIMA studies and would therefore answer they had heard in a 'talk, seminar or lecture'. This was not the case so interviewees who qualified in 2000 or later were asked about this.

**Influence of CPD:** How CPD can lead to awareness of new techniques was also noted for follow-up in the interviews.

**Accounting journals:** As accounting journals turned out to be the principal place of first encounter with accounting innovations, interviewees were asked in a follow-up question how often they read Financial Management and CIMA's electronic newsletters. This question also arises from the methodology to gauge how many CIMA members read the invitation to take part in the online survey.

#### Survey question 16

One respondent wrote that external pressures compel the organisation to compile a fixed budget. Interviewees were asked whether they experience any external demands on them obliging them to produce a budget.

#### Survey question 17

Interviewees outside the UK and the Republic of Ireland were asked about regional influences on the adoption of accounting innovations.

The next section, section 5.3, details the findings and analysis of the semi-structured interviews.

### **5.3 Phase two – Interview findings**

The previous section, section 5.2, analysed and commented on phase one of the research, the survey results. This section presents and interprets the findings of phase two, the semi-structured interviews.

Fifty CIMA members were interviewed and, as described in the methodology in chapter four, the interviews were coded both manually and using NVivo text analysis software in order to identify and group themes emerging from the data.

#### **5.3.1. Themes emerging**

The themes emerging were broadly sorted into those directly answering the question on why Beyond Budgeting has not been more widely adopted (directly relevant) and



those not, i.e. just providing additional information (not directly relevant). NVivo collects the text blocks, or quotes, coded from the interviews under themes which can be printed out and used for analysis. Two example themes in NVivo format are attached in appendix 14 and appendix 15. As the coding progressed it became apparent that almost all the themes classified as ‘directly relevant’ responses confirmed to some extent concepts and findings already discussed, providing empirical support for the theories and literature in the literature review. It was thus decided to group the themes for discussion into categories corresponding to the theories and literature. The final structure of the top level categories is illustrated below in figure 5.10.

**Figure 5.10 Overview of top level categories grouping interview themes**

<u>Reasons for non-adoption</u>		<u>Respondent and supplementary information</u>
<i>(directly relevant)</i>		<i>(not directly relevant)</i>
<u>Theory / literature</u>	<u>Additional Insights</u>	<u>Background Details</u>
- Agency	- Arising from the survey	- Respondent personal / professional
- Complexity	- Arising from the interviews	- Respondent’s organisation
- Contingency		- Supplementary information
- Diffusion		
- Institutional		
- Management accounting literature		

**5.3.2 Section structure**

The findings in the ‘Reasons for non-adoption / directly relevant’ categories are presented by theme within category in section 5.3.3. Where possible, verbatim quotations from the interviews have been flowed into the narrative to keep the ideas and concepts arising from the interviews as close to the original interview as possible.

Section 5.3.4 deals with the questions arising from the survey, as listed in section 5.2.6 ‘Issues arising in the survey answers to be followed up in the interviews.

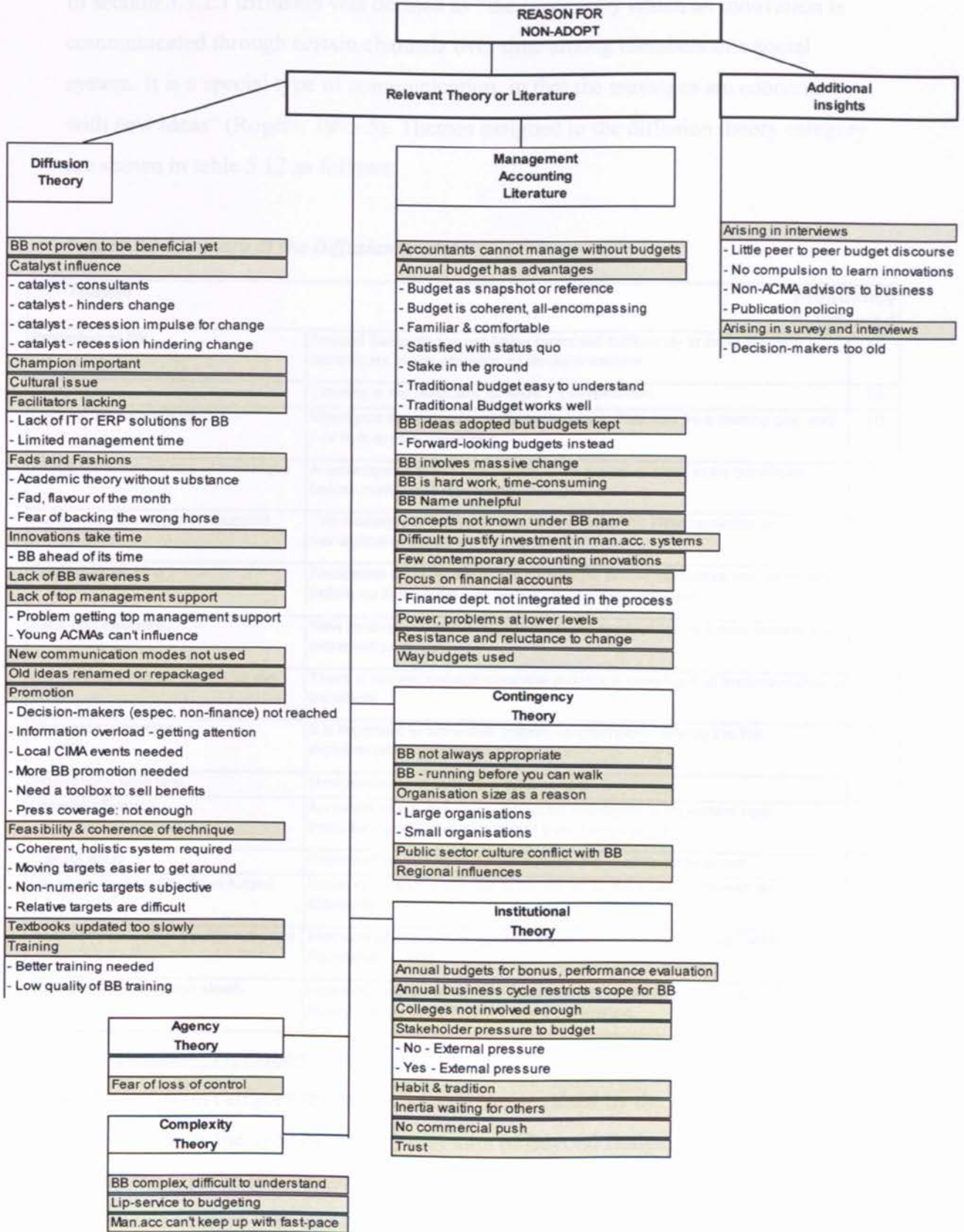
Background information which did not directly answer the question (not directly relevant) was also coded and selected themes are discussed in section 5.3.5. A summary of the findings from the interviews follows as section 5.3.6.

### **5.3.3 Reasons for non-adoption (directly relevant themes)**

The individual themes grouped within the categories under the 'Reasons for non-adoption' heading are shown in chart form in figure 5.11 'Directly relevant themes arising in the semi-structured interviews' which follows. Main themes are shaded and outlined in the chart. Where it was deemed important to make distinctions within themes, these were split into sub-themes.

Following the chart, the interview findings are presented by category, starting with the literature review theories which are dealt with in the same order as in the literature review, i.e. diffusion, contingency, institutional and legitimacy, agency and complexity. Where reasons for non-adoption of management accounting innovations previously encountered in the literature review could not be immediately allocated to one of the theories, they were coded to a new category labelled 'Management Accounting Literature'. Themes arising in the interviews not found in the literature review were coded to the category 'Additional Insights'.

Figure 5.11 Directly relevant themes arising in the semi-structured interviews



Diffusion Theory

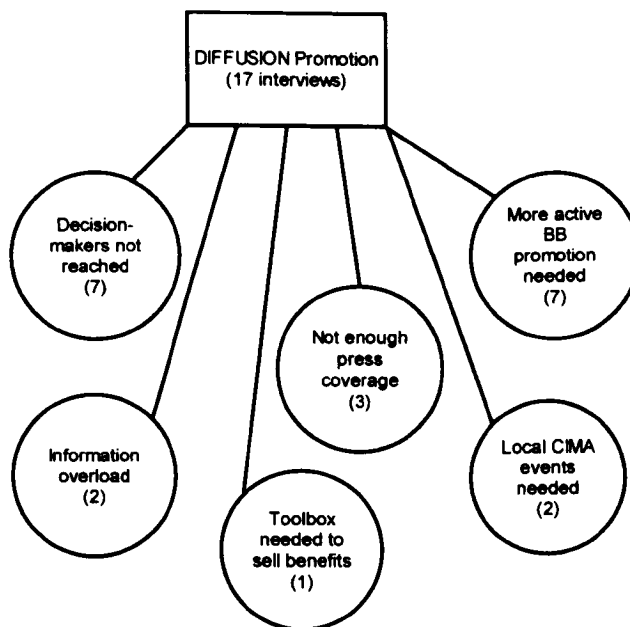
In section 3.3.2.1 diffusion was defined as “the process by which an innovation is communicated through certain channels over time among members of a social system. It is a special type of communication, in that the messages are concerned with new ideas” (Rogers, 1995:5). Themes assigned to the diffusion theory category are shown in table 5.12 as follows:

**Table 5.12 Summary of the Diffusion themes**

Theme		Frequency mentioned
Promotion of BB	Beyond Budgeting is not being promoted sufficiently to bring the new techniques to the attention of decision makers	17
Training	Training is not sufficient for wide implementation	14
Lack of BB awareness	Managers are unaware of BB techniques. This can be a training gap and / or due to poor promotion	10
Feasibility & coherence of technique	A technique needs to be shown to be sound or seen to be beneficial before companies will adopt	9
Lack of top management support	Top management support is a necessity for the implementation of management accounting innovations	9
Facilitators lacking	Facilitators such as employee / manager and IT resources are necessary before an innovation can be successfully implemented	8
Fads and Fashions	New innovations risk being seen as just another fad or a new fashion if not promoted properly	7
BB not proven to be beneficial yet	There is not yet enough concrete evidence showing that implementation is beneficial	5
Champion important	It is important to have one person - a champion - driving the BB implementation process	5
Innovations take time	New innovations take time to take hold	5
Catalyst influence	An event or impulse can either push managers to implement new innovations or systems or hinder them from doing it	4
Cultural issue	Organisation culture dictates whether BB is compatible or not	4
Old ideas renamed or repackaged	Some innovations turn out to be old ideas recycled or dressed up differently	4
New communication modes not used	Methods of disseminating need improving - new techniques Twitter, Facebook, E-mail	3
Textbooks updated too slowly	Innovations are not quickly disseminated because text books are updated slowly and don't contain the latest information	1

Diffusion - Promotion

In the diffusion category the most common theme raised by the interviewees, in 17 interviews, was the need for better promotion of Beyond Budgeting. The issues arising fell into the sub-categories shown in figure 5.12. Some interviewees broached on subjects in more than one sub-category, the number of interviews in the sum of the sub-categories is therefore higher than the total for promotion as a whole.

**Figure 5.12 Sub-categories under promotion coding**

Seven interviewees believed **more promotion was needed**, MIP16 said “*It needs somebody to kind of sell it*”, while SMA22 remarked that “*it’s not something that’s widely talked about*” and “*I’m just not sure that it’s been embraced by the sort of wider business and accounting community, which is maybe exemplified by maybe the lack of information that’s out there about it*”. SMA10 thought “*it depends how it is promoted*”.

Seven people saw **decision-makers not reached, especially non-finance managers**. EDU02 maintained that if the CEO could be reached it would be a “*done-deal*” and that maybe accountants are the wrong people to target. MIP54 saw “*a need for somebody in the CIMA world to try and talk to the more general management world*.” Three managers (SMA10, SMA22, SMA30) attributed the failing in promotion directly to a **lack of press coverage**.

SMA10 “*there is no big discussion in Financial Management or in other media*”

SMA22 “*it’s fairly light at the moment in terms of maybe sort of an article comes out once every, you know, couple of years perhaps*”

SMA30 “*I’ve heard very little of the concept and very little of it since in the wider press...so I think it’s a concept that’s not getting embedded into the general accountancy populous*”

Further reasons for non-adoption under the title promotion were that managers today suffer from **information overload** (MIP58, MIP69) and do not read all information arriving at their desks and that **more local CIMA events are needed** (SMA05, MIP38) to promote new innovations. One person felt **a toolbox is needed to sell the benefits** (MIP54).

*Diffusion – New communication modes not used*

Related to the issue of promotion, attention was drawn to the fact that new channels of communication should be used to disseminate innovations. Twitter and Facebook were given as examples by EDU02 and LinkedIn by MIP96 and EDU02. MIP96 also considered that CIMA should lead with new channels, a thought which was supported by MIP24. Referring to e-mail in a related theme under ‘Diffusion methods suggested’, MIP35 suggested “*a specific mail shot*” from CIMA would grab his attention.

*Diffusion – Training*

The second most frequently mentioned theme under the title promotion was training where interviewees spoke of two aspects, the lack of training in Beyond Budgeting and the low quality of the coverage of the subject in preparation for the CIMA exams. ACC09, for example, believed “*there’s a training issue not only for the accountants that actually will be using a new tool, but also training for Boards in understanding what benefit the new tool provides*”. On the lack of depth in the CIMA training SMA11 said “*if I did, I touched on it very, very briefly. It would have been a tiny segment*” and SMA22 said “*it was a fairly small part of the syllabus*”.

*Diffusion – Lack of awareness*

General lack of awareness was brought up as a reason in 10 interviews with comments such as “*my finance director knows roughly beyond budgeting but he doesn't understand the concepts and the philosophy of it*” (SMA05) or “*it’s not a widely known concept*” (SMA30) and “*People don't recognise beyond budgeting*” (MIP58). SMA22 said while he had read about it he would struggle to present it and SMA27 mentioned that he understood it as a concept but did not know the specifics. The general lack of awareness may be attributed to lack of training and promotion.

### Diffusion – feasibility and coherence of the technique

The feasibility and coherence of the technique itself was called into question and problems with various aspects of Beyond Budgeting cited as reasons for non-adoption. Three interviewees saw **moving targets** as a problem. SMA21 reiterated his comment in the survey “*you might fall into the trap, as I’ve said, of the un-aimed arrow never actually misses*”, and MIP19 declared that “*by changing the budgets on a constant basis it actually makes it easier for them to get round the budgets*”. Two managers pointed out that a **coherent system** was required and MIP16 was sceptical suggesting “*There should be some kind of web that kind of ties everything nicely together and I think a good budget with the right measures should be that kind of tool*”. MIP15 expressed the opinion that **non-numeric targets are subjective** and SMA11 added that **relative targets are difficult** and that it is so hard to know what relative target to choose that “*people come back to the standard budget and target setting etc.*”

### Diffusion – Lack of management support

The **problem getting top management support** was cited by nine interviewees as a reason Beyond Budgeting does not get adopted. SMA15, for example, suggested “*it needs to be sponsored, I suppose, by the top level and if that doesn’t happen, then the beyond budgeting won’t happen*” and SMA05 said “*it has to change at the top. You know, maybe that’s where it’s failing. I think all companies I’ve worked for, that’s been the problem*”. Two managers raised the additional point that **young ACMA accountants cannot influence** the implementation decision because they are too low down in the organisation.

### Diffusion – Lack of facilitators

Five interviewees held that the **lack of suitable IT / ERP solutions** was hindering adoption and three maintained that **managers do not have enough time**. MIP05 underlined the lack of standard IT solution and explained “*I have to pull it out of the system, do the work in Excel and then put it back into the system*”. On managers’ time MIP23 explained “*You’re not at the level where you can implement anything of any great newness into a company... and you don’t have the time*” and SMA24 noted

*“you’re using a lot of software and there isn’t anything that’s been developed that helps with that sort of forecasting and analysis type process going forwards”.*

*Diffusion – Fads and Fashions*

Five respondents mentioned the danger of being swayed by fads and fashions. SMA08 commented *“fixed budgeting is something quite a good habit in the organisation and cannot be left just because something new appears as a tendency.”* MIP23 highlighted managers’ **fear of backing the wrong horse**, stating *“they’re scared that if they stick their neck out into something like this and really try and push it that again it’ll get chopped off - and their reliability and credibility”.*

*Diffusion – Beyond Budgeting not proven*

Five people observed that Beyond Budgeting has not yet been proven to be beneficial. Two doubted the benefits and three wondered if it would add value. SMA11 (on accountants): *“Although they like the idea, they then go back to what they know because, you know, the uncertainty of the beyond budgeting method”* MIP24: *“the whole techniques that go around beyond budgeting have not shown themselves why they are enough to be a benefit”* MIP21: *“If it’s a good idea and it adds value – great. If it’s something that can be proven and will work, then do it”* MIP42: *“if it’s something that’s going to be, add value to their organisation I suppose it’ll be adopted”* MIP58: *“is there any value-add?”*

*Diffusion – Champion important*

The importance of a champion for the adoption of Beyond Budgeting was emphasised by five interviewees who spoke of the need to inspire and engage employees. SMA39 recounted from personal experience that his organisation’s CFO wanted to leave a *“world-class finance function that people would be well motivated to join and to work in”.*



Diffusion – Innovations take time

MIP42 said “*it’s something that will just maybe emerge over time*” which was supported by three other managers who asserted that innovations take time to take hold. In a similar vein EDU02 opined “*it might just be a bit ahead of its time*”.

Diffusion – Influence of catalysts on change

A catalyst for change was cited by four people as both an impulse and a hindrance to implementing management accounting innovations, with recession being cited by MIP23 as an impulse to change but by SMA04 as a reason not to start on anything new. MIP38 saw catalysts as an obstacle, talking of outside pressure causing managers “*to do something which is simply safe and secure*”, then adding that “*when that pressure isn’t there, then I think there is greater scope to develop more innovative solutions*”.

Diffusion – Other concepts arising

Three other concepts categorised under diffusion were **cultural issues**, where four people declared that organisation culture was the greatest barrier, the feeling that **old ideas are renamed or re-packaged**, and the fact that **textbooks are updated too slowly**.

Diffusion covers a broad spectrum and while interviewees covered many aspects, the greatest emphasis was on lack of promotion and training for Beyond Budgeting. The other issues raised, such as lack of suitable IT / ERP systems and the need to embrace new channels of communication, provide further insights in understanding why Beyond Budgeting has not been more widely adopted.

Contingency theory

According to contingency theory, as described in the literature review section 3.3.2.2, there is no universally appropriate accounting system which applies equally to all organisations in all circumstances, and organisational effectiveness is a result of internal organisational characteristics and the external demands upon it being matched with methods suitable for the individual context (Otley, 1980; Moores & Chenhall, 1991).

The themes categorised under contingency in order of number of responses are as follows in table 5.13:

**Table 5.13 Summary of the Contingency themes**

Theme		Frequency mentioned
Organisation size as a reason	Company size is a major factor in the adoption of Beyond Budgeting	27
BB - running before you can walk	In some organisations planning doesn't exist or is in its infancy.	15
Regional influences	Innovations are more difficult to adopt in some regions than in others	10
BB not always appropriate	BB techniques may be suitable in some cases or industries but not in others	5
Public sector culture conflict with BB	The culture in the public sector with separate pots of money which have to be spent or are lost does not lend itself to a BB implementation.	5

Contingency - Organisation size

27 respondents spoke about organisation size as a factor influencing adoption.

MIP54 sought a correlation with size but conceded *“I think there are multi-national companies that are using this and there are small companies where somebody somewhere has decided this is a good idea.”* MIP96 maintained *“it depends on the industry you’re in or it depends on the size of the industry.”*

17 respondents drew attention to the situation in smaller companies where most felt Beyond Budgeting was inappropriate. Typical comments were that many small companies do not have any budgeting or planning procedure (SMA24, MIP33) and therefore were not ready for more sophisticated techniques or that organisations were too small for it to be appropriate (MIP35). MIP16 said *“the smaller companies that I work for wouldn’t be... ready I don’t think for such a big change”*. MIP14 however commented that rolling forecasts were a valuable tool for small businesses but not enough of them use them. SMA38 referred to limited resources in small companies, explaining *“we are only a three and a half million turnover company, we haven’t got the resources or the time to go and monitor ourselves against, you know, other competitors”*.

10 respondents spoke in the context of larger companies and most thought it more appropriate for larger companies for example:

SMA38: *“it is only a larger company that can do it”*

SMA33: *“the bigger companies and tier 2 companies... are looking for those greater responses and soft factors”*

ACC17, however, believed it becomes harder and harder to implement new concepts *“when organisations become larger and larger”* and ACC28 saw larger companies under more external pressure, for example from investors and shareholders, to stay with traditional budgets than smaller companies.

#### Contingency - Remaining themes

Following the comment from SMA17 in question 17 in the survey that the concept is not applicable in Africa, interviewees outside the UK and Ireland were asked whether geographic region had any bearing on the adoption of new innovations. Eight interviewees, from South Africa, Australasia and India commented on **‘Regional influences’**. They commented on the lack of information outside the UK and the fact that CIMA is less significant and less supportive outside the UK. Two interviewees from the UK and Ireland also commented on regional influences. The Irish interviewee highlighted the constant demands for budgets and information from Irish banks. There may also be a cultural issue linked to region but there was no explicit mention of this in the interviews. The comment from the Irish interviewee may have arisen because the banks were in focus in the run up to the interviews, due to the banking crisis.

Five interviewees drew attention to the low level of sophistication in management accounting systems in small organisations and their comments were coded to the sub-theme **‘Beyond Budgeting – running before you can walk’**.

MIP15 stated *“before you can become open to innovation you’ve got to have fundamental processes”*

MIP14 remarked *“Most of the smaller companies I work with I have to admit wouldn’t have budgets”*

SMA24 agreed with MIP14, *“when you work in smaller organisations they don’t have budgets at all”*

MIP38 observed that *“Many small companies don’t have a budget, so it’s getting that aspect of discipline going which is perhaps the bigger challenge”*

Excerpts from five interviewees were coded to '**Beyond Budgeting – not always appropriate**'. Simultaneously addressing the issue of appropriateness in different organisations and the specific problems of the public sector, SMA16, working in education, said that in his experience it was difficult with academics and the "*key concepts of actually having financial targets and budgets is as much as we're able to put on them at this moment in time and, you know, it's a slow process*". OTH02 (who works for a non-profit organisation) thought Beyond Budgeting was more suitable for organisations that need to respond quickly to market changes than where the expectation is that one year will be much the same as another. MIP69 saw no technique as appropriate in all cases "*You can't run balanced scorecards for everything and you can't run budgeting for everything, you can't run we'll say management objectives for everything*" concluding, "*it's very much trying to select the technique which will work for that business*". The other two believed it depended on the nature and complexity of the business whether it was suitable or not (SMA24, MIP70).

Comments from five interviewees have been categorised to '**Public sector conflict with Beyond Budgeting**' as these managers pointed out it was not appropriate in the public sector due to strict third party budgetary requirements (ACC17), a spend it or lose it culture (MIP17, MIP63), a non-bonus driven environment (SMA28) and the stable environment.

Generally interviewees felt Beyond Budgeting is not appropriate for all organisations and especially the public sector. Other impressions drawn from the contingency theory category are:

- Although budgeting is omnipresent in business today it still not established in all companies, especially small companies.
- Interviewees feel their companies' systems are not advanced enough to progress beyond budgeting.

#### Institutional theory and legitimacy

Under institutional theory, described in the literature review section 3.3.2.3, organisations follow and fit into norms, bowing to diverse pressures and influences

to gain legitimacy. Routines and rules become established as authoritative guidelines for social behaviour (Scott, 2005). Organisations tend to imitate other organisations and to wait for others to move before an innovation becomes a norm and they themselves are prepared to adopt it. The themes attributed to institutional theory follow in table 5.14.

**Table 5.14 Summary of the Institutional themes**

Theme		Frequency mentioned
Stakeholder pressure to budget	Business under pressure from stakeholders, banks to present a fixed annual budget	39
Habit & tradition	The budget procedure has become a habit	19
Inertia - waiting for others	There are not enough examples of household names who have adopted. Companies wait until others have taken up an innovation before they risk doing it themselves	9
Annual budgets for bonus, performance evaluation	Annual budgets are needed for bonus and incentive calculations	7
Annual business cycle restricts scope for BB	Businesses are tied to annual cycle which lends itself to a fixed annual budget	6
Colleges not involved enough	Innovations would benefit from increased cooperation with universities or other educational establishments	2
No commercial push	Innovations take off when they are pushed commercially	2
Trust	Managers trust the budget	1

**Institutional – Stakeholder pressure to budget**

Following up on survey question 16 where respondent SNA05 raised the issue of external pressures on business to compile annual budgets, 39 interviewees were asked whether they experience external pressure to produce budgets. 30 answered that they were obliged to produce annual budgets by stakeholders or external regulators while 9 felt no external pressure. Answering for whom he was obliged to produce a budget, SMA08 said “*banks and others who have an interest. The other stakeholders also are interested in the budget*”. MIP05 experiences only a self-imposed requirement to produce a budget, explaining “*the only pressures that we foresee are the ones that the directors themselves put on themselves*”. More than three quarters of the interviewees asked needed to produce budgets to satisfy external parties and, as long as these external requirements exist, annual fixed budgets cannot be abandoned as advocated by Beyond Budgeting.

*Institutional – Habit and tradition*

The budget has become a ritual; SMA10, for example, reported “*it’s easier I think for people to follow the classic, traditional way*”, SMA11 said “*people are used to doing it*”, while ACC17 declared “*change management becomes very difficult because it becomes a routine procedure and like people keep on doing the same thing over and over again.*” Nineteen interviewees saw annual budgets as a habit or a tradition. It is difficult for Beyond Budgeting or any other concept to make headway against ingrained traditional methods.

*Institutional – Inertia, waiting for others*

Nine interviewees viewed the lack of cases of well-known companies who have adopted as a reason why companies have not adopted Beyond Budgeting. ACC17 summarised “*Get the big companies to start practising it and people will follow it*” and SMA20 said “*it just won’t take off unless you’ve got some sort of big hitters in large industries that have decided to take it on.*” SMA22 missed “*shining beacons*” as successful examples while MIP23 believed promoting the pilots more would help and MIP40 would like to see a demonstration of the value-add in companies which have already adopted. These interviewees reinforce the view that organisations may be waiting for others to adopt before they do.

*Institutional – Annual budgets for bonus and performance evaluation*

In another angle on tradition and habit, seven people believed budgets are indispensable as they are needed for performance evaluation. SMA08 believed “*a fixed budget usually is a good thing in order to evaluate the performance of the company, performance of the management and maybe this reason is very popular and never mind it takes a lot of time to prepare it*”. SMA12 spoke of the annual budget providing clarity on the number to hit and emphasised “*it would be difficult in reality for any business to let go of annual target setting because people’s performance bonuses rely on it and people’s appraisal ratings rely on all of this kind of stuff, so I think it’s very necessary*”. SMA28 maintained “*it’s the only tool that people think they can rely on to determine performance.*” This finding illustrated the difficulty new innovations may have in getting adopted where existing procedures are long established.

*Institutional – Annual cycle restricts scope for Beyond Budgeting*

Companies report world-wide on an annual cycle and six interviewees saw the annual budgeting procedures as being coupled with this accepted norm. Two managers emphasised that this is particularly the case in education where the annual government funding cycle must be followed (SMA16, MIP38). In these cases the accepted norm of a twelve month fixed funding cycle was deemed to render rolling forecasts and shorter planning horizons irrelevant.

*Institutional – Further themes*

Alluding to the influence of educational institutions and professionals on the adoption of innovations two people were of the opinion that **colleges are not involved enough**. When ABC was first introduced, consultants and software houses marketed ABC consulting and ABC programs to accountants and managers. Comparing the introduction of ABC to Beyond Budgeting two commentators observed there is not the same **commercial push** and that this is hindering adoption. SMA04 referred to the **trust** accountants have in the traditional budgeting process.

In the institutional theory category managers were depicted as creatures of habit holding on to the budgeting tradition and waiting for others to make changes to the procedures before they take any risks. Managers were seen to be obliged to compile budgets by stakeholders. Interviewees believed the techniques themselves lacked the support of colleges and professional bodies and were not being pushed commercially.

*Agency theory*

In 3.3.2.4 in the literature review it was explained that agency theory deals with the relationship between principals and agents. Six interviewees commented on managers' fear of loss of control when subordinates are empowered and decentralised structures are introduced. SMA04 reported that after the implementation of Beyond Budgeting techniques in his organisation "*some people still feel that they've lost an element of control, which is not good*", SMA08 told of his management wanting "*something fixed to manage the people*" and SMA16 said "*a lot of this empowering, if it's done before, sort of, people have reached the right*

level, the belief is that actually all we'll be doing is releasing the only controls that we have of getting anything right and it's very much a step too far". SMA22 related that Beyond Budgeting "is such a big leap from what you've always done" and that "everybody kind of just freaks out and goes 'How do you monitor?'" For these interviewees the fear of loss of management control was presented as a negative aspect of Beyond Budgeting and therefore an obstacle to its adoption.

### Complexity theory

Complexity theory was covered in section 3.3.2.5 of the literature review and takes the view that business is too complex to model. The themes allocated to this category are listed in table 5.15 following and also include comments on the complexity of Beyond Budgeting concepts per se.

**Table 5.15 Summary of the Complexity themes**

Theme		Frequency mentioned
BB complex, difficult to understand	Especially for non-finance managers the concepts of BB are difficult to understand	4
Lip-service to budgeting	The whole budgeting exercise seen as paying lip service to budgeting	2
Management accounting cannot keep up with changes	Management accounting struggles to keep up with the fast pace of change in business	1

### Complexity – Beyond Budgeting is complex and difficult to understand

Four accountants drew attention to the complexity of Beyond Budgeting. SMA16 saw a problem explaining the concepts to non-financial managers, SMA22 asserted that even accountants are "not particularly clear on what all that is and how it all hangs together", OTH02 pointed out that the more you read into it the more you appreciate how much human resource is needed to implement it and MIP54 maintained that well-run companies he knew would have had trouble implementing it because "they just couldn't grasp it".



**Complexity – Lip-service paid to budgeting**

Two interviewees (EDU02, MIP54) believed that many companies only pay lip-service to the existing budgeting procedure so no thoughts are lost on improving the process. In such organisations there would be little reason to adopt.

**Complexity – Management accounting cannot keep pace with change**

MIP38 claimed “*management accounting has been struggling to keep up with the needs of businesses and therefore it generally doesn’t necessarily have the opportunity to stand back and look at its processes and improve what is required*”, a comment on the increasing complexity of business today.

Five interviewees spoke of complexity or complexity theory related issues. It was a factor in the non-adoption of Beyond Budgeting but not one of the main barriers.

**Management accounting literature**

The term ‘Management accounting literature’ has been used to describe literature discussed in the literature review which was not attributed directly to one of the five relevant theories, which were identified in the review. Themes emerging from the interviews which were not immediately attributable to the theories discussed thus far in chapter five, but which were encountered during the literature review, have been listed under this category.

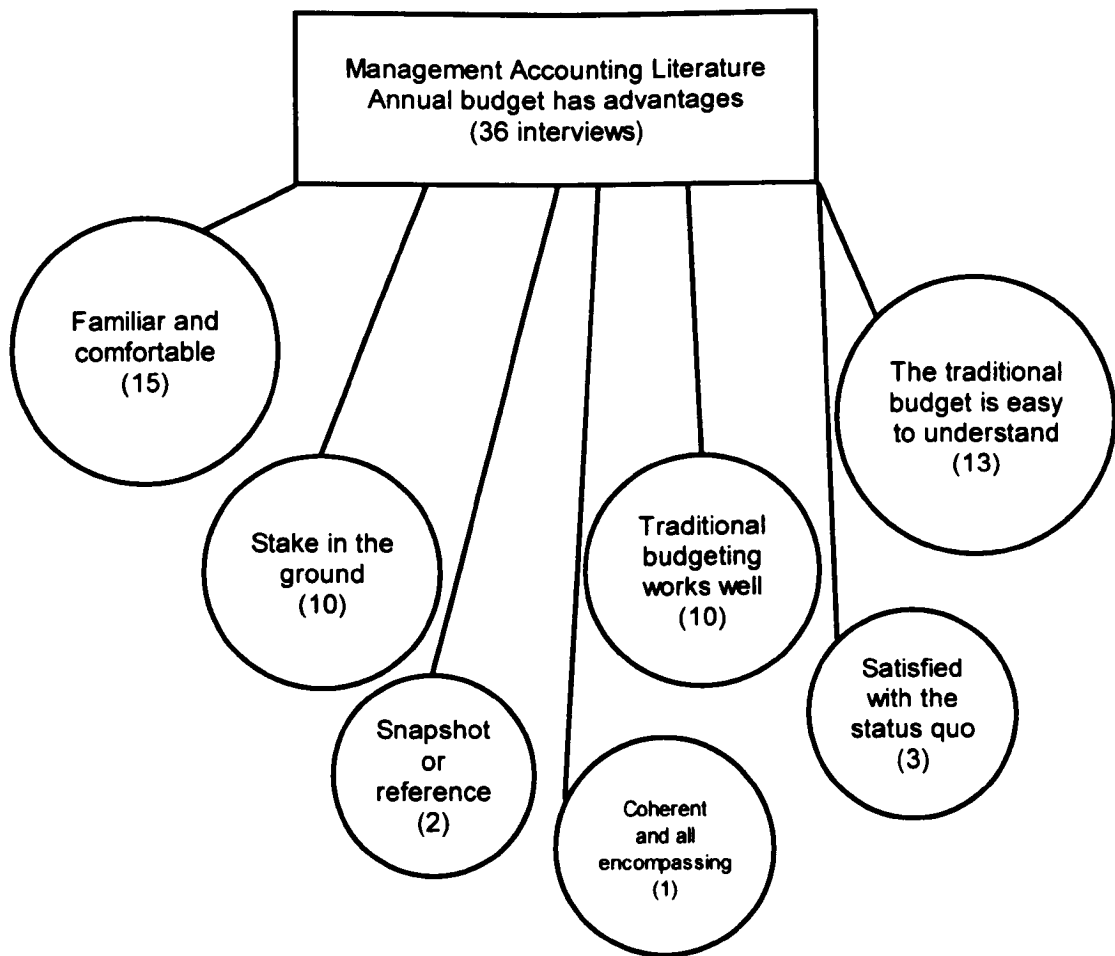
The themes identified under the title ‘Management Accounting Literature’ are presented with the number of interviewees mentioning them in the following table, table 5.16.

**Table 5.16 Summary of the themes from management accounting literature**

Theme		Frequency mentioned
Annual budget has advantages	Accountants are familiar with the traditional budget, everyone understands it, it is coherent, lays down a reference point or stake in the ground and works well	36
BB ideas adopted but budgets kept	The fixed budget and BB techniques are not mutually exclusive. The budget must not necessarily be abandoned	11
BB is hard work, time-consuming	Operating BB is hard. Continuously forecasting and rolling forward means planning is never finished	8
Resistance and reluctance to change	Negative attitudes to change ranging from no wish to change to a fear of change	8
Focus on financial accounts	Not enough emphasis on management accounting	7
BB involves massive change	Implementing BB changes behaviours, operations and the way of doing things significantly.	4
Concepts not known under BB name	Some individual concepts of BB are known but not under the name of Beyond Budgeting	4
Accountants cannot manage without budgets	Accountants apply the techniques they've learned and experienced in their careers.	3
BB Name unhelpful	The name Beyond Budgeting is unhelpful lending an exotic air or suggesting complexity. BB should be the norm	3
Few contemporary accounting innovations	Interviewee sees little advance in management accounting in recent years	2
Power, problems at lower levels	Power is at lower levels of the organisation. Managers at this level need to be convinced	2
Way budgets used	Budgets are not the problem - it is the way they are used	2
Difficult to justify investment in man.acc. systems	Investments in tangible machines and equipment can be justified with visible results. Management accounting systems are intangible and investment difficult to justify	1

**Management accounting literature – Annual budget has advantages**

The dominant theme encountered as an explanation for the low rate of adoption of Beyond Budgeting was the explanation that traditional budgeting has advantages. 36 interviewees made observations on this aspect which was further categorised into seven sub-themes as detailed in figure 5.13 following. As several interviewees broached on subjects in more than one sub-category, the number of interviews in the sum of the sub-categories is higher than the total for 'Annual budget has advantages' as a whole.

**Figure 5.13 Sub-themes under annual budgets have advantages**

*(The number of mentions add up to more than 36, as multiple reasons were given)*

An advantage of traditional budgeting compared to Beyond Budgeting is that it is **familiar and comfortable**. 15 people mentioned this aspect and the comments made included “*It’s something that shareholders will always look to and something that a lot of CEOs and MDs feel more comfortable with*” (SMA09), “*they feel more comfortable with seeing a budget set over 12 months*” (SMA15) and “*Well, this is what we’ve done before, so I feel comfortable with the numbers I’m putting here*” (OTH02). SMA28 called budgeting a safe haven and most other interviewees either described traditional budgeting as familiar or comfortable (SMA04, SMA11, ACC09, SMA15, MIP24, MIP38, MIP68, MIP96).

13 interviewees made the point that **traditional budgeting is easy to understand**, the other side of the coin to Beyond Budgeting being too complex. “*It’s traditional*

*and easier to understand” according to SMA20. MIP16 added “everybody in every department, in every... you know, anywhere across the business understands the concept of meeting a budget”. MIP40 summarised “everybody understands it and it’s a relatively simple concept, and, you know, it does have its merits”.*

10 people believe the budget is important as a **stake in the ground** or an anchor point and two reported a similar aspect which was that the **budget is a snapshot or reference** fixing the starting point.

The notion that **traditional budgeting works well** was put forward by 10 accountants. SMA08 saw the budget as worthwhile in spite of the effort needed commenting *“a fixed budget usually is a good thing in order to evaluate the performance of the company, performance of the management and maybe this reason is very popular and never mind it takes a lot of time to prepare it”*. MIP14 reported *“significant benefits”* from budgeting and SMA20 declared that if budgeting gets you only 50% of the way there it’s better than nothing. One of MIP17’s clients told him that his budget stopped him going off the edge of a cliff. Categorised to the separate theme, **the budget is coherent and all-encompassing**; SMA22 argued *“it’s kind of difficult to untangle the budget from a lot of the other things that organisational kind of activities are built upon”*.

Congruous with accountants seeing traditional budgeting as working well is the assertion of three interviewees that they are **satisfied with the status quo**. Accountants may be reluctant to change to Beyond Budgeting if the current system works well.

*Management accounting literature – Beyond Budgeting ideas adopted but budgets kept*

According to 11 managers Beyond Budgeting techniques and fixed budgets are not mutually exclusive but can complement each other. SMA12 said businesses are operating a *“half-way house”* with the new techniques parallel to traditional budgeting and SMA21 stated that the budget still stands but the rolling forecast gives a means of *“more up-to-date, better information”*. SMA08 believes *“forecasting and*

*other tools will be additionally added to the fixed budget*". SMA22 spoke of "*cherry picking*" where the best Beyond Budgeting techniques were added to the budgeting process. 39 of the 50 managers interviewed used fixed budgets and of these 25 (64%) also used rolling forecasts, thus underlining their comments with practise.

**Management accounting literature – Beyond Budgeting is hard-work, time-consuming**

Eight people expressed the view that use of Beyond Budgeting techniques, especially rolling forecasts, is hard work because instead of compiling a budget once per year accountants effectively compile one monthly (SMA12, SMA20, OTH02, MIP55). One interviewee (MIP54) made the same point concerning the difficulty in implementing it, which leads into the next theme of Beyond Budgeting involving massive change.

**Management accounting literature – Beyond Budgeting involves massive change**

Four people regarded massive change as an obstacle to adoption. MIP24 said the biggest challenge was massive change, "*changing behaviours, changing ways of operating, ways of doing things in the business*" and re-emphasised the point made under 'diffusion' that leadership in change can only come from the top. MIP54 underlines that it is not a straightforward implementation, it requires a change in thinking and you've got to win hearts and minds to succeed.

**Management accounting literature – Resistance and reluctance to change**

SMA04 related his experiences "*the biggest thing that we came across was simply people were really scared to change*" and SMA22 thought "*there's probably a fear factor or a fear of the unknown there as well*", while SMA27 believed "*people are resistant to change*". SMA04 explained how his organisation is dealing with the tendency to cling to the familiar while reluctantly moving to the new, "*So there is still an element of 12 month budget in there that we're kind of gradually moving away from. So, you know, people will still refer to that occasionally as our standard budget for sort of 12 months. So, you know, we've kind of used that as a way to appease some of the – I don't know what you'd call them – nay sayers*".

In total eight people cited resistance to change or general fear of change as an obstacle to the adoption of new techniques.

*Management accounting literature – Focus on financial accounts*

Seven interviewees highlighted the fact that there is not enough emphasis on management accounting and too much emphasis on financial accounting. Accountants were seen more as “*bean counters rather than business partners*” (SMA04). This view was supported by SMA16 whose company sees the accountant’s role is to deal with anything with a pound symbol in it. MIP19 made the fine distinction that the finance department are not integrated in the process so that updates remain informal and outside the formal management system.

*Management accounting literature – Techniques not known under the Beyond Budgeting name*

A different angle on the theme ‘lack of awareness’, described in the ‘diffusion theory’ section in this chapter, is the phenomenon that people know the Beyond Budgeting techniques but do not identify them with the term Beyond Budgeting. Hence, when stating they are unaware of it they may not only know the individual techniques but may even be routinely using them. MIP23 observed “*I’m not saying that I would use the term beyond budgeting, but it probably kind of starts to tick a number of your boxes*” and continued to explain that accountants may be “*aware of the concepts in bits, same as I was, but they’re not probably aware of the concept as a structured piece*”. After discussing Beyond Budgeting for a while it dawned on MIP19, “*I may be using something that’s probably slightly closer to what you’ve just described than I’d realised*”. MIP70 summarised that “*People do budgeting and beyond budgeting at the same time but, you know, they don’t just call it beyond budgeting*”. In this respect the name itself may not be helping awareness and adoption, which is the subject of the next theme.

*Management accounting literature – the name ‘Beyond Budgeting’ is unhelpful*

The name is supposed to convey an idea that companies need to move beyond budgeting and instead use ‘adaptive’ techniques such as rolling forecasts and relative targets. Three interviewees however saw the name itself as a drawback with SMA04

explaining that it makes it seem “*something extra, something beyond the norm*” rather than standard as he would like to see it. SMA15 asked “*I wonder if it’s the name? The problem of the name – because that’s what people read – is Beyond Budgeting, so they think, ‘OK, so we’re not budgeting any more’?*” SMA10 said “*beyond budgeting that’s really something, you know, provocative in some sense. So it’s easier I think for people to follow the classic, traditional way*”.

*Management accounting literature – Accountants cannot manage without budgets*

Habit and tradition under the heading ‘institutional theory’ were cited as reasons why traditional budgets continue to be used. Three interviewees were more specific, intimating that accountants cannot manage without budgets. The main reason given by SMA11 for why the fixed budget abides was that “*managers don’t feel confident flying without a budget. They don’t know what it looks like, they’ve never done it before*” and he put this down to the “*accounting mind-set*” which “*is part of what leads us to, you know, stick determinedly to the idea that we need these fixed budgets*”. MIP22 believed you only use techniques you picked up in your career and SMA39 reported that after detailed fixed budgets were no longer required in his organisation “*the budget managers did some of it themselves on Excel spreadsheets. So I think it’s going to be very difficult to wean them off the mindset*”. Evidence from the interviews indicates that some accountants may not be able to imagine managing without budgets.

*Management accounting literature – remaining themes emerging*

Two people remarked that **budgeting is not the problem – the way budgets are used is the problem** with SMA24 suggesting budgets should be used to plan rather than to restrain. Two senior accountants, SMA04 and SMA39, highlighted the difficulty of convincing managers lower down in the hierarchy and pointed out the **problem that power often lies at lower levels** when it comes to supporting or blocking innovations. Two managers (SMA16, MIP40) said **there have been few contemporary accounting innovations** and believed this lack of recent innovations and the time it takes for innovations to take hold was a reason why the traditional budget has not been replaced. MIP15 made the point that it is **difficult to justify investment in management accounting systems** and asked how one can prove the

return on an intangible investment in the forecasting and budgeting process, comparing it to an investment in a machine where the return can be calculated.

**Additional insights**

The themes emerging from the interviews grouped under the heading ‘additional insights’ had not been encountered in the literature and could not be readily attributed to the relevant theories identified in the literature review. Within this category themes have been split into those arising only in the interviews and one theme which came up in survey comments and in interviews. The themes with the number of times they came up are listed in table 5.17 following.

**Table 5.17 Summary of the Additional Insight themes**

<b>Theme</b>		<b>Frequency mentioning</b>
<i>Arising in interviews</i>		
Little peer to peer budget discourse	After qualification there is little opportunity to discuss budgeting issues with peers	5
No compulsion to know innovations	Articles will only be read if people decide to read the magazines (You can take a horse to water... )	2
Non-ACMA advisors to business	Advisors to business are often not ACMAs and therefore are not aware of the latest management accounting techniques	2
Publication policing	Difficulty in getting published if the right people don't see the subject as fashionable or if it's not the accepted flavour of the month	1
<i>Arising in survey and interviews</i>		
Decision-makers too old	Older decision-makers unaware of BB or unwilling to implement. Difficulty to publish ideas due to older experts.	5

**Additional insights – little peer to peer budget discourse**

Although peer-to-peer communication is a channel of communication under diffusion theory there was more to this theme as it specifically dealt with the post-qualification phase and arose after reflection in the interviews. In the course of the discussion five accountants regretted that there was little opportunity after qualifying to exchange views with peers. Towards the end of his interview MIP42 remarked that it was good to talk about it to somebody and added that since qualifying in 2002 it was the first time he'd done anything like this, maybe it would gain more precedence in the future. MIP54 said he found it interesting and said “*thank you for giving me the opportunity to speak*”. SMA10 would like to make a contribution and passed the comment “*I need this kind of discussion because it's like a very vital issue*



*for me*” and followed on *“I would like to see it more”*. MIP57 would like to see more encouragement in this type of thing and made the point *“it’s only when you start to talk to people that you think ‘Oh yeah, that’s good.’”* SMA33 admitted *“after I did the survey I did go away and look up some background details on beyond budgeting”*. Although it is difficult to get to speak to accountants it seems on the basis of the interviews that some may be willing to share their experiences and get involved.

The internet social networks are filling this gap to a degree by providing a platform for discussion in networks such as LinkedIn and the German Xing equivalent. CIMA also provide a platform with its CIMAsphere management accounting discussion board. Since June 2009 CIMA sends out short news bulletins on Twitter. However the peer-to-peer direct contact during which innovations might be disseminated would appear to be missing.

**Additional insights – no compulsion to know innovations**

SMA27 emphasised that somebody has to make the conscious decision to read an article and MIP57 said if there is an innovation out there *“and it’s happened in the past 2 years I probably have missed them because of lack of time.”* Even when publications are delivered to the door or the electronic mailbox there is no compulsion to read them. This led on to the question of how to make people aware of innovations.

**Additional insights – non ACMA advisors to business**

Two interviewees saw a problem with external accountant / advisors not coming from a CIMA background and not having learnt management accounting techniques. MIP17 observed that most external accountants just prepare the *“totally useless statutory accounts”*.

**Additional insights – Publication policing**

The publication policing theme straddles two themes dealt with under diffusion, not enough press coverage and fads and fashions, but does not fit into either. Although only one interviewee, EDU02, mentioned this issue it raised an interesting point on

the power of publishers. EDU02 maintains *“I don't want to call it policing, but a kind of alliance. I'll use the word alliance in terms of certain topics which are flavour of the month and, you know, if you try and go outside any of those, you know, you find it quite hard to break through”*. There needs to be general acceptance of new idea, *“unless it's something that they latch onto you're going to find it's very hard to get anything published or anything written, you know in terms of changing ideas”*.

**Additional insights – Decision makers are too old**

The fact that decision makers are too old was first raised in the survey by respondent SMA10, also an interviewee, who in his interview said directly *“this is because the company is managed by, let's say, older people”* and added *“the age also may lead the mentality of people who are there and who don't change, they don't fluctuate”*. Four other interviewees flagged age as a reason new innovations do not get implemented. EDU02 ventured *“I've got to be careful about choosing my words here, but that the more mature generation is giving the direction”* and MIP54 commented that *“there is a whole raft of, I don't know, older than 45 guys who have just not picked up that and are just trudging on doing what they've always done and getting what they've always got”*. MIP55 mentioned that *“some of our older colleagues will be traditionalists”* and SMA38 said of himself *“at my age now – I've just turned 52 – ...I'm quite happy about the way I'm doing things”* and *“if I was 30 years younger again now and starting out on the career path again, you know, it could take my interest”*.

It is the nature of business that those with the most experience occupy the more senior positions and are older than the aspiring managers lower in the hierarchy. Age as a factor was not identified specifically in the literature review. However, it may be that senior managers are more inclined to stick with tradition or alternatively that having qualified in an earlier era they did not come across the newer management techniques. The explanation that age is a factor carries more weight because one interviewee referred to himself as an example.

This section covering reasons given in the interviews for non-adoption of Beyond Budgeting shows that there is no single major reason but that rather a myriad of reasons at least slowing down adoption if not preventing it.

#### **5.3.4 Questions arising in phase one for follow-up in phase two**

In section 5.2.6 the following issues arising from the surveys were flagged for follow-up in the interviews:

**Question 6:** Discover what organisation activities were categorised as ‘other’.

**Question 13:**

- Determine the exact year of qualification and enquire whether CIMA students cover Beyond Budgeting in their studies.
- Assess how far CPD is making CIMA members aware of innovations.
- Ask whether interviewees read CIMA monthly publications.

**Question 16:** Query whether interviewees experience external pressure to produce fixed budgets. This external influence issue was covered under ‘Institutional theory – Stakeholder pressure to budget’ in section 5.3.3.

**Question 17:** Find out whether interviewees outside the UK see a regional influence on the adoption of new management accounting innovations. This influence of geographic region was covered in the ‘contingency theory’ section on page 165.

These questions were put to the interviewees where appropriate. Follow-up to questions 16 and 17 has already been dealt with; the follow-up to questions 6, 13 and 14 is presented by question number below.

#### **Survey question 6 – Nature of organisations categorised as ‘other’**

Where interviewees had selected “other” as their organisation’s principal activity in the survey they were asked in the interview to specify what exactly their organisation does. The activities and suggested ISIC follow in table 5.18.

**Table 5.18 Interviewees selecting 'Other' in the survey as organisation principal activity**

<u>ID</u>	<u>Activity</u>	<u>Appropriate ISIC</u>
MIPs (x21)	Members in practice	Commercial services
ACC09	Mining services / equipment-hire	Commercial services
ACC28	Small business advisor	Commercial services
SMA11	Office services	Commercial services
SMA21	Industrial production	Manufacturing
SMA22	Charity foundation	Education, public or social services
SMA28	Theatre	Other
SMA33	Trade supplies & fitting	Commercial services

28 out of the 50 interviewees had selected 'other' in the survey as the principal activity of their organisations. 21 of these were MIPs who provide commercial services and hence could have selected the ISIC code 'Commercial services, Energy and Utilities'. Four others would seem to fall into the Commercial services category, SMA21's organisation is in 'manufacturing' and a SMA22's charity could be classed under a 'public service'. The theatre is probably justifiably classed as 'other'. The aim of this interview question was to make a judgement on whether no appropriate category was available or whether the question was too demanding. As appropriate categories were available it seems reasonable to conclude that the question required too much effort or time to answer.

#### Survey question 13 – Coverage in CIMA syllabus

It was expected that most candidates examined after the year 2000 would have heard of Beyond Budgeting in their CIMA studies and would therefore answer in the survey that they had heard of the techniques in a 'talk, seminar or lecture'. This was not the case so interviewees who qualified in 2000 or later were asked about this and asked to specify the year they qualified. The answers are summarised in the following table 5.19, showing the exact year of qualification, whether or not the subject was covered during preparation for the CIMA exams and where Beyond Budgeting was first encountered as answered in the interview and as indicated in the survey.

**Table 5.19 Awareness through CIMA study in interviewees qualifying after 2000**

ID	Exact Year	Covered in CIMA Syllabus	First encounter according to interview	First encounter survey answer
<b>Heard of Beyond Budgeting</b>				
MIP61	1999	Doesn't recall	Accounting journal	Accounting journal, textbook, press
MIP57	2000	Yes		Seminar, lecture
SMA16	2000	No	Peer to peer	Word-of-mouth, Seminar, lecture
MIP42	2002	No	Accounting journal	Accounting journal
SMA04	2003	No	CIMA Mastercourse	Seminar, lecture
ACC17	2005	Doesn't recall	Accounting journal	Accounting journal
SMA22	2005	Yes	And Institute magazine	Literature or textbook
SMA30	2005	Little mention		Accounting journal
SMA11	2006	Doesn't recall	Journal	Accounting journal
SMA12	2007	Yes		Seminar, lecture
SMA08	2008	Yes		CPD
MIP15	2009	Just mentioned	Heard of before	Literature or textbook
SMA05	2010	Yes		CPD
SMA10	2010	Yes		Literature or textbook

**Not heard of Beyond Budgeting (7 interviewees)**

MIP36 (1999), MIP36 (2000), MIP05 (2002), SMA28 (2003), SMA33 (2003), MIP16 (2004), SMA09 (2004)

The results can be summarised as follows:

	<u>Interviewees</u>
Qualified prior to 2005 not heard of Beyond Budgeting	7
Qualified prior to 2007 did not cover / do not recall covering it	6
Qualified prior to 2007 recall covering it	3
Qualified in 2007 and later and recall covering it	<u>5</u>
<b>TOTAL NUMBER OF INTERVIEWEES QUALIFYING 2000 AND LATER</b>	<b>21</b> <b>==</b>

Two members qualified in 2000 but did their final exams in 1999 when neither can recall covering Beyond Budgeting. It cannot be taken for granted that all CIMA members qualifying in 2000 and later covered the subject in their exam preparation as more than half the members interviewed do not recall covering it. Beyond Budgeting has been included in the syllabus since 2005 (section 2.10) and all interviewees qualifying in 2007 and later had covered it in their courses.

**Survey question 13 – Whether CPD makes accountants aware of innovations**

Also as a follow-up to question 13 in the survey, interviewees were also asked whether CIMA's compulsory Continuing Professional Development (CPD) causes

them to become aware of new management accounting techniques. 27 people gave a definitive answer to the question as follows:

15 – Yes, CPD causes accountants to look at innovations

12 – No, CPD does not cause accountants to look at innovations

It is evident from the 15 accountants who answered that they learn about innovations through doing compulsory CPD, that it is effective for some people in the dissemination of new ideas. A considerable number of interviewees were however undecided whether CPD actually made them aware of new innovations or not. The interviewees took the opportunity to give their opinions on CPD and the major themes were:

- CIMA CPD is not prescriptive; it is flexible (20 interviews)
- CIMA members are too diverse for prescriptive CPD. No subjects are relevant to all members (9 interviews)
- CIMA CPD is just a box-ticking exercise (9 interviews)
- CPD is important (8 interviews)

Opinions were split on whether CIMA should lay down compulsory subjects to be covered in CPD. SMA33 believed “*with CPD there should be a core basis that everyone knows*” but SMA22 thought the opposite and remarked “*they can’t make it compulsory that we all go on a course on doing budgeting or whatever because people would revolt*”. When accountants made suggestions on how management accounting innovations could be disseminated 12 suggested that CPD might be the answer. SMA04 felt it could be “*far more structured*”, MIP05 thought a crucial innovation could be promoted “*as a mandatory requirement on CPD*” and MIP15 said “*CPD needs to be more directed from CIMA and not a case of what you decide what you want your CPD to be and then tell us what you’ve done*”. Two interviewees believed CIMA should check more that members are doing their CPD (MIP05, MIP33).

Although there was no consensus on whether CPD made accountants aware of new innovations, there was a general feeling that it could be improved and it would be

possible to make a number of recommendations to CIMA based on the interview comments.

**Survey question 13: Readership of CIMA publications**

As accounting journals were the principal place of first encounter with Beyond Budgeting, interviewees were asked how often they read Financial Management and CIMA’s electronic newsletters. This question is also relevant to the methodology as the invitation to take part in the online survey was placed in the CIMA publications.

47 out of 50 interviewees answered the question about Financial Management and 34 gave an answer about the Insight electronic newsletter. The results are shown in the following table, table 5.20. The number of people in each category of FM readership is broken down further into those who are aware of Beyond Budgeting and those who are not.

**Table 5.20 Frequency of reading CIMA’s monthly publications**

Frequency of reading	Financial Management	%	Aware of BB?		Insight Newsletter	%
			Y	N		
Regularly	30	64%	21	9	16	47%
Rarely	17	36%	10	7	16	47%
Not aware of existence	-	-	-	-	2	6%
<b>TOTAL</b>	<b>47</b>		<b>31</b>	<b>16</b>	<b>34</b>	

Out of the accountants answering the question, 64% regularly read Financial Management and 47% Insight. As the majority of the interviewees read Financial Management one might assume they are likely to hear of new innovations if articles about them are included in it. However of the 30 people reading Financial Management regularly, nine had not heard of Beyond Budgeting. In these cases reading Financial Management has failed to make the interviewees aware of a much reported upon innovation, i.e. Beyond Budgeting.

The majority however did not read Insight, including two interviewees who were not aware of its existence.

**5.3.5 Background information**

As the phase two interviews were semi-structured, interviewees took the opportunity to talk about their own professional backgrounds and the status of budgeting and Beyond Budgeting in their own organisations. Most of this information did not directly provide an answer to the question why Beyond Budgeting has not been widely adopted but gave useful insights into current practise and thinking. The top level themes identified can be seen in figure 5.14 which follows. Selected themes are presented in more detail beneath the chart.

A detailed chart including sub-themes within the top-level themes can be seen in appendix 16.

**Figure 5.14 Chart of top level background information themes**

RESPONDENT INFO.	ORGANISATION INFO.	SUPPLEMENTARY INFO.
Attends CIMA events or training	BB adopted	BB to ABC-BSC-Lean Comparison
Attends no CIMA events	BB being examined and considered	BB to commitment accounting comparison
Background personal & professional	BB concepts under another name	BSC comments
Budget methods and philosophy	BB project in progress	Budget as a journey
CIMA responsible	Incentives decoupled from budget	CIMA - advantages of qualification
CIMA not responsible	Keep fixed budget	CIMA commercially motivated
Critical of traditional budgeting	Misc. organisation details	CIMA courses too low level
Exact year of qualification	No incentive schemes	CIMA have a leading role
Exciting times for MA	Relative targets used	CIMA in shadow of CAs
How BB aware	Rolling forecasts not used	CIMA to promote web-site more
In praise of BB techniques	Rolling forecasts used	CIMA too insignificant, unknown
In praise of rolling forecasts		CIMA training gaps
Read Financial Management magazine		CPD
Read Insight		Danger not keeping up-to-date
Responsible for budgeting		Diffusion methods suggested
Source for innovations		Importance of forecasting
		Importance of management accounting systems
		More strategic emphasis required

Respondent information

Under the heading respondent information, such background information as respondents’ attendance at CIMA events, personnel opinions on rolling forecasts and the traditional budget was collected. 25 of the 50 interviewees made comments coded to the theme ‘critical of traditional budgeting’, for example:

SMA05: *“a hell of a lot of effort... you just have to re-do it three months later”*



EDU02: *“people find it a huge waste of time”*

SMA10: *“there is no continuity, there is no refreshment. The budget is fixed and that’s it”*

SMA22: *“everyone who’s involved in budgeting from budget holder right up to FD complains about, you know, the complexity, the duration, just the hassle factor of doing budgets”*

As well as criticism of Beyond Budgeting, comments in praise of Beyond Budgeting and / or rolling forecasts were coded into themes under the heading ‘respondent info’. Ten interviewees praised Beyond Budgeting, ranging from the unambiguous statement from SMA05 who stated *“budgeting is negative I think in a lot of people’s eyes, and I know Beyond Budgeting can solve that”* and continued, *“when I try and convince people of Beyond Budgeting it is really an easy sell”* to MIP57 who gave the general (subjective) opinion *“Beyond Budgeting is... you know, I think it’s a good thing... it’s a must for organisations, especially in this current climate”*. Other views included:

SMA12: *“I think it’s a good thing, to be honest with you, and I think it’s also encouraged the profession to be a bit more forward looking on a regular basis”*

MIP15: *“it’s something that I would like to see being taken on board... it’s something I would like to see pushing forward”*

MIP16: *“beyond budgeting sounds to be far more actually what is relevant to each area and what is actually going to have long-term effects that, you know, will deliver kind of what the business needs”*

MIP69 made a more detailed comment which leads into comments specifically on rolling forecasts, *“continually rebuilding the budgeting exercise going forwards means that there is the potential for more and more extraneous, if you like, non-specific information coming into the model and therefore driving the direction in which the business is going to go”*.<sup>16</sup> interviewees praised rolling forecasts ranging from SMA08 seeing them as *“a good thing”*, through SMA11’s *“rolling forecasts are great in principle”* to SMA12’s assertion that *“rolling forecasts are important”* or MIP14’s view that they are a *“valuable tool”*. However the rolling forecast was also be seen as a complement to the fixed budget and not always as a replacement,

SMA21 explained *“the budget still stands, it’s still the primary measurement of expectations, but the rolling forecast then becomes a means of giving more up-to-date, better information given, you know, the knowledge that you have at that point in time”*. In this case the rolling forecast element of Beyond Budgeting solves the problem of the budget going out of date but it is far from the abandonment of the budget, the first phase of implementing the concept. MIP17 also uses rolling forecasts with his clients in conjunction with budgets *“I take them on that detour with a sort of up-dated forecast that you refer to until they get back onto the budget track”*. Amongst interviewees rolling forecasts have been adopted as a solution for some of the drawbacks of traditional budgeting, even if they are seen as a complement to the traditional budget.

It was interesting to see that six CIMA members felt that CIMA is responsible for making its members aware of new management accounting innovations against one who said it was the responsibility of each individual to keep themselves up-to date. Some interviewees talked about their sources of information of new innovation as follows in table 5.21:

**Table 5.21 Sources of management accounting information for CIMA members**

<b>Theme</b>	<b>Frequency mentioning</b>
Peers - innovations heard by word of mouth	5
Born out of necessity new solutions sought to solve new problems	2
CIMA generally - including targeted searches on the CIMA site	2
CIMA Hot Topics List - a list of topics for discussion given to branches	2
Financial Management - CIMA's monthly magazine	2
CIMA web-site - specifically cited as a source of innovation information	1
Consultants or auditors	1
Preparing to give lectures	1
Professional Institutions - other than CIMA for example IOD	1

Four out of nine sources of information mentioned were CIMA related. It should not be surprising that CIMA members turn to the original provider of their management

accounting knowledge when seeking information management accounting techniques and innovations.

#### Organisation information

Interviewees talked about techniques implemented in their organisations and gave details on their size and activities. Three organisations were in the process of implementing Beyond Budgeting techniques and a further organisation was considering implementing. Six people reported that principles of Beyond Budgeting had been implemented in their organisations but that the term itself had not been used. SMA11 said *“I don’t think they were calling it beyond budgeting as such, but it’s, I don’t know, I guess beyond budgeting and the concepts of beyond budgeting. It’s got a few labels”*, and MIP57 maintained *“the big thing that I pushed into every organisation that I went into was the beyond budgeting, but I didn’t actually use the term”*. These comments arising from practice are in line with the opinions presented in the management accounting literature that techniques are being adopted but not under the Beyond Budgeting name.

#### Supplementary information

Background information which was non-respondent and non-organisation specific was categorised as supplementary information. The kinds of themes found in this category include comparisons to previous innovations such as BSC and ABC, general comments on CIMA and the importance of management accounting. It is worthy of note that interviewees were not short of ideas on how institutions such as CIMA could increase awareness of new innovations and some of these should be communicated as recommendations to CIMA. Within the theme ‘diffusion methods suggested’ the suggestions made are shown in table 5.22 following.

**Table 5.22 Diffusion methods suggested by interviewees**

Theme		Frequency mentioned
New CPD category or mandatory part	Must-know innovations to be a compulsory module of CPD. CIMA to check everyone does CPD	12
CIMA events including regions	Promote innovations at CIMA events	10
FM-Magazine & Insight	Promote new innovations using the CIMA Financial Management magazine and/ or the Insight Newsletter	8
CIMA Webinars, webcasts, forums & CPD resources	Innovations should be diffused using CIMA webinars, forums and CPD resources	7
CIMA Website info & case studies	Promote innovations in man. accounting on CIMA website	6
Direct e-mail notification	Mails from CIMA to members detailing new innovations	5
CIMA from the top	CIMA should send a stronger message to the membership and promote innovations more	3
CIMA access to journals	CIMA members should be given access online to accounting journals to keep up-to date on innovations	1
CIMA branches to share experiences	More CIMA members should stand up and share their management accounting and other experience at branch meetings	1
CIMA fellows and innovations	The role of fellows should be re-defined. Fellows as senior members should take the responsibility for the diffusion of new thinking	1
CIMA special interest group	CIMA to set up special interest groups for innovations such as beyond budgeting or areas such as logistics	1
External seminars or coaching	Respondent learns about new innovations from external sources such as - company providing business support, a business coach	2
LinkedIn + other forums	Diffusion of innovations could take place via forums such as LinkedIn	2
Involve marketing people	Marketing people should be involved as they are experts in marketing ideas	1

Some themes were addressed in previous categories but from a slightly different angle. In this case interviewees were asked how they thought innovations could be brought to the attention of CIMA members.

### 5.3.6 Summary of interview findings

The interviews threw light on two major aspects of the progress of the adoption of Beyond Budgeting:

1) Interviewees intimated that techniques such as rolling forecasts were increasingly being introduced but not under the name Beyond Budgeting. There was evidence of partial adoption amongst interviewees which could suggest that the use of Beyond Budgeting techniques might be higher than that suggested in the literature, and it may be continuing to increase.

2) It was evident from the interviews that there was no one main reason why the techniques have not been widely adopted. The many reasons encountered were contextual to the individual and organisation.

The empirical findings from the interviews were categorised under headings taken from the literature review, confirming the undiminished relevance of the theories identified there in explaining contemporary organisational issues. There were few exceptions which did not fit into any literature review classification and these were listed under additional insights.

Under 'Diffusion' the three most cited themes, lack of promotion, low quality training and lack of awareness were related, with the first two points potentially leading to the lack of awareness in third place. In the 'Contingency' category, organisation size and lack of sophistication in existing systems were the most frequently mentioned themes. Institutional themes were headed by the external pressure to budget exerted on organisations by stakeholders and the internal pressure of 'habit and tradition' to maintain the budgeting status quo. Complexity of Beyond Budgeting was mentioned but not often enough to be regarded as a major issue. Themes from the literature not specifically attributed to a theory were categorised under 'Management accounting literature'. In this category, in line with the 'habit and tradition' theme under Institutional theory, internal factors influencing the decision to retain the fixed budgeting procedure grouped together as 'Annual budget has advantages' headed the list.

From the summary of the salient points arising in each category it could be seen that abandoning the budget was difficult for the interviewees because of external pressure, habit and tradition (ritual) or the perceived advantages of traditional budgeting. In this study, abandoning the budget, the first step in Beyond Budgeting appears to have been a major hurdle to the wider adoption of Beyond Budgeting.

#### **5.4 Conclusion on findings from phase one and two**

Evidence from both the survey in phase one and the interviews in phase two might suggest that Beyond Budgeting techniques could be more widespread than

contemporary surveys have indicated. This may be due in part to techniques not being identified with the term 'Beyond Budgeting' meaning that when managers are asked if they know of Beyond Budgeting they may answer "No" even if they may be using the techniques on a daily basis.

The interviewees gave many reasons why adoption was not widespread. With few exceptions the interviewees cited reasons documented in literature concerning the uptake of management accounting innovations. External pressure obliging organisations to compile budgets was experienced by 30 interviewees, making this point the most widespread single reason for not abandoning the fixed budget.

In the next chapter, chapter six 'Discussions and conclusions', the results and findings from chapter five are discussed in the context of the research questions from the literature review and conclusions are drawn.

## **CHAPTER 6 – DISCUSSION AND CONCLUSIONS**

### **6.1 Introduction**

Chapter one introduced traditional budgeting and Beyond Budgeting, a general management model presented by its proponents as a new, alternative general management model which abandons the traditional budget in the first phase and advocates radical decentralisation as a second phase. The research problem was defined, describing how adoption of Beyond Budgeting since its inception in 1997 has been low despite its apparent benefits and the reported success of companies following the principles. The research aim was revealed as understanding why Beyond Budgeting has not been widely adopted. Chapter two looked at the budgeting procedure in detail reviewing criticisms of traditional budgeting, the defence of budgeting and alternatives to it. Chapter three reviewed the existing literature relevant to the research study from which a theoretical framework was developed and the research questions were derived. Chapter four detailed the multiphase research methodology, then, in chapter five, findings from the 185 completed surveys in phase one were analysed and the information from the 50 semi-structured interviews from phase two categorised and summarised.

This conclusion chapter discusses the results from chapter five against the background of the literature review and the relevant theories. The research questions RQ1 – RQ5 were conceived so that the answers to the individual questions would lead collectively to insights on why Beyond Budgeting has not been widely adopted. After considering each RQ in order an overall summary is presented. The chapter continues with the theoretical framework extended to include the empirical findings, moving on to the contribution to theory and practice and ending with an overview of the limitations, suggestions for further research and closing remarks.

In this chapter the whole overall concept of Beyond Budgeting is referred to as the ‘concept of Beyond Budgeting’ or the ‘concept’ and the individual components making up the whole as ‘principles’ and ‘techniques’. This serves to differentiate between the overall Beyond Budgeting management model, which advocates abandoning the budget in phase one and radical decentralisation in phase two, from

individual techniques such as goals based on external benchmarks, relative improvement contracts, rolling forecasts and fast transparent reporting.

## **6.2 Discussions and analysis by research question**

In this section each RQ is answered drawing from the phase one survey and phase two interview findings in the context of relevant theories and literature. Issues which could be dealt with under two or more RQs are dealt with in detail under the RQ deemed to be the most pertinent.

### **6.2.1 RQ1: Criticism and defence of the traditional budget**

Following on from criticisms of the traditional budget in the literature, especially from proponents of Beyond Budgeting, **RQ1 asks ‘Do managers perceive a fundamental problem with traditional budgeting?’**

In phase one of the research, the survey, respondents expressed mixed opinions; on the one hand, critical of budgeting (92% of accountants responding perceived a risk of budget incentives leading to dysfunctional behaviour), while on the other hand, in defence of budgeting (67% saw the budget as an effective, proven, coherent system which works well). Fundamentally confirming there is a point to budgeting, the majority of respondents disagreed with the statement that business is too complex to be modelled. Furthermore, 60% could not imagine managing a business without it. Survey respondents recognise that traditional budgeting is flawed but also appreciate that it works and has its advantages. With few exceptions, previous research has concluded that managers were dissatisfied with budgeting. Survey respondents did not unanimously confirm this dissatisfaction with 60% answering they were generally satisfied with the budgeting process.

In phase two around half the accountants interviewed criticised aspects of traditional budgeting; for example the time and effort involved, its static nature, its complexity and the inconvenience of having to do the budget (section 5.3.5, ‘Respondent Information’). Interviewees were conscious of problems with budgets and evidently in some cases irritated by them.



However, interviewees highlighted the difficulties they would have relinquishing the traditional budget, stating for example, that it's the only tool that people think they can rely on to determine performance and that people's performance bonuses and appraisals rely on it (section 5.3.3, 'Institutional – Annual budgets for bonus and performance evaluation'). The reasoning is somewhat illogical, as under Beyond Budgeting people's bonuses would be de-coupled from the budget. It may be partly explained by the fact that the performance evaluation techniques of Beyond Budgeting were not widely used by survey respondents (section 5.2.3, Fig. 5.5), with 60% basing incentives on the budget and only 36% de-coupling targets from their traditional budget. Coded to the category 'Institutional Theory', there were further themes identified in the interviews as reasons for retaining the budget, the most important of which was pressure from stakeholders, such as banks and regulators, to produce annual budgets. (The subject of stakeholders' influence is discussed in greater detail in section 6.2.3, discussing RQ3 under the heading 'Applicability and appropriateness'). The annual business cycle was also seen as lending itself to a 12 month annual budget.

Based on the interview findings, there is still support amongst accountants for the traditional budget even though they are aware of its shortcomings. The following positive characteristics of traditional budgeting, emerged during the interviews:

- Familiar and comfortable
- Traditional and a habit
- Easy to understand
- Traditional budgeting works well
- It functions as a stake in the ground
- Snapshot or reference point
- Coherent and all-encompassing

These were coded to sub-themes grouped under the main theme 'Annual budget has advantages' and illustrated in section 5.3.3, figure 5.13.

The ambivalent attitudes of the participants in the research to traditional budgeting are shared by the literature in this area. In chapter two the literature criticising the traditional budgeting process was reviewed, dating from 1929 until the present day

(section 2.3). In contrast, this was followed by a selection of literature defending the traditional budget (section 2.4). The criticisms and defences are summarised in table 6.1 following.

**Table 6.1 Criticisms and defences of the traditional budget**

<u>CRITICISM</u>	<u>DEFENCE</u>
<b>The budgeting procedure is disliked</b> - Hope & Fraser(2003a)	<b>Comforting - managers welcome clear goals</b> - Marginson & Ogden(2005)
<b>Managers dissatisfied with budgeting process</b> - Jensen(2001), Horngren(2004), Neely <i>et al</i> (2003), - Welch & Welch(2005), Jensen(2003), - Jarman & Bibekar(2009)	<b>Satisfied with status quo</b> - Dugdale & Lyne(2010a)
<b>Burden on resources (cost &amp; time)</b> - Schmidt(1992), Libby & Lindsay(2007), - Jensen(2003), Jarman & Bibekar(2009)	<b>Essential - cannot manage without budget</b> - Libby & Lindsay(2007), Jensen(2003) - Reid & Smith(2002), CIMA & ICAEW(2004)
<b>Dysfunctional behaviour:</b> - Onsi(1973), McVay & Cooke(2006); <i>Budget padding</i> - Hopwood(1972), Merchant(1990); <i>Short-termism</i> - Jensen(2003), Thomson(2007); <i>Dishonesty</i>	<b>Works well - successful companies use budgets</b> - Libby & Lindsay(2007)
<b>Outdated, not evolved</b> - Johnson & Kaplan(1991)	<b>Evolving to meet current challenges</b> - CIMA & ICAEW(2004) - Bromwich & Bhimani(1994)
<b>Static &amp; unresponsive</b> - Prendergast(1997)	<b>Some companies budget continuously</b> - Simons(1991)
<b>Too much emphasis on numbers</b> - Hopwood(1980), Johnson & Kaplan(1991)	<b>Numbers are unambiguous</b> - Ezzamel <i>et al</i> (1990)
<b>Command &amp; control - centralised control system</b> - Drucker(1929), Neely <i>et al</i> (2003), Daum(2005)	<b>Coherent, integrates all organisation activity</b> - Otley(1999)

**Conclusion on RQ1**

The research results are in line with the findings in the literature except on one count; most accountants taking part in the research were satisfied with the traditional budgeting process, which contradicts most previous research and literature reviewed.

The criticisms and defences of traditional budgeting as presented in table 6.1 draw on the theories discussed in the literature review as follows:

- Contingency theory, assuming that organisations tend to use the management accounting techniques that suit them best (Luft & Shields, 2003), is

applicable to the 'outdated not evolved' criticism, where the fixed budget is deemed unsuitable for today's fast moving business environment. The defence that systems are 'evolving to meet current challenges' indicates that organisations are matching systems to needs, as does the defence that some organisations are 'budgeting continuously'.

- Institutional theory, with its norms and legitimacy, is present with the defence that the traditional budget is 'comforting', that 'successful companies use budgeting' and that accountants are 'satisfied with the status quo'.
- Agency theory is behind the 'dysfunctional behaviour' where managers' actions are incongruent with the wishes of stakeholders and the 'command and control' centralised control system which aspires to steer the business in the direction desired by top management.
- Complexity theory based on the premise that no system can predict the future may be referred to where systems are seen as 'static and unresponsive' and therefore not suitable for a changing environment.

Diffusion theory is only relevant insofar that the traditional budget is well-established and 'successful companies use budgets'. As discussed in the literature review, traditional budgeting took a long time to get established.

In conclusion, RQ1 asks whether managers perceive a fundamental problem with traditional budgeting methods. The answer is that they perceive not one but several fundamental problems. At the same time the majority also see virtues in the traditional budget. They rely on it and accept it which, along with the advantages for traditional budgeting given by participants, means it does not seem likely that accountants are ready to abandon the budget yet and fulfil the first step and central pillar of Beyond Budgeting. With this reliance on the traditional budget and the high acceptance, any arguments for an alternative system to the traditional budget will need to be very convincing if accountants are to grasp it and implement it.

### **6.2.2 RQ2: Awareness and understanding of Beyond Budgeting**

**RQ2 poses the question ‘To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations?’** The findings in the survey and the interviews are discussed under three headings: ‘Awareness of Beyond Budgeting’, ‘Awareness of the principles and techniques making up Beyond Budgeting’ and ‘Depth of understanding’.

#### **Awareness of Beyond Budgeting**

In phase one, more than one third of survey respondents stated they were not aware of Beyond Budgeting (section 5.2.4, question 11). As CIMA members, by definition, are specialists in the areas of budgeting and management accounting and as Beyond Budgeting has been well publicised in the accounting press, this result is surprising.

According to the survey, respondents qualifying after the year 2000 were more likely to be aware of Beyond Budgeting than those who qualified before (section 5.2.4, table 5.5). Student accountants are not only more likely to come across new innovations in the course of their studies than qualified accountants in carrying out their jobs, they are also required to learn about innovations named in the CIMA examination syllabus, which has included Beyond Budgeting since 2005 (section 2.10).

This was followed up in the interviews and it was ascertained that all interviewees qualifying in 2007 and later had covered Beyond Budgeting in their studies (section 5.3.3, table 5.19), which would indicate that including an innovation in the CIMA syllabus ensures that new CIMA members learn about it. This empirical finding is in accordance with the work of DiMaggio & Powell (1983), as seen in the literature review section 3.2.8, who maintained that the professional bodies have an important role in the dissemination of new innovations.

The majority of survey respondents had only become aware of Beyond Budgeting five years ago or less, even though the concept was presented in 1997 and the

seminal work by Hope & Fraser published in 2003. News of Beyond Budgeting was published regularly from 1997 onwards in the financial press and professional magazines including coverage in CIMA's monthly magazine (section 2.10, table 2.4). This is partly explained by recently qualifieds and not yet qualified members possibly only having started studying in the last 5 years. However, the majority of accountants aware of the concept who qualified between 1970 and 1999, also only heard of it during the last five years (section 5.2.4, table 5.6). Interviewees put the lack of awareness down to failings in promoting the innovation and low quality training (section 5.3.3, table 5.12 & figure 5.12).

Some managers reported they were either considering introducing Beyond Budgeting or were in the process of introducing it, indicating that although it is taking some time, there is still some momentum behind the innovation. This is important for the continued adoption as, according to Modell (2007), momentum is necessary for continuing change (section 3.2).

The findings discussed so far under RQ2 concern the awareness of the term 'Beyond Budgeting' and Beyond Budgeting as a whole concept. Discussion of the awareness of the component parts or individual techniques making up Beyond Budgeting follows.

#### **Awareness of the principles and techniques making up Beyond Budgeting**

Most Beyond Budgeting techniques listed in question Q9 in the survey (section 5.2.3) were found to be already in use in the majority of the respondents' organisations. They were also in use in those organisations where respondents answered that they had not heard of Beyond Budgeting. A comparison (section 5.2.3, figure 5.4) showed that most were in greater use in the organisations who had not heard of Beyond Budgeting than in those where the respondent had heard of it. In phase two, six interviewees told that they used the techniques but not under the Beyond Budgeting name. Thus some accountants use Beyond Budgeting techniques without associating them with the term 'Beyond Budgeting', which would indicate that awareness and adoption of the techniques may be higher than previously thought.

On usage and awareness of Beyond Budgeting techniques there is a divergence between the empirical findings and some of the literature. Previous surveys (Abdel-Kader *et al*, 2006; Rickards, 2008; CIMA, 2010a) reported few organisations using Beyond Budgeting but, based on the findings in this research, it seems likely that respondents to previous surveys answered that they did not know of, or were not using Beyond Budgeting, when in fact they may have been using the techniques but either did not associate the techniques they were using with it or were not aware of the term Beyond Budgeting at all. This empirical finding corresponds to the situation described in section 3.2.7 of the literature review in the cases of SMA and ABC, where Langfield-Smith (2008) reported the term SMA was not widely understood nor used and that the low adoption of ABC may not have taken into account aspects which had slipped into accepted practice and where the term 'activity-based costing' may not have been used. Lord (1996) argued that despite reports on the paucity of examples of SMA in practice, the techniques and elements of SMA may in many cases already have been found in firms - used and collected not by management accountants but by the operational management. Becker *et al* (2010) found that Beyond Budgeting principles are considered in many organisations but not under the label 'Beyond Budgeting' and sometimes without knowledge of the underlying movement (section 3.2.7).

In the survey those respondents who answered that they had heard of the concept of Beyond Budgeting were subsequently asked about their awareness of 17 individual principles and techniques (section 5.2.4, figure 5.6). Predictably, familiarity with the individual techniques was high, with each technique being known to the majority of the respondents. When the level of usage of the techniques was plotted against the awareness, it was found that there was a divergence between the awareness of some techniques and their actual usage. This would seem to indicate that awareness of a technique alone does not guarantee its adoption. According to the literature (section 3.2.4), before adopting new techniques, managers need to be convinced the benefits outweigh the cost and effort of implementing and operating them (Anderson, 1995; Berland & Boyns, 2002; Howard, 2004). In section 3.3.2.1, Rogers (1995) is quoted explaining that to be adopted, an innovation needs to demonstrate five qualities: relative advantage, compatibility, trialability, observability and less complexity.

### Depth of understanding

The majority of survey respondents were found to be using most Beyond Budgeting general management techniques already. As the respondents were all trained CIMA accountants it is assumed that they also understand them.

However, the majority of survey respondents answered that the techniques are unknown to non-finance managers (section 5.2.4, figure 5.8/Q18), making it difficult to persuade them to adopt Beyond Budgeting. The low awareness amongst directors also came up in the interviews (section 5.3.3, table 5.11), which leads to the point that senior managers, who ultimately decide on fundamental change, may not be management accountants and their lack of understanding or different understanding (section 5.2.2) of the techniques could be a factor in deciding not to adopt. Parallels were found in the literature review (section 3.2.1) where Bromwich and Bhimani (1994) wrote about the effect of a lack of understanding on the adoption of new innovations and Kotter & Schlesinger (1979) pointed out that people will resist change if they misunderstand the change and its implications.

Recently qualified accountants amongst the respondents had heard of Beyond Budgeting and therefore had a greater depth of understanding. Most, however, will be in relatively junior positions and are unlikely to have the authority to decide on the adoption of new management accounting techniques in their organisations (section 5.3.3, Diffusion – ‘Lack of management support’).

### Conclusion on RQ2

Table 6.2, following, presents the outcomes of the research in answer to RQ2; ‘To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations?’ Outcomes are mapped to theories and authors from the literature review.

**Table 6.2 RQ2 – answers and conclusions**

<b>Research finding</b>	<b>(S) Survey / (I) Interview</b>	<b>Section</b>	<b>Theory</b>	<b>Authors</b>
			<b>Diffusion</b>	
<b>Awareness of Beyond Budgeting</b>				
In survey 37% were not aware of the concept of BB	S	5.2.4	- channels - time	Rogers(1995)
Low awareness before inclusion in CIMA syllabus (2005)	S	5.2.4, table 5.5	- channels	Rogers(1995) Dimaggio & Powell(1983)
Time: Awareness is taking time - mostly in last five years	S	5.2.4, table 5.6	- time	Rogers(1995) Modell(2007) Bromwich & Bhimani(1994)
Momentum: BB was still being implemented	I	5.3.5 Org.info.	- time	Rogers(1995) Modell(2007)
<b>Awareness of techniques and principles</b>				
<b>Diffusion</b>				
Most BB techniques already in use in most respondents' organisations	S	5.2.3, Q.9	- re-invention	Rogers(1995) Lord(1996) Langfield-Smith(2008)
Awareness and adoption could be higher than believed	S	5.2.3, Q.9	- re-invention	Rogers(1995) Lord(1996) Langfield-Smith(2008)
Some managers were unaware of the term BB - even though they used the BB techniques	S	5.2.3, figure 5.4	- re-invention	Rogers(1995) Lord(1996) Howard(2004) Bhimani & Bromwich(2010) Becker <i>et al</i> (2010)
Most managers aware of the techniques, if not the concept	I	5.3.3	- re-invention	Rogers(1995) Lord(1996)
Awareness does not guarantee adoption	S	5.2.3, figure 5.6	- innovation itself	Rogers(1995) Anderson(1995) Berland & Boyns(2002) Howard(2004)
<b>Depth of understanding</b>				
<b>Diffusion</b>				
Most principles already in use by qualified accountants	S	5.2.3, Q.9	- re-invention	Rogers(1995) Lord(1996) Howard(2004)
CEOs have different understanding of budgets	S	5.2.2, Q7	- channels	Rogers(1995)
Techniques are unknown to non-finance managers Decision makers not reached	S I	5.2.4, Q18 5.3.3, figure 5.12	- channels	Rogers(1995) Becker <i>et al</i> (2010)
Training necessary / Training seen as inadequate	I	5.3.3, table 5.12	- channels	Rogers(1995) Bromwich & Bhimani(1994)
Young accountants mostly too junior to influence BB implementation	I	5.3.3, Diffusion	- social	Rogers(1995)

The four elements of diffusion theory (section 3.3.2.1) were evident in the survey and interview answers: the innovation, communication channels, time and the social system (Rogers, 1995).



The importance of the coherence and feasibility of the **innovation** itself is apparent, as awareness of an innovation in itself does not guarantee adoption. This notion was encountered in the literature where Berland and Boyns (2002) spoke of the nature of a technique and what it is able to achieve, while Howard (2004) wrote that the benefit should exceed the cost and Anderson (1995) cited the example of GM where ABC was too costly to maintain for its perceived benefit (section 3.2.4).

The role or failure of **communication channels** was encountered in the research where non-finance managers were unaware of Beyond Budgeting and decision-makers were not being reached. In the literature Becker *et al* (2010) put this down to Beyond Budgeting being perceived as falling into the domain of finance (section 3.2.7). Dissemination of innovations by means of inclusion in the CIMA examination was seen to make this a very effective channel of communication and all candidates surveyed who qualified after 2007 had encountered Beyond Budgeting in this context. The influence of professional bodies as a channel for disseminating innovations was discussed in the literature in section 3.2.8 (DiMaggio & Powell, 1983). Interviewees found training inadequate, consistent with the Bromwich and Bhimani (1994) comments on the importance of users' thoroughly understanding new techniques if they are to be adopted (section 3.2.8).

The amount of **time** which has elapsed between initially presenting the innovation and it becoming known was also seen as crucial and the 'momentum' factor from Modell's 'Framework for studying management accounting change' (figure 3.1) was seen to be relevant in the sample, as new implementations are still taking place.

Concerning the **social** aspect of diffusion, the depth of understanding is likely to be greater amongst recently qualifieds who have learned about the techniques in their studies. However, due to their junior position in the social order of the organisation, their potential to implement new innovations is limited.

The partial adoption by respondents corresponds to Rogers' (1995) concept of 're-invention', defined as the degree to which an innovation is changed or modified by a user. Most participants in the research had modified by adopting only parts and by

not adopting the major element, the abandonment of the budget. Lord (1996) found that individual techniques and elements belonging to SMA could be found in firms, while Langfield-Smith (2008) found that many aspects of ABC had slipped into accepted practice even though the term ABC may not have been used. Becker *et al* (2010) found that Beyond Budgeting techniques were being used in organisations but not under the label 'Beyond Budgeting'.

Overall, it would seem from the literature and from the phase one and two empirical research that the principles of Beyond Budgeting were well known amongst accountants but not by non-finance managers. The principles may be understood more profoundly by recently qualifieds but these are unlikely to have the authority to decide on implementation. Awareness of a technique was not enough for it to be adopted. The empirical findings under RQ2 are underpinned by the literature on diffusion.

### **6.2.3 RQ3: Beyond Budgeting as a solution**

In section 2.5 four alternatives to traditional budgeting (Flexible Budgeting, Better Budgeting, Continuous and Advanced Budgeting) were assessed, based on extant literature. Each alternative was found to address only some of the problems of traditional budgeting. In contrast, Beyond Budgeting has been presented as a complete solution suitable for large and small organisations (section 3.2.3). **RQ3, 'To what extent is Beyond Budgeting a solution to the problems associated with traditional budgeting?'**, therefore, is concerned with the concept itself, assessing, on the one hand, how far Beyond Budgeting is feasible, coherent and complete enough to manage an organisation, and, on the other hand, whether it is applicable in all situations. The discussion is dealt with in this section in two parts under the headings 'Feasibility, coherence and completeness of the techniques' and 'Applicability and appropriateness'.

#### Feasibility, coherence and completeness of the techniques

In survey Q17, Beyond Budgeting techniques and principles were listed, citing the potential advantage Hope & Fraser (2003a) suggest might be gained by using them

(sections 1.2 & 2.6). Respondents were asked for their level of agreement on each one (figure 5.7/Q17). These statements are listed in table 6.3 following.

**Table 6.3 Beyond Budgeting alternative techniques (Q17 Survey)**

- 1 Abandoning the annual budget would free up resources
- 2 Using rolling forecasts instead of a fixed plan helps eliminate dysfunctional behaviour
- 3 Decentralisation leads to a more performance oriented organisation
- 4 High level KPIs such as return on capital, free cash flow or cost to income targets are more effective than detailed fixed budgets
- 5 Managers perform better with operating guidelines not detailed budgets
- 6 Involving teams closer to the customer in setting strategy instills responsibility to meet targets
- 7 It is more effective to deal with investment proposals as and when requirements arise
- 8 Open reporting with high visibility to a wide audience improves performance
- 9 Managers are less likely to exhibit dysfunctional behaviour if incentives are decoupled from budget achievement
- 10 Clear ethical guidelines would deter dishonesty associated with achieving budget targets

For nine out of the ten techniques, the majority agreed with the potential improvements adoption would bring in their organisations. Only on the issue of decentralisation leading to a more performance oriented organisation (statement 3), did less than half of the respondents (46%) agree. It can be concluded that most respondents see the Beyond Budgeting principles listed as feasible and regard them as potentially beneficial to their organisations.

In practice, however, it was seen in the survey that 74% of respondents still used fixed budgets in their organisations, despite using most of the individual Beyond Budgeting techniques listed in question nine (section 5.2.3). Whereas only 15% regarded Beyond Budgeting as a coherent system (section 5.2.4, Q18), 67% agreed that traditional budgeting is an effective proven, coherent system that works well (section 5.2.2, Q7). The proponents of Beyond Budgeting seem to have failed to convince accountants that Beyond Budgeting is “an alternative management model” and “a coherent set of alternative processes” Hope & Fraser (2003a, xix).

Some interviewees praised Beyond Budgeting and also rolling forecasts (section 5.3.5), with 66% survey respondents already using rolling forecasts (section 5.2.3, Q9), despite the majority retaining their fixed budgets. Rolling forecasts, therefore, were not replacing the budgeting process but were being used alongside it. In the survey half the respondents saw Beyond Budgeting as a set of tools to choose from (section 5.2.4, table 5.9), a point of view which was expanded upon in the interviews (section 5.3.3). One interviewee called it the ‘cherry picking’ aspect, where the best Beyond Budgeting techniques are being selected and added to the budgeting process. This issue of partial adoption, i.e. implementing only selected individual Beyond Budgeting techniques, was first encountered in chapter two (section 2.9, partial adoption), reporting on the conclusions of a CIMA-ICAEW forum in 2004. In that section it was also pointed out that such changes to innovations in practice have been documented by Rogers (1995) who refers to them as re-invention.

Although interviewees were mainly positive about Beyond Budgeting and rolling forecasts there were various misgivings espoused by 10 of the 50 interviewees, that questioned the cost-benefit and coherence of the concept and criticised aspects of rolling forecasts as well as the subjectivity of non-numeric targets and the difficulty in obtaining data for relative targets. These doubts on the coherence of Beyond Budgeting were found in the literature (Otley, 2008), as was the question of availability of relative data (Hansen *et al*, 2003; Otley, 2008).

Four interviewees drew attention to the complexity of Beyond Budgeting (section 5.3, Complexity theory), as did Rickards (2008) and even Hope & Fraser (2003a) in the literature review. However, in the survey (section 5.2.4, fig. 5.8) more than two thirds of respondents neither agreed nor disagreed that it was too complex to implement, so that complexity cannot be seen as a major problem with the concept.

Under the heading ‘Institutional theory - Inertia, waiting for others’, nine interviewees knew of no ‘shining beacons’ or ‘big hitters’ who had adopted Beyond Budgeting, suggesting that if big companies took the lead others would automatically follow (section 5.3.3). This suggests accountants would only see it as a norm and accept that it is a solution to their problems with traditional budgeting if others do it

first. This is in accordance with the literature review, section 3.3.2.3, where, under institutional theory and legitimacy, it was mooted that an innovation is more likely to be implemented if it is accepted as legitimate and seen as a norm (Dowling & Pfeffer, 1975; Dimaggio & Powell, 1983; Scott, 2005).

There are thus doubts about the feasibility and coherence of the concept of Beyond Budgeting. The abandonment of the budget as a cornerstone of Beyond Budgeting has not been accepted by the majority as a necessary first step towards a solution for the problems with traditional budgeting.

#### Organisational applicability and appropriateness

In the survey, respondents were equally split on the question of whether Beyond Budgeting was applicable to their organisations (section 5.2.4, Q18). Respondents added that implementing Beyond Budgeting was not always feasible in all organisations and that different managers require different approaches (section 5.2.4, Q17). Comments from the interviewees, which reiterated the view reported in the survey that Beyond Budgeting might not be applicable in all organisations, were coded to sub-themes under the category 'Contingency theory' (section 5.3.3). The major themes identified were:

- size of organisation
- sophistication of current systems
- different requirements for different industries
- not applicable in civil service.

In the literature (section 3.3.2.2) under the heading Contingency theory, Luft & Shields (2003) reported that organisations use the management accounting that is best for them and Otley (1980) stated that under the contingency approach there is no universally appropriate accounting system which applies equally to all organisations in all circumstances. Doubts specifically on the appropriateness of Beyond Budgeting were seen in the literature in section 2.8, where authors questioned the applicability of decentralisation in complex organisations (Otley, 2008; Dugdale & Lyne, 2010a). The empirical findings are thus in accordance with the literature but at odds with the assertions of the proponents of Beyond Budgeting (Bunce, 2010; Hope & Fraser, 2003a), who see it as applicable to both large and small organisations (section 1.3).

Based on comments from survey respondents and interviewees, Beyond Budgeting stands the best chance of being implemented successfully where a champion leads the implementation (section 5.3.3, 'Diffusion – Champion important'). In the survey one person wrote that a strong CFO is needed to champion the implementation (section 5.2.4, table 5.11). In the literature, Modell (2007) talked of the pivotal role of 'leaders', who lead change and keep up the momentum (section 3.2.6). This being the case, even if smaller companies could see it as a solution to problems with budgeting, it would be impractical as they are unlikely to possess the required level of expertise to implement and operate it. Rickards (2008) also held this view, arguing that organisations with fewer than 100 employees were unlikely to have sufficient know-how in-house to introduce Beyond Budgeting, even with help from external consultants (section 3.2.4).

Abandoning the budget is not suitable as a solution to companies that are obliged by stakeholders to compile an annual fixed budget. Thirty-nine interviewees were asked whether they experienced external pressure to produce budgets (section 5.3.3, 'Institutional theory and legitimacy'). More than three quarters were obliged to produce a budget citing the following stakeholders compelling them to stay with fixed budgets:

- Parent company or investor / shareholder
- Stock exchange / city
- Banks and financial institutions
- Company directors
- Government
- Governors / higher education funding councils
- Financial regulator
- Board of trustees

In the findings in section 5.3.3, 'Agency theory', six interviewees were apprehensive about the perceived loss of control under Beyond Budgeting, feeling that releasing central control would be a step too far and a big leap from what had previously been done. One respondent made the comment in the survey (section 5.2.4, Q19) that SME owner managers "*would be reluctant to move away from a command and*

*control culture*". For such owner-managers, who may have a direct involvement in all decisions, decentralisation as part of Beyond Budgeting may not be an appropriate step.

It is apparent that the condemnation of the 'command and control' model is not as unanimous or self-evident as one might suppose after reading the Beyond Budgeting literature. Kocourek *et al* (2000) see the operationally involved or 'command and control' model at one end of a spectrum of management models appropriate for different organisations, with the 'command and control' model best suited where active participation of the head office in operational decisions is part of the company philosophy (section 2.8). The extent to which it is a solution to this aspect of the traditional budgeting model depends on the extent to which the 'command and control' model is seen as a problem needing to be solved.

#### Conclusion on RQ3

Table 6.4, following, presents the outcomes of the research in answer to RQ3, 'To what extent is Beyond Budgeting a solution to the problems associated with traditional budgeting?' Outcomes are mapped to theories and authors from the literature review.

**Table 6.4 RQ3 – answers and conclusions**

<u>Research finding</u>	<u>(S) Survey / (I) Interview</u>	<u>Section</u>	<u>Theory</u>	<u>Authors</u>
<b>Feasibility, coherence &amp; completeness</b>				
Feasible: participants agreed techniques are advantageous	S	5.2.4, fig. 5.7	Diffusion - innovation	Rogers(1995)
Traditional budget seen as coherent and proven	S	5.2.2, Q7	Institutional	Dimaggio & Powell(1983)
BB not a coherent, complete alternative to budgeting	S	5.2.4, Q18	Diffusion - innovation	Rogers(1995) Berland & Boyns(2002) Scapens & Arnold(1986)
BB seen as a set of tools to choose from	S	5.2.4, table 5.9	Diffusion - re-invention	Rogers(1995)
- Partial adoption BB techniques implemented parallel to budget	S	5.2.3, Q9	Diffusion - re-invention	Rogers(1995)
- Partial adoption BB techniques seen to complement not replace budgeting	I	5.3.3 MAL	Diffusion - re-invention	Bromwich & Bhimani(1994)
BB not the norm; managers waiting for big firms to adopt	I	5.3.3 Institutional	Institutional	Dimaggio & Powell(1983)
Criticism of / practical difficulties with rolling forecasts, relative and non-numeric targets	I	5.3.3 MAL	Diffusion - innovation	Rogers(1995) Hansen <i>et al</i> (2003)
<b>Applicability and appropriateness</b>				
BB not seen as applicable to all organisations	I	5.3.3 Contingency	Contingency	Otley(2008) Dugdale & Lyne(2006) Bruns & Waterhouse(1975) Luft & Shields(2003)
Success most likely where there is a BB champion	I	5.3.3 Diffusion	Diffusion - channels	Rogers(1995) Modell(2007)
Most organisations compelled to compile budgets by stakeholders and cannot abandon budgets	I	5.3.3 Institutional	Institutional	Dimaggio & Powell(1983) Covaleski <i>et al</i> (2003)
Not applicable in organisations perceived to need tight control	I	5.3.3 Agency	Agency Contingency	Jensen & Meckling(1976) Otley(2008) Kocourek <i>et al</i> (2000)
MAL = 'Management Accounting Literature' in section 5.3.3				

Most participants in the research were positive about the potential benefits of most of the techniques and were also actually using the bulk of the general management techniques. In terms of the innovation element of Diffusion theory (Rogers, 1995), therefore, the feasibility of the Beyond Budgeting techniques was acknowledged by the majority of the participants in the research.

Many participants did not associate the techniques with the term 'Beyond Budgeting' and only a minority did not use fixed budgets. Partial adoption was occurring because the Beyond Budgeting management model in its entirety was not seen as the



solution, just individual elements of the Hope & Fraser (2003a: xix) “set of coherent alternative processes”. The implementation of a modified Beyond Budgeting concept would fall into the category of ‘re-invention’ under Diffusion theory (Rogers, 1995) where a new idea departs from the mainline version of the innovation as it was originally promoted. Interviewees reported Beyond Budgeting techniques were being adopted alongside traditional budgeting, as managers evidently wanted to avail themselves of the new techniques but were not prepared to forgo the advantages of the traditional budgeting system, or they kept the budget because stakeholders obliged them to produce an annual budget. Institutional pressures were discussed in section 3.2.2, where Covalleski *et al* (2003) saw budgeting as a social norm, legitimising its usage. Dimaggio & Powell (1983) were quoted on isomorphism in the same section explaining how groups will tend to use the same processes when they are normatively sanctioned. Bromwich & Bhimani (1994) alluded to such partial adoption, advising that experimenting with novel approaches can be valuable as long as more traditional accounting tools are not jettisoned (section 3.2.7).

Practical problems cited by participants, impacting on the extent to which Beyond Budgeting can be a solution to the shortcomings of traditional budgeting include the subjective nature of non-numeric targets, in accordance with section 2.8 as highlighted by Hansen *et al* (2003), and the limited or non-availability of competitor or market numbers for comparison with relative targets, a finding which corresponds to remarks quoted from Otley (2008) in section 2.8. Beyond Budgeting was not seen as a universal solution and particularly not suitable for smaller companies, which is in line with Contingency theory thinking with its premise that there is no universally appropriate accounting system suitable for all organisations (Otley, 1980).

The issues raised in the surveys and / or the interviews and described above have all been identified in the literature on innovations and have been explained by various theories including diffusion, contingency, institutional, agency and complexity theories; these are still relevant today, underpinning and explaining the findings in this empirical research.

In the literature review it was seen that Beyond Budgeting does in theory address the major problems of traditional budgeting. To the extent that selected individual principles such as rolling forecasts were used by most participants and given the positive resonance to the individual techniques, it would seem to have the potential to be a solution to the problems of traditional budgeting in practice too. However the concept is still met with scepticism in practice and accountants are not convinced it is a complete and coherent system. The cornerstone of Beyond Budgeting, abandoning the budget, has not been accepted neither by accountants internally nor by stakeholders. Where principles have been adopted this has usually occurred in parallel to the traditional budget from which can be concluded that currently the concept as whole is not seen as a solution.

#### **6.2.4 RQ4/5: Reasons for non-adoption and difficulties in introducing Beyond Budgeting**

**RQ4 asks ‘What are the main reasons why managers have not adopted Beyond Budgeting techniques’.** There are overlaps with some of the other four research questions meaning, for example, that perceived deficiencies in the innovation itself which were discussed in RQ3 or the lack of awareness seen in RQ2 belong to the reasons why managers have not adopted the concept. The overlap is greatest with **RQ5 ‘What are the practical difficulties in introducing innovative techniques?’** where, both in the survey and the interviews, it was difficult to keep separate the reasons for not adopting Beyond Budgeting and practical issues generally. The two research questions are dealt with jointly in this section but separately in the conclusion at the end of the section.

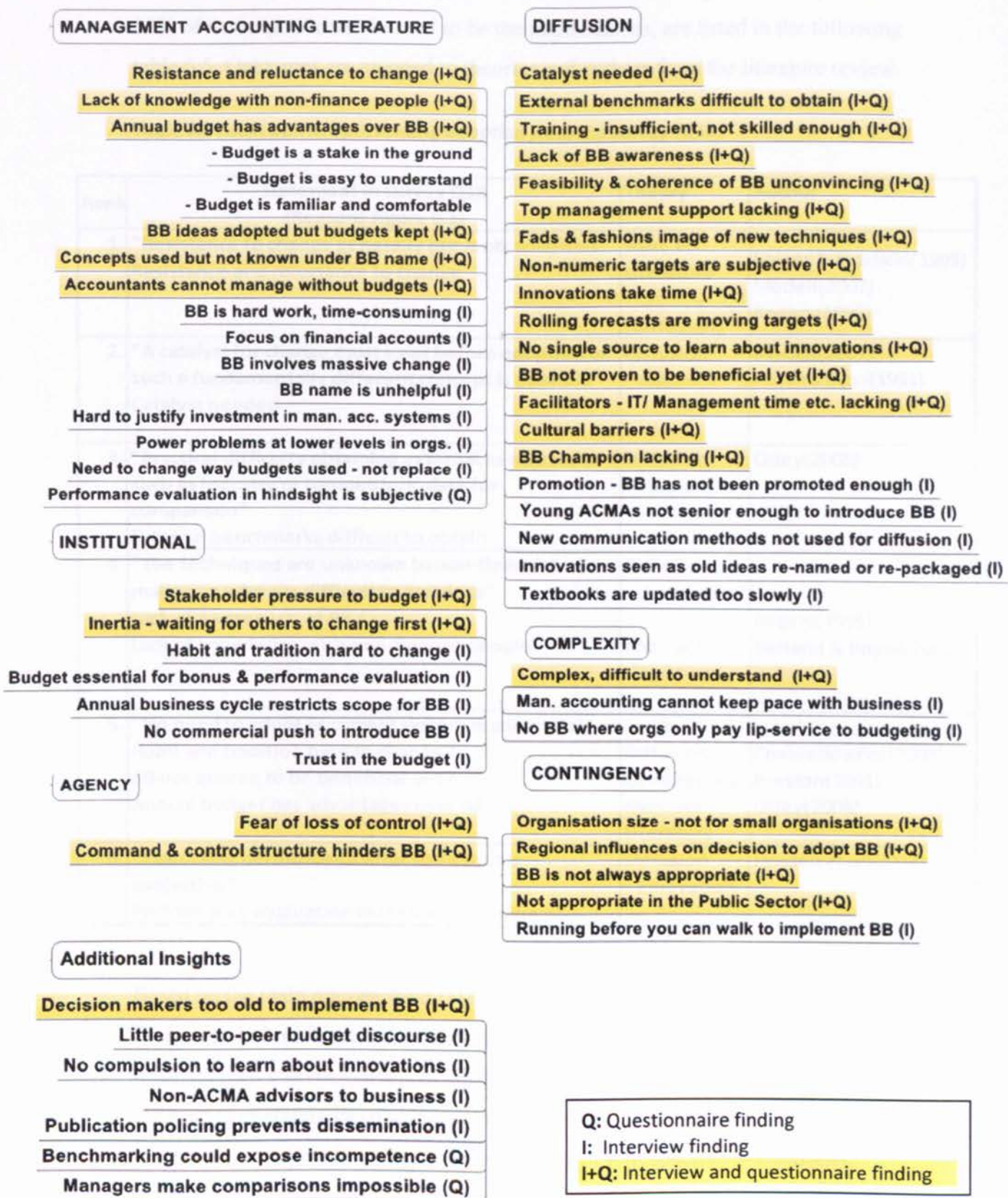
Multiple reasons for non-adoption of management accounting innovations were found in the literature review (chapter 3) and five relevant theories were identified which offer explanations for it (section 3.3). The research questions were derived from the literature review and the questionnaire developed to answer the research questions. Only additional voluntary information given by respondents outside the scope of the pre-determined answers in the questionnaire could be expected not to have been covered in the literature review. As well as confirming the reasons in the literature review, the semi-structured interviews aimed to elicit reasons not covered in it. Reasons for non-adoption from the interviews were coded where possible to

one of the theories identified in the literature review. As explained at the start of section 5.3.3, the term 'Management Accounting Literature' has been coined for literature referred to in chapters two and three which concerned the adoption of new management accounting concepts and techniques not directly allocated to a theory. Reasons arising in the survey responses or in the interviews which were not already discussed in the literature review were allocated to the category 'Additional Insights'.

In figure 6.1 on the next page the top level themes from the interviews, as shown in figure 5.11 (page 157), are amalgamated with the reasons for non-adoption listed in Q18 in the survey to illustrate the large number of reasons for non-adoption identified in the research. Next to each reason is an indication whether the reason comes from the interviews (I), the questionnaires (Q) or both (I+Q).

Following figure 6.1 the six main reasons from the questionnaires are identified (table 6.5) and commented upon. This is followed by a review of the main reasons arising from the interviews (table 6.6). Then, the reasons emerging from the survey and interviews that were not encountered in the literature, as listed under the heading 'additional insights' in figure 6.1, are described separately.

Figure 6.1 Reasons for non-adoption from questionnaire (Q) and interviews (I)



RQ4 seeks the main reasons for non-adoption. The reasons were queried in question 18 in the survey (section 5.2.4, Q18) and the six statements agreed with by more than 50% of the respondents, deemed to be the main reasons, are listed in the following table 6.5. Outcomes are mapped to theories and authors from the literature review.

**Table 6.5 Main barriers preventing adoption from the survey (Q18)**

Rank	Statement in survey Q18 (Reasons figure 6.1)	Theory	Author
1.	<b>"Resistance to change generally prevents adoption"</b> Resistance and reluctance to change	Man. acc. Literature  (Diffusion)	Folger & Skarlicki(1999) Modell(2007) Rogers(1995)
2.	<b>"A catalyst for change must exist before adoption of such a fundamentally different concept is possible"</b> Catalyst needed	Diffusion - channels	Modell(2007) Abrahamson(1991)
3.	<b>"Practical difficulty obtaining external benchmarks such as industry or competitors' data for comparison"</b> External benchmarks difficult to obtain	Diffusion - Innovation	Otley(2008)
4.	<b>"The techniques are unknown to non-financial managers who are difficult to convince"</b> Lack of awareness of BB / Lack of knowledge with non-finance people	Diffusion - channels  Man. acc. Literature	Rogers(1995) Berland & Boyns(2002)
5.	<b>"No need to adopt as current system is adequate"</b> Habit and tradition hard to change / BB not proven to be beneficial yet / Annual budget has advantages over BB	Institutional Diffusion Contingency Man. acc. Literature	Covaleski <i>et al</i> (2003) Preston(1991) Otley(2008)
6.	<b>"Evaluating performance after the event is subjective"</b> Performance evaluation in hindsight is subjective	Diffusion - Innovation	Hansen <i>et al</i> (2003)

Based on the main reasons from Q18 in the survey, it is unsurprising that Beyond Budgeting had not been widely adopted amongst respondents as the majority regarded their current systems as adequate, needed a reason / catalyst to change, saw difficulties operating Beyond Budgeting (i.e. getting data for relative target comparisons and handling the subjective nature of retrospective evaluations), experienced general resistance to change and would need to educate non-finance managers in Beyond Budgeting first if they wished to convince them to adopt it.

These major reasons had been encountered in the literature review and the theories reviewed there can be used to underpin the arguments. However, the research aims to understand why Beyond Budgeting has not been widely adopted and therefore all reasons identified as important barriers by any respondent, and not just the main ones contribute to the bigger picture. No reason was left out by all respondents, with the statement that ‘Beyond Budgeting is just another fad’ seeing the lowest level of agreement with only 16% agreeing to it.

Eight respondents identified other reasons not listed as options in Q18 and added these in the space provided for voluntary additional comments (section 5.2.4, table 5.11). These reasons were:

- Fear of loss of control
- External pressures - parent company requires annual budget
- Budgeting has a century-long tradition and is not easy to change
- Lack of champions - a strong CFO is needed to champion the implementation
- Already working with some techniques in conjunction with traditional budget
- Fear of transparency and comparison with peers
- Old people in senior positions prevent Beyond Budgeting diffusion
- Budgets already adapted, concepts must add value
- Unawareness of the technique - directors are barely aware

With the exception of ‘Fear of transparency and comparison with peers’ and ‘Old people in senior positions prevent Beyond Budgeting diffusion’, the additional barriers added by the respondents to the predetermined alternatives in question 18 had already been encountered in the literature review.

In a subsequent question, 65% agreed that “the predominance of the ‘command and control’ culture is the main reason why Beyond Budgeting has not been more-widely adopted”. Replacing the ‘command and control’ culture with devolvement of responsibility for results (Hope & Fraser, 2003a) and decentralisation are central to the Beyond Budgeting philosophy; the difficulty in addressing this is acknowledged by the authors.

The conclusion drawn from the survey is that there is no single major barrier but rather a number of diverse barriers, each of which may be the most important to an individual manager. The diversity of managers, organisations and regions represented in this research has undoubtedly resulted in many reasons being given.

Phase two of the research, the interviews, confirmed the conclusion from the survey that there are multiple important reasons why the Beyond Budgeting has not been widely adopted (section 5.2.5). More than 75 reasons for non-adoption arising from the interviews were coded to relevant literature categories and illustrated in section 5.3.3, figure 5.11.

From the semi-structured interviews, the most frequently coded themes in NVivo are listed under the heading of each theory in table 6.6 following and are mapped to relevant authors identified in the literature review. All themes identified in six or more interviews are listed as main themes. For completeness, Complexity theory has been included as a category despite only four interviewees having themes coded to it.



**Table 6.6 Main reasons for not adopting arising from the interviews**

THEME	AUTHORS
<b>DIFFUSION THEORY</b>	
<b>Promotion:</b> BB not promoted sufficiently to bring the new techniques to the attention of decision makers	Rogers(1995): communication channels Berland & Boyns(2002): academic vs. practical Malmi(1999): enthusiasm of external consultants
<b>Training:</b> not sufficient for wide implementation	Dimaggio & Powell(1993): training institutions Bromwich & Bhimani(1994): importance of training
<b>Lack of BB awareness:</b> managers unaware of BB techniques - training gap / poor promotion	<i>See promotion and training above</i>
<b>Feasibility &amp; coherence:</b> technique needs to be shown to be sound or seen to be beneficial before companies will adopt	Rogers(1995): strength of innovation itself Berland & Boyns(2002): nature of technique important Scapens & Arnold(1986): adoption of ideal techniques
<b>Top management support:</b> a necessity for the implementation of management accounting innovations	Modell(2007): leaders essential Rogers(1995): opinion leaders & change agents Shields(1995): top management support for ABC
<b>Fads &amp; fashions:</b> new innovations risk being seen as just another fad or a new fashion if not promoted properly	Abrahamson(1991): inefficient innovations due to fads Mintzberg(1979): innovations adopted and regretted Luft(2006): adoption, disappointment, abandonment
<b>CONTINGENCY THEORY</b>	
<b>Organisation size:</b> seen as a major factor in the adoption of BB	Otley(1980): no universal accounting system
<b>Running before you can walk:</b> in some organisations planning does not exist or is in its infancy	Dugdale & Lyne(2006): cannot be adopted by all
<b>Regional influences:</b> innovations are more difficult to adopt in some regions than in others	Bruns & Waterhouse(1975): org. structure contingent Luft & Shields(2003): organisations use best fit system
<b>INSTITUTIONAL THEORY</b>	
<b>Stakeholder pressure to budget:</b> business under pressure from stakeholders including banks to present a fixed annual budget	Hopwood(1986:15): role of external agents Bhimani & Bromwich(2010): regulatory standards Modell(2007): frustrators suppressing change
<b>Habit &amp; tradition:</b> budget procedure has become a habit	Willsmore(1960): budgeting is standard practice Covaleski <i>et al</i> (2003): budgeting a social norm.
<b>Inertia - waiting for others:</b> there are not enough examples of household names who have adopted. Companies wait until others have taken up an innovation before they risk doing it themselves	Dimaggio & Powell(1983): normative sanctioning Dowling & Pfeffer(1975): congruence with wider norms
<b>Budget essential for performance evaluation:</b> annual budgets are needed for bonus and incentive calculations	Libby & Lindsay(2003): budgets as performance contract Marginson & Ogden(2006): clear targets welcome Jensen(2003): cannot imagine managing without budgets
<b>Annual business cycle:</b> businesses are tied to annual cycle which lends itself to a fixed annual budget	Scott(2005): norms, routines - established / authoritative Covaleski <i>et al</i> (2003): budgeting shows norm conformity
<b>COMPLEXITY AND COMPLEXITY THEORY</b>	
<b>Complex:</b> especially for non-finance managers the concepts of BB are difficult to understand	Bromwich & Bhimani(1994): lack of understanding and new management accounting techniques
<b>AGENCY THEORY</b>	
<b>Fear of loss of control:</b> BB not implemented because managers feel they will lose control	Budgets as control mechanism (Drucker, 1929; Berle & Means, 1932&1991;Preston, 1991; Daum, 2005; Frow <i>et al</i> , 2010)
<b>MANAGEMENT ACCOUNTING LITERATURE</b>	
<b>Annual budget has advantages:</b> managers familiar with it, everyone understands it, it is coherent and works well	Otley(1999): traditional budget is a coherent system Simons(1991): works well in well-known companies Dugdale & Lyne(2010a): largely satisfied with budgets
<b>BB ideas adopted but budgets kept:</b> fixed budget and BB techniques not mutually exclusive. The budget must not necessarily be abandoned	Bromwich & Bhimani(1994): do not jettison proven tools Lord(1996): SMA parallel - techniques found in orgs. Langfield-Smith(2008): ABC infiltration parallel to BB
<b>BB is hard work, time-consuming:</b> operating BB is hard. Continuous forecasting is never finished	Otley(2008): difficult to keep focus Neely <i>et al</i> (2003:24): more work than traditional budgets
<b>Resistance and reluctance to change:</b> negative attitudes to change ranging from no wish to change, to a fear of change	Folger & Skarllicki(1999): scepticism & resistance Rogers(1995): example of Dvorak typewriter Modell(2007): 'confusers' resisting change
<b>Focus on financial accounts:</b> not enough emphasis on management accounting	Otley(1999): budget focus on financial results only Hopwood(1987): emphasis on calculative budget process



The fundamental question affecting the adoption or non-adoption of a management accounting innovation is whether it is feasible and coherent, and capable of performing the tasks it was designed for (Diffusion, Innovation element; Rogers, 1995). In business the benefits of a new system should exceed the cost (Malmi, 1997) and the system must achieve what it is supposed to achieve (Berland & Boyns, 2002). This question has not been answered for Beyond Budgeting and whereas the proponents (Hope & Fraser, 2003a, Bunce, 2010) argue it is a fully functional complete system, other authors (Otley, 2008; Dugdale & Lyne, 2010a) have criticised the concept. Only 15% of the respondents in the survey thought Beyond Budgeting was a coherent, complete system. Interviewees did not see it as a proven system and re-iterated the criticisms in the literature, such as doubts on the coherence of the system, difficulty with external comparisons, subjective non-numeric and moving targets.

The biggest problem with the concept and the greatest reported hurdle to adoption was abandoning the budget as a first step, a cornerstone of Beyond Budgeting. Accountants either reported external pressure to compile budgets, coming from stakeholders as well as the annual business cycle (Institutional theory), or internal pressure due to the advantages of the traditional budget such as the ease of use and understanding (Management accounting literature). Thus, some had no option but continue with the budget while others had no desire to stop using the traditional budgeting procedure.

For many interviewees Beyond Budgeting was not seen as applicable for all organisations, for example small companies or specific regions, or they felt that organisations needed a certain level of sophistication before they could benefit from it (Contingency theory). Why accountants did not feel that it was applicable may be found amongst the other grounds given, i.e. it has either not been sold or promoted well enough to them and does not have a high profile in the press, or training is lacking or not of sufficient depth to convince them it is a viable system (Diffusion theory). This has left some seeing it as fad or fashion, while others felt the concept itself was not coherent and complete and therefore not ready for implementation (Diffusion theory), as covered in more detail under RQ3. Not enough people were

seen to be aware of it (RQ2). Beyond Budgeting was also seen as hard work which means the proponents have failed to convince accountants that it should bring them major time and cost savings (Hope & Fraser, 2003a).

A fear of loss of control was reported (Agency theory). Budgeting is now a norm, deeply seated in tradition and, as few big household name companies have been seen adopting Beyond Budgeting, interviewees have been reluctant to stray from the norm (Institutional theory). The focus on financial accounting was seen as a problem, leading to a lower priority being given to management accounting.

There has been a lack of top management support for Beyond Budgeting (Diffusion theory), which would be necessary to overcome the reluctance and fear to change.

Partial adoption, where Beyond Budgeting techniques have been adopted while retaining the fixed budget, was among the most frequently cited issues and has been discussed in section 6.2.3 under RQ3. This is a consequence of accountants either being unable to abandon budgets or not wishing to, as explained earlier in this section.

The majority of the answers given by the interviewees could be allocated to themes under the six pre-established literature theories and categories. Themes that could not be mapped to existing literature have been categorised as 'Additional insights' (figure 6.1). The additional insights, an important contribution of this research, are described in detail in the following sections.

**Additional Insights**

Categorised as ‘additional insights’, the following reasons for non-adoption of Beyond Budgeting not present in the literature review arose in the interviews or from voluntary input in the survey:

	<u>Survey</u>	<u>Interviews</u>
- Decision-makers too old	X (s. 5.2.4, Q18)	X (section 5.3.3)
- Lack of peer to peer discourse		X (section 5.3.3)
- Lack of compulsion to learn innovations		X (section 5.3.3)
- Non-CIMA members advising business		X (section 5.3.3)
- Publication policing		X (section 5.3.3)
- Benchmarks expose incompetence	X (s. 5.2.4, Q18)	
- Managers make comparisons impossible	X (s. 5.2.4, Q18)	

**Additional insights: Old decision-makers**

In the survey one respondent answered that adoption of Beyond Budgeting was impossible in a company governed by older people and that the new generation must take control (section 5.2.4, Q18, table 5.11). The subject of older decision makers forming a barrier to the adoption of new innovations was reinforced in the interviews in phase two (section 5.3.3, ‘Additional insights – Decision makers are too old’), where the original respondent repeated the view, and four further interviewees mentioned it. This may also be an explanation why management accounting innovations take a long time to be adopted as a ‘generation transfer’ may need to take place with the new generation being aware of and willing to adopt new techniques. This view links into the comments made that young accountants are not senior enough to decide to implement innovations.

Although not encountered in the literature, this point made about decision-makers was considered to fall in the realm of institutional theory where perhaps older accountants are reluctant to move from established norms which have functioned for them until now and legitimised their expert positions. Diffusion theory may also offer an explanation if a training deficit is assumed to be responsible for information on the innovation not reaching older managers. On the other hand it could be that the long and wide experience of older managers enables them to identify a flawed

concept (Diffusion – innovation element) or a concept not applicable to their organisation (Contingency).

**Additional insights: Lack of peer to peer discourse**

Lack of peer to peer discourse became a separate NVivo code in the analysis of the interviews in phase two after five interviewees regretted there was little opportunity after qualifying to exchange views with peers (section 5.3.3, ‘Additional insights – little peer to peer budget discourse’). There was evidently a desire amongst these interviewees to get involved in discussion on management accounting issues which is currently not being fulfilled. Recent developments with professional internet social networks may go some way to fulfil this wish. The opportunity for peer to peer face-to-face contact for the dissemination of management accounting innovations seems to be missing, indicating a failure to develop this channel as a method for diffusion of management accounting innovations (Diffusion – channels element).

**Additional Insights: No compulsion to know innovations**

CPD (Continuing Professional Development) is compulsory for CIMA members but there is no requirement to learn anything new in order to fulfil the annual requirements. Some interviewees felt CPD led them to discover new developments in management accounting but others acknowledged that they just used CPD to further their development in their own areas without seeking new innovations (section 5.3.3 ‘Additional insights – no compulsion to know innovations’).

However, as evidenced in the follow-up questions on the interviews (section 5.3.4) interviewees were split on the question of whether an element of CPD should be prescribed and compulsory or not. CIMA members work in such diverse functions that some felt there is little common ground for a compulsory element relevant to all members.

Although the CIMA monthly printed magazine (Financial Management) and the monthly electronic newsletter (Insight) were put forward by interviewees as vehicles for disseminating new techniques, these are far from compulsory reading, as evidenced in the follow-up question in section 5.3.4 on readership of CIMA

publications. Less than two thirds regularly read FM and less than half read Insight. Even reading FM regularly does not ensure awareness of the new developments published in it as almost one third of those interviewees who read it regularly had never heard of Beyond Budgeting despite its recurrent appearance since 1997 (Table 2.4 Beyond Budgeting – Barometer of continuing topicality).

With no compulsion to learn about innovations, there is clearly a need to find suitable channels for the diffusion of new management accounting developments amongst accountants (Diffusion theory). CPD could assume the same role for disseminating new ideas and techniques for qualified accountants as inclusion in the syllabus does for trainees accountants, but only if learning about new innovations becomes a compulsory part of CPD.

**Additional Insights: Non-CIMA advisors to business**

The claim that most advisors to business are not management accountants and therefore not aware of the latest budgeting techniques (section 5.3.3, ‘Additional insights – non ACMA advisors to business’) ties into another theme; too much focus on financial accounts (section 5.3.3 ‘Management accounting literature – Focus on financial accounts’). Organisations will not adopt Beyond Budgeting or any other management accounting innovations if their advisors are not aware of management accounting techniques or concentrate only on financial accounting. This issue has been highlighted in the literature by Rogers (1995) under the social element of Diffusion theory, where he maintains the most frequent transfer of ideas occurs between similar or homophilous individuals. The lack of knowledge of Beyond Budgeting amongst tax advisors points to a possible failure in communication channels in reaching them (Diffusion) and a gap in the role played by their professional institution (section 3.2.8, DiMaggio & Powell, 1983) which could be classified as in Institutional theory issue.

**Additional Insights: Publication policing**

As described in section 5.3.3 ‘Additional Insights’ it was suggested that publications decide which innovations to push and which to ignore, i.e. not to publish. The innovation itself being written off as a fad would put this point into the Diffusion

theory category as would interference in the channels of communication (Rogers, 1995). The reluctance to publish ideas outside the scope of currently accepted norms would put this issue into the Institutional theory camp. However, as explained in chapter five no literature was encountered which mentioned this phenomenon.

*Additional Insights: Exposure of incompetence and managers hindering comparisons*

In the survey, as voluntary input adding to the answers to Q18 (section 5.2.4), the use of peer group comparisons and the evaluation of managers' performance against external benchmarks were reported as risking exposing incompetency and it was suggested that managers may actively hinder any comparisons to hide this. This finding that managers deliberately muddy the waters to make comparison impossible as benchmarks might expose incompetency was a variation on an existing issue. Writers such as Anderson (1995) reported manager resistance to change, for example relating to ABC implementations, but not this specific reason.

This kind of dysfunctional behaviour may not be congruent with the aims of owners and top management, a conflict covered by Agency theory. Elements of Institutional theory may go way some way to explain this situation with peer pressure and social norms influencing the way people react to organisational changes.

Summary RQ4

**RQ4, 'What are the main reasons why managers have not adopted the Beyond Budgeting techniques'**, embodies the essence of the research aim, 'to understand why Beyond Budgeting has not been adopted widely'.

The empirical findings reported in chapter five confirm that, in the main, the reasons expounded in the literature for non-adoption of innovations are also applicable to the situation with Beyond Budgeting in the context of this research. Similarly the theories identified in the literature have proved to be capable of explaining the underlying reasons found in this study for the low level of adoption and have been useful as categories to bring order to the large amount of data.

The main reason why respondents have not adopted Beyond Budgeting has been identified as the fact that they could not abandon the traditional budget or did not wish to do so. This was borne out in the survey where three quarters of the respondents still used fixed budgets and underlined by comments in the interviews. Otherwise, perceived failings in raising awareness of the concept through promotion and training could be the root cause of accountants not seeing it as applicable in some situations, while equally, flaws in the concept itself and its coherence may have played a part in hindering adoption.

The main reasons why participants have not adopted Beyond Budgeting have been identified in this section using an approach based on the highest percentages selected in the survey and the number of times they were mentioned in interviews. However, one of the major findings of this research is that there are a multitude of factors influencing the adoption of Beyond Budgeting (figure 6.1). The many reasons for non-adoption were contextual to the individual and the organisation.

#### Summary RQ5

**RQ5, ‘What are the practical difficulties in introducing innovative techniques?’** is effectively a subordinate question within RQ4 concentrating only on the practical difficulties such as the following, which could be valid for other management accounting innovations:

- Resistance to change, difficult to break habits and go against tradition
- Causes upheaval and massive change
- Complex to run (in the case of Beyond Budgeting, continually planning)
- Lack of appropriate software
- Managers deliberately make comparisons impossible
- Accountants do not want to abandon the budget
- Lack of managerial time
- Need for a champion to implement effectively

The reasons why Beyond Budgeting has not been widely adopted have been found to be many-fold. The overall conclusions on RQ1 – RQ5 are summarised in the next section.

6.2.5 Overall conclusions on RQ1-RQ5

A summary of the conclusions to all the research questions is presented in table 6.7:

**Table 6.7 Overall conclusions on RQ1 – RQ5**

<p><b>RQ1. Do managers perceive a fundamental problem with traditional budgeting methods?</b></p> <ul style="list-style-type: none"> <li>- Participants perceived many problems but also saw virtues in traditional budgeting</li> <li>- Respondents reported that managers know it and rely on it and are not ready to abandon it</li> <li>- Contrary to most prior research, accountants taking part in the research were generally satisfied with the traditional budgeting process</li> </ul> <p><i>Participants perceived fundamental problems but were generally satisfied with traditional budgeting.</i></p>
<p><b>RQ2. To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations?</b></p> <ul style="list-style-type: none"> <li>- 37% of CIMA members surveyed had not heard of the term 'Beyond Budgeting'</li> <li>- It is taking time to be adopted; new implementations are still taking place (momentum)</li> <li>- Respondents who qualified after 2000 were more likely to have heard of it</li> <li>- The techniques were being used by most participants, sometimes without being associated with BB</li> <li>- BB could be more widespread than previous surveys suggest. Less-known to non-finance people</li> <li>- CIMA members, as trained accountants, should understand them. Training seen as weak</li> <li>- Recently qualifieds are not in senior enough positions to decide to implement</li> </ul> <p><i>The individual components of Beyond Budgeting seem to be well-known amongst accountants but not non-finance managers. The concept is not understood profoundly and many knowledgeable CIMA members do not have the authority to decide to implement</i></p>
<p><b>RQ3. To what extent is Beyond Budgeting a solution to the problems with traditional budgeting?</b></p> <ul style="list-style-type: none"> <li>- Individual elements of BB address the main criticisms of traditional budgeting</li> <li>- The potential benefits were acknowledged; techniques are already in use in respondents' organisations</li> <li>- The BB concept as a whole was not seen as a coherent system in contrast to traditional budgeting</li> <li>- Partial adoption of component parts rather than the concept as a whole was evident</li> <li>- BB techniques were being adopted alongside the traditional budget</li> <li>- BB was not the norm: managers were waiting to see household names adopt it</li> <li>- Practical issues limit the potential of some elements of BB to be part of a solution</li> <li>- It was not seen as appropriate in all situations. A champion seen as necessary for implementation</li> <li>- Many stakeholders insisted on retaining a fixed budget</li> </ul> <p><i>Beyond Budgeting addresses the problems of traditional budgeting but abandoning the budget, a cornerstone of the concept has not been accepted as a solution. It was not seen as a universal solution and there are practical problems.</i></p>
<p><b>RQ4. What are the main reasons why managers have not adopted the Beyond Budgeting techniques?</b></p> <ul style="list-style-type: none"> <li>- There were a myriad of reasons (fig. 6.1), almost all of which have been documented in existing literature</li> <li>- Resistance to change generally was the biggest barrier according to the survey</li> <li>- Abandoning the budget was a major hurdle to the adoption of BB because:             <ul style="list-style-type: none"> <li>● Accountants did not want to abandon it</li> <li>● Stakeholders required an annual budget</li> <li>● Managers were familiar with and understand the traditional budget</li> <li>● Fear of a loss of control if budgets are abandoned</li> </ul> </li> </ul> <p><i>Abandoning the budget, a cornerstone of Beyond Budgeting, has turned out to be a major hurdle to adoption. The theories identified in the literature review, Diffusion, Contingency, Institutional, Agency and Complexity Theory, as well as management accounting literature, are still relevant today for explaining non-adoption of management accounting innovations.</i></p>
<p><b>RQ5. What are the practical difficulties in introducing innovative techniques?</b></p> <ul style="list-style-type: none"> <li>- Resistance to change: e.g. participants did not want to abandon budgets, difficult to break habits</li> <li>- BB implementation perceived as causing upheaval and massive change</li> <li>- Need for a champion to implement effectively</li> <li>- Beyond Budgeting was seen as complex to run, external benchmarks may be difficult to obtain</li> <li>- Lack of managerial time and appropriate software (facilitators)</li> </ul> <p><i>Some practical reasons for not implementing Beyond Budgeting are specific to Beyond Budgeting but most could also be applied to management accounting innovations in general.</i></p>



The exploratory research design achieved its aim by eliciting multiple reasons for non-adoption of Beyond Budgeting from professionals / experts in the area of budgeting. A large element of the reasons given were idiosyncratic i.e. specific to an individual or organisation (section 4.4, Ritchie, 2003). The many reasons formed the basis of the conclusions which contribute to theory and practice as described in the next sections.

### **6.3 Contribution to theory**

The research contributes to theory in following areas:

- **Confirmed the predictive power of existing theories**

Using the explanatory power of existing theories to underpin and account for results in this study on the adoption of Beyond Budgeting, a management accounting innovation (section 6.3.1).

- **Extended theory with additional insights**

Documenting additional reasons given for non-adoption, not found in the literature, which may also be relevant to other management accounting innovation (section 6.3.2).

- **Compared results with prior research**

A major contribution has been to compare the research findings to those of prior similar studies and confirm much of the earlier findings. An important contribution to the literature is that despite the accepted orthodoxy the accountants participating in the research were not fundamentally dissatisfied with traditional budgeting (section 6.3.3).

- **Added to the body of knowledge on Beyond Budgeting**

Adding to the body of knowledge on the take-up of Beyond Budgeting and the level of acceptance of the underlying principles (section 6.3.4).

- **Providing a theoretical template to further methodology**

Developing a theoretical framework for factors preventing adoption of innovations, based on the Beyond Budgeting situation in the context of this study (section 6.3.5).

#### **6.3.1 Explanatory / predictive power of selected theories**

The theories on change and innovations in management accounting when applied to this research were found to be valid to explain why changes and new innovations in

management accounting are so difficult to introduce. It was concluded that the theories still remain relevant today.

In section 3.3, working from Modell (2007), theories used by writers and researchers over the past five decades to explain social science and management accounting phenomena were reviewed. The theories identified as explanatory for the adoption of innovations, relevant to Beyond Budgeting, were Diffusion, Contingency, Institutional or Legitimacy, Agency and Complexity theory. The theories served as categories for themes emerging from the second phase of the empirical research, the semi-structured interviews. The empirical findings were mapped as appropriate to:

Diffusion theory, which was defined by Rogers (1995:5) as “the process by which an innovation is communicated through certain channels over time among members of a social system. It is a special type of communication, in that the messages are concerned with new ideas” (section 3.3.2.1). Rogers’ elements of diffusion, i.e. the strength of the innovation, communication channels, time and social system, and the concept of re-invention have been mapped to the empirical findings from the multiphase study under each RQ (sections 6.2.1 - 6.2.4), where applicable, with reference to the works of related authors. The illustrative tables and commentary in these sections demonstrate that findings from the research mirror conclusions from the existing theoretical literature and can be mainly explained by it.

Contingency theory, which sees decisions as a function of the environment in which they are taken and serves to explain that there are no universal solutions in management accounting (section 3.2.3; Otley, 1980), supporting the empirical finding in this research on Beyond Budgeting where respondents reported it was not suitable for all organisations.

Institutional theory, which emphasises organisational norms and legitimisation, and provides the explanation, for example, behind external legitimising pressures and internal pressures of habit and tradition preventing the abandonment of the budget (section 3.3.2.3).

Agency theory, which documents the relationship between principal and agent (section 3.3.2.4) and is relevant to this study for findings on issues such as fear of loss control, the role of the command and control culture and dysfunctional behaviour by managers.

Complexity theory, with the premise that planning processes are inapplicable in times of uncertainty and that no-one can know what direction will be taken until it happens (section 3.3.2.5; Stacey, 1995), was extended in this research to encompass complexity per se. This was relevant to the theme that traditional budgeting is too static and cannot keep pace with the fast moving business environment and that Beyond Budgeting is too complex.

It was thus concluded that existing theories had the power to explain the majority of the findings in this research.

### **6.3.2 Extend theory with additional insights**

In the course of the research, reasons for non-adoption of Beyond Budgeting were encountered which had not been seen in the literature or were a variation on themes found in the literature. Examples of the former were comments on older managers obstructing innovations and alleged policing of publications. A variation on an existing issue was the suggestion that managers deliberately muddy the waters to make comparison impossible as benchmarks might expose incompetency. Explanations for the non-adoption of Beyond Budgeting emerging from the research but not found in the literature review were categorised as ‘additional insights’ adding to the body of knowledge in the field. The additional insights encountered comprise:

- Decision-makers too old
- Lack of peer to peer discourse
- Lack of compulsion to learn innovations
- Non-CIMA members advising business
- Publication policing
- Benchmarks expose incompetence

- Managers make comparisons impossible

The additional insights are illustrated in figure 6.1 and described in detail in section 6.2.4 under RQ4.

### **6.3.3 Comparison of findings with prior research**

A major contribution to the literature was that the many reasons identified in the survey and the interviews for the non-adoption of Beyond Budgeting largely confirmed the findings of prior similar surveys and the theories reviewed in chapters two and three.

The prior studies reviewed intimated, with one exception, that there is widespread dissatisfaction with the budgeting procedure (section 1.2; 2.3). A major finding in this study, however, was that although survey respondents were critical of the flaws inherent in traditional budgeting they were generally satisfied with the process (section 5.2.2, Q7). The interviews served to reinforce this view and interviewees provided various reasons why the budget still has its advantages (section 5.3.3, 'Annual budget has advantages'). The exception mentioned above was a study by Dugdale & Lyne (2010a), which also concluded that managers were largely satisfied with their budgeting systems. This researcher however, has taken a wider scope than Dugdale & Lyne (185 survey respondents throughout the world and 50 interviews compared to Dugdale and Lyne's 40 respondents, all from the south west of England, with 8 interviews) and considers a further contribution to the literature has been made.

### **6.3.4 Add to the body of knowledge on Beyond Budgeting**

The research adds to the knowledge on the level of take-up and continued topicality of Beyond Budgeting by assessing the situation in chapter two (section 2.10).

In section 6.2.4, discussing the findings from RQ4, it was argued that, in trying to understand why Beyond Budgeting has not been widely adopted, all reasons and not just the main ones contribute to the bigger picture. Any reason which was cited as having an impact on the non-adoption by one or more respondents was considered

germane to the discussion. The many reasons encountered are shown in figure 6.1 and have been grouped under the existing theories deemed most relevant to each reason. In chapter three, the literature review, parallels to prior innovations such as SMA and ABC were highlighted.

Revelations in the study included the fact that one third of respondents answered they were unaware of Beyond Budgeting and yet this group were using most of the individual Beyond Budgeting techniques queried in a subsequent question. If not unique to this sample, this finding could throw doubt on the answers of respondents in prior research when asked if they were aware of Beyond Budgeting.

The research documents participants' perceptions of the concept and techniques of Beyond Budgeting and could be helpful in advancing the debate about it by, for example, bringing the influence of the command and control culture to the fore.

### **6.3.5 Theoretical Framework**

The theoretical framework (table 6.8) constitutes a contribution to theory in the area of methodology, providing a systematic approach to explaining why an innovation has not been widely adopted. It functions as follows:

- The framework starts with initial findings in the literature
- It then maps these to the appropriate theory
- Leading authors are listed under the appropriate findings and theories
- The empirical findings from the multi-phase study, listed by research question, are abbreviated and attributed to the most relevant theory.

The theoretical framework could be used as a template, providing an approach for future research on management accounting and other innovations.

**Table 6.8 Theoretical framework – factors preventing adoption of Beyond Budgeting**

Possible factors / influences upon decision to adopt Beyond Budgeting	Technique itself discounted or discredited  Innovation or fad  Resistance to change  Social norms and social structure	Unawareness of new techniques, inadequate dissemination  Change agents, management ability  Gestation period for adoption of innovations.	Usage of budgeting  Matching the method to the organisation	Waiting for widespread adoption  Social norms and company culture Peer pressure to adopt new innovations  Budget legitimising command and control culture	Resistance to change  Management conflicts of interest  Loss of management control	Impossibility of capturing complex systems in simple models or theories  Difficulty implementing complex new systems
Theoretical Background	Diffusion theory (Dissemination and diffusion of innovations)		Contingency Theory	Institutional / Legitimacy theory	Agency theory	Complexity theory
References	Rogers(1995)  Langfield-Smith(2008) Bromwich & Bhimani(1994) Kotter & Schlesinger(1979) Abrahamson (1991) Anderson(1995)  Howard(2004)  Luft(2006) Modell(2007) Lord(1996)	Rogers(1995)  Berland & Boyns(2002) Bromwich & Bhimani(1994) Dimaggio & Powell(1983) Abrahamson (1991)	Otley(1980, 1999,2008) Moore & Chenall(1991) Bromwich & Bhimani(1994) Dimaggio & Powell(1983) Hopwood (1980 etc.) Hope & Fraser (2003a) Covaleski et al(1993,2003)	Scott(2005)  Berland & Boyns(2002) Preston(1991)  Dimaggio & Powell(1983) Drucker(1929)  Rickards(2008)  Covaleski et al(1993,2003)	Daum(2005, 2006) Berland & Boyns(2002) Scarlett(2007)  Bruns & Waterhouse(1975) Hopwood (1980 etc.) Hope & Fraser (2003a)	Stacey(1995)  Iltner & Larcker(2001) Rickards(2008)  Roslender(1995) Anderson(1995)  Hope & Fraser (2003a)
<b>Findings / results of empirical study</b>						
<b>RO1 Do managers perceive a fundamental problem with traditional budgeting methods?</b>						
			Yes. Accountants are aware of flaws in the traditional budget. Most are satisfied and cannot imagine managing without it (Contingency, Institutional, Agency and Complexity)			
<b>RO2 To what extent are the principles of Beyond Budgeting known and understood by managers who can influence the decision to implement management accounting innovations?</b>						
	Survey:37% accountants unaware BB more widespread than assumed Principles known but not as BB Understood by accountants Junior ACMAs lack authority					
<b>RO3 To what extent is Beyond Budgeting a solution to the problems with traditional budgeting?</b>						
	Potential benefits acknowledged BB concept not seen as coherent Partial adoption evident	BB not a universal solution	Not enough pioneers	Real fear of loss of control	Can be complex to implement and operate	
<b>RO4 What are the main reasons why managers have not adopted the Beyond Budgeting techniques?</b>						
	Abandoning budgets - major hurdle Technique not coherent Too little promotion, training Not enough management support Lack of awareness Facilitators such as IT unavailable	Not suitable for: -small companies -all regions -all situations	Resistance from: -stakeholders -habit / tradition -annual cycle -accountants	Fear control loss No authority Old management	Can be complex to implement and operate	
<b>RO5 What are the practical difficulties in introducing innovative techniques?</b>						
	Overcoming resistance to change Champion needed Problem with external benchmarks	Too much for: -small companies	Staff resistance External pressure Cost justification	Staff resources Manager ability	Can be complex to implement and operate	

#### **6.4 Contribution to practice**

The contribution to practice consists of three parts, the identification of hurdles to the adoption of Beyond Budgeting, lessons learned relating to research methodology (data collection) and recommendations to CIMA. It is intended to publish a summary article in order to disseminate the findings of this research.

##### **6.4.1 Hurdles to the adoption of Beyond Budgeting**

The advantages and flaws of Beyond Budgeting itself have been highlighted in this research. Consideration of these factors could help in the decision whether or not to adopt the technique and help in judging whether it is appropriate for the practitioner's organisation.

Many of the empirical findings on why it has not been widely adopted represent barriers to adopting Beyond Budgeting. Future practitioners considering introducing Beyond Budgeting who are aware of these hurdles will be equipped to avoid or at least recognise the pitfalls which can be expected during implementation of a new management accounting innovation.

##### **6.4.2 Data collection in practice**

During the research lessons were learned in the areas of distribution, interviews and questionnaires, which may assist future researchers in similar situations.

The survey, in phase one of the research, was distributed by published media, i.e. an article with a web-link in CIMA's Insight electronic newsletter, and by means of a highly personalised direct e-mail. The response rate from the published media was low (section 4.7.5) but the e-mail response rate was acceptable by today's standards. This confirms the advice given by Dillman (2000), who advises against newsletters, amongst other reasons, due to low response rates and recommends personalisation for success with direct mails. Researchers could bear this in mind when considering these methods of distribution.

Respondents volunteering to be interviewed gave an e-mail address, a telephone number and a preferred time of day for a call. At first, potential interviewees were

sent an e-mail with a suggested date and time for a telephone interview and a request to confirm it was convenient. The majority ignored these mails which resulted in follow-up mails being written (also ignored) and led to time being lost (section 4.8.3). This approach was deemed ineffective and was abandoned. After this, interviewees were phoned without prior warning, at their suggested times, and either gave interviews immediately or scheduled a time-slot which they kept to. Future researchers using telephone interviews might consider calling directly from the outset to avoid wasting time.

In the survey respondents were asked to select the principal activity of their organisation from a list of ISIC codes. The majority of the respondents categorised their organisations as 'other' (section 5.2.1, Q6, table 5.3) even though subsequent questioning in the interviews showed that there was a suitable category available (section 5.3.4). It was concluded that the question was too demanding. This bears out caveats on difficult questions from Dillman (2000). Researchers might consider reviewing questions for simplicity based on this experience.

The research could help future research on Beyond Budgeting by making researchers aware of the wide breadth of the subject and guiding them to the areas described in the additional insights, as well as by mitigating prejudices, such as managers being generally dissatisfied with the budgeting process.

### **6.4.3 Recommendations**

One of the findings from the research suggested that CIMA was held to be partly responsible to its members for making them aware of new innovations in management accounting (section 5.3.5). One of CIMA's greatest challenges is keeping members abreast of the latest trends and innovations and they constantly need to investigate different ways of reaching members to ensure they remain up-to-date.

CIMA has made sure that accountants qualifying since 2005 are aware of Beyond Budgeting by including it in the examination syllabus and subsequently setting questions on it in examinations (section 2.10). It has proved to be more difficult to



reach qualified CIMA members. Interviewees suggested ways for CIMA to make accountants aware of management accounting innovations, as detailed in section 5.3.5, table 5.22, and these form the basis of the recommendations which follow.

**Recommendations for CIMA to keep members informed of new developments**

**Introduce a mandatory element to CPD on 'must-know' innovations**

This could take the form of a compulsory webinar / webcast with confirmation of the participation of each active CIMA member or an article in a direct e-mail which requires a confirmation that it has been read.

**Inform members about innovations in direct e-mails**

This ties into the previous point but may be expanded to include notification of non-mandatory content.

**Distribute a 'hot topics' list**

The hot topics list could present new innovations or the latest news on management accounting. Each member would need to decide through which communication channel he/ she would prefer to receive this information.

**Promote innovations in Financial Management and Insight**

Innovations are already reported upon in the CIMA monthly publications. However some thought might be given to prominently placing any 'must-know' innovations on the front cover or within the publications. Colour coding of the pages using red for example to denote a 'must-read' article would help members prioritise what they read. This could also be done in conjunction with CPD where a certain amount of mandatory readings in Financial Management would need to be reported.

**Promote innovations at CIMA events**

Use CIMA regional meetings to promote innovations. (This happens already to some degree and a hot topics list is distributed prior to some meetings).

**Increase the use of new media to disseminate management accounting innovations**

CIMA already uses webinars and webcasts for training and information on management accounting techniques. In recent years forums have been made available within CIMA in the CIMA-global site and externally in LinkedIn. CIMA broadcast via Twitter and have a presence in Facebook. The next step is to ensure all members are aware of these developments either with a direct e-mail or postal mail campaign with the aim of reaching the qualified members.

**Inform about innovations in online CPD resources**

CPD resources include innovations but as covered earlier in this section there is currently no mandatory innovations element.

**Encourage FCMA and ACMA to share their experiences**

Although it may be difficult to reach management accountants and bring them together, interviewees believed peer-to-peer discussions or group discussions on innovations or management accounting techniques should be encouraged. FCMA with their senior status could be required to make a contribution to CIMA and/or management accounting knowledge or at least encouraged to share their experiences. This would give more weight to the FCMA status and provide a boost to the quality of the institute. ACMA could be encouraged to share experiences on a voluntary basis to raise their professional profiles. A knowledge bank of FAQs may be one possibility.

**Involve marketing people in the promotion of innovations**

One suggestion arising from the semi-structured interviews was to use experts in dissemination, i.e. marketing people, to promote innovations. For cost reasons this approach would probably have to be kept only for extremely important innovations.

CIMA has already introduced many of the measures but this did not seem to be known amongst the research participants. It is difficult to know how to ensure CIMA members can be kept updated about developments in management accounting after they have finished taking exams. A large proportion of interviewees in this research reported that they rarely read Financial Management or Insight. A number of those

who said they regularly read Financial Management had not heard of the term 'Beyond Budgeting'. It would seem that a proactive direct approach by CIMA, with an obligatory acknowledgement from each member, might be necessary to make members aware of the communication channels at their disposal and therefore any innovations disseminated via these channels.

### **6.5 Limitations**

Although the literature review provided rich insights into the process of adoption of management accounting innovations and the participants in the multi-phase study produced many reasons for the non-adoption of Beyond Budgeting, which were mostly in line with the literature, it has been recognised that the research has the following limitations:

- The research concentrated only on the adoption of a single management accounting innovation, Beyond Budgeting
- Due to the qualitative nature and the small size of the survey sample, the results cannot be generalised
- Anonymity was assured to such a degree that it was not possible to contact non-respondents and assess non-response bias
- Only management accountants participated; senior non-finance managers who may have the same or more influence on the decision to adopt new management accounting techniques were not included
- It was not possible to analyse the findings in the context of the principal activity of respondents' organisations, as most of them categorised their organisations as 'other'.
- The high proportion of Members in Practice making up the sample also precluded meaningful analyses by branch which a study of CIMA accountants from a broader spectrum would have facilitated.
- The limited time and financial resources of the self-financing sole researcher meant that some avenues which may have been explored in more detail could not be followed up.

Despite these limitations the researcher believes this study makes an important contribution to management accounting research.

### **6.6 Suggestions for further research**

Further research to confirm the findings of the study could further the body of knowledge by:

- Widening the scope to encompass management accounting innovations generally
- Including a larger sample, perhaps addressing the entire CIMA membership in order to have more generalisable results
- Ensuring respondent anonymity but at the same time tracking responses so that reminders can be sent to accountants not responding and so that non-response bias can be assessed
- Extending the scope of the research to include general managers and managers from other disciplines who may have more influence on the decision to adopt new systems

The CIMA members participating in the research were keen to discuss management accounting, and some interviewees indicated that they missed the opportunity for discussion with peers. Face to face interviews or further telephone interviews, prepared in advanced with a highly personalised introductory cover letter would undoubtedly bring valuable knowledge on current management accounting practices.

Other areas highlighted in the research which could merit further consideration include:

- the sophistication of management accounting in smaller organisations and the applicability of management accounting innovations in these cases
- the way practicing accountants engage in CPD
- whether or how CIMA members keep abreast of new innovations

An interview with one of the original Beyond Budgeting founding fathers in the context of this research and other recent research in this area could also throw more light on why it has not been widely adopted.

### **6.7 Closing remarks**

The research identified some of the many obstacles to the adoption of Beyond Budgeting which may be applicable to other management accounting innovations. The concept of Beyond Budgeting has been criticised in the literature and has not been accepted by leading authors or the professional institutes as the standard solution for the future. Participants in the research did not regard the concept as complete or coherent and yet most participants routinely used most individual techniques, while some were just starting to introduce the techniques in their companies. The whole concept, especially the abandoning of the budget, has not been well-accepted and although the individual Beyond Budgeting techniques were widely used amongst participants over one third of them had not heard of the term 'Beyond Budgeting'.

Most participants in this study will not be abandoning the fixed budget in the near future but accept that the procedure is far from perfect. There is scope for further research in the quest for alternative approaches including Beyond Budgeting.

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**APPENDIX 1 – BIOGRAPHIES**

**Dr. Peter Bunce:** a Chartered Engineer and a member of the UK Institution of Engineering and Technology, he managed several research programmes for CAM-I, where he was instrumental in helping CAM-I to co-found the ‘Beyond Budgeting Roundtable’ (BBRT), of which he is still a director and core team member. He is convener for modules for The Manufacturing Institute’s MSc course in Manufacturing Leadership, accredited by Lancaster University and he holds a degree in Mechanical Engineering, PhD in Manufacturing Engineering and a Diploma in Management Studies (BBRT, 2012a). Dr. Bunce is manager of the LinkedIn ‘Beyond budgeting Round Table’ discussion group (Bunce, 2010).

**Robin Fraser** is a consultant, formerly a partner with Coopers & Lybrand (C&L). He has specialised in business planning and performance improvement and has led development in budgeting projects as well as heading C&L’s ABM practice. He represented C&L in CAM-I and chaired CAM-I’s AMS (Advanced Management System) Framework Study Group. From 1997 he co-led CAM-I’s Beyond Budgeting project with Jeremy Hope and led the development of the BBRT internationally. He was a director of the BBRT for 10 years and is still a member of the ‘Extended Team’ (Hope & Fraser, 2003a; BBRT, 2012b).

**Jeremy Hope (1948 – 2011)**, a chartered accountant and business author, experienced in venture capital and business management, was co-founder and research director in the core team of the BBRT. He gave keynote speeches at major conferences on performance management and wrote various books on management accounting and performance management. From 1998 until his death in 2011 he remained research director of the BBRT and Beyond Budgeting was the focus of his work (Hope & Fraser, 2003a; BBRT, 2012a).



**APPENDIX 2 – PRINCIPAL ACTIVITY OF ORGANISATION - condensed and adapted from the United Nations ISIC codes (See below)**

**Manufacturing (D)**

- D – Manufacturing

**Construction**

- F - Construction

**Commercial Services, Energy and Utilities**

- H - Hotels and restaurants
- J - Financial intermediation
- K - Real estate, renting and business activities
- E - Electricity, gas and water supply

**Wholesale and Retail trade Including repairs**

G - Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods

**Information and Communication**

**Transport**

I - Transport, storage and communications

**Education, public/social services**

- L - Public administration and defence; compulsory social security
- M – Education
- N - Health and social work
- O - Other community, social and personal service activities

**Agriculture, Mining, Forestry, Fishing**

- A - Agriculture, hunting and forestry
- B - Fishing
- C - Mining and quarrying

**Other**

- P - Activities of private households as employers and undifferentiated production activities of private households
- Q - Extraterritorial organizations and bodies

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**UN International Standard Industrial Classification of All Economic Activities, Rev.3.1**

<http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=17&Lg=1&Top=1> (21.01.2011)

- A - Agriculture, hunting and forestry
- B - Fishing
- C - Mining and quarrying
- D - Manufacturing
- E - Electricity, gas and water supply
- F - Construction
- G - Wholesale and retail trade; repair of motor vehicles, motorcycles, personal and household goods
- H - Hotels and restaurants
- I - Transport, storage and communications
- J - Financial intermediation
- K - Real estate, renting and business activities
- L - Public administration and defence; compulsory social security
- M - Education
- N - Health and social work
- O - Other community, social and personal service activities
- P - Activities of private households as employers and undifferentiated production activities of private households
- Q - Extraterritorial organizations and bodies

(U.N. Statistical Dept, 2011)

**APPENDIX 3.1: LITERATURE BASIS**

**Appendices 3.1 – 3.4 show the origin of each survey question, listing the relevant author(s) from the literature review who wrote about the point in question.**

**TRADITIONAL BUDGETING VIEWS SURVEY QUESTIONS**

<b>Statement</b>	<b>Section</b>	<b>Authors either criticising or defending</b>
Budgeting is an effective, proven, coherent system which works well	1.2	Simons(1991); Otley(1999); Reid & Smith(2002); Marginson & Ogden(2005); Libby & Lindsay(2007)
My organisation is generally satisfied with the budgeting process	1.2 1.2 2.4	<b>Dissatisfied</b> : Jensen(2001); Horngren(2004); Neely <i>et al</i> ( 2003); Welch & Welch(2005) <b>Satisfied</b> : Dugdale & Lyne(2010a)
I cannot imagine managing a business without a budget	2.4	Libby & Lindsay(2007); Jensen(2003)
The annual budgeting process is generally disliked	2.3	Wildavsky(1978); Hope & Fraser(2003a); Horngren(2004); Welch & Welch(2005)
The annual budgeting process takes too long, is too expensive and is quickly out-of-date	1.2 / 2.3	<b>Too long</b> : Neely <i>et al</i> (2001); Hope & Fraser(2003a); Jarman & Bibekar(2009); Axson(2010) <b>Too expensive</b> : Jensen(2003); Libby & Lindsay(2003); Hope & Fraser(2003a); Jarman & Bibekar(2009) <b>Out-of-date</b> : Prendergast(1997); Jarman & Bibekar(2009)
Budgeting techniques have evolved significantly over the last 25 years	3.2.2 1.2	<b>Evolved</b> : Bromwich & Bhimani(1994) <b>Not evolved</b> : Kaplan(1984); Johnson & Kaplan,(1991); Bunce <i>et al</i> (1995)
Traditional budgeting, when well-implemented, can be beneficial to all organisations in all circumstances	2.4	Simons(1991); Otley(1999); Reid & Smith(2002); Marginson & Ogden(2005); Libby & Lindsay(2007)
Budgets are used to exert pressure on and control managers and staff	2.3 2.4	Drucker(1929); Neely <i>et al</i> ,(2003); Daum(2005) Ezzamel <i>et al</i> (1990)
Traditional budgeting perpetuates central control	2.3	Drucker(1929); Neely <i>et al</i> ,(2003); Daum(2005)
A fixed annual plan is not compatible with today's fast-moving business environment	2.3	Libby & Lindsay(2007); Jarman & Bibekar(2009)
There is too much emphasis on the numbers in the traditional budgeting process	2.3	Hopwood(1980); Johnson & Kaplan(1991); Otley(1999); Slater(1999)
The budgeting process itself is not a problem, the way it is used is the problem	2.4 3.2.7	Marginson & Ogden(2005); Bunce & Fraser(1997:26)
Incentives tied to budgets sometimes lead to dysfunctional behaviour such as budget padding / slack or short-termism	1.2 / 2.3	Hopwood(1972); Onsi(1973); Prendergast(1997); Welch & Welch(2005); Libby & Lindsay(2007); McVay & Cooke(2006)
Business is too complex to be modelled by a budgeting or any other system	3.2.7	Stacey(1995)

**APPENDIX 3.2: LITERATURE BASIS – QUESTIONS ON USE OF TECHNIQUES****USAGE OF GENERAL MANAGEMENT TECHNIQUES**

Fixed annual budgets	Abandoning the budget: (Hope & Fraser, 2003a:xiii, 36, 165); Rickards (2008); Bunce (2010)
A decentralised management structure	Radical decentralisation (Hope & Fraser, 2003a:36)
Rolling forecasts	"Focus on trends and forecasts...features include rolling forecasts" (Hope & Fraser, 2003a:26)
Fast actuals reporting	"Fast and open information systems" supporting decision-making (Hope & Fraser, 2003a:177)
Reports / knowledge widely shared	"Open information systems that provide one truth throughout the organisation" (Hope & Fraser, 2003a:159)
Relative indicators / benchmarks	"Relative improvement contracts" (Hope & Fraser, 2003a:93)
Transparent single set of reports	"Open information systems that provide one truth throughout the organisation" (Hope & Fraser, 2003a:159)
Focus on customers and value creation	"Focused teams on customer outcomes" (Hope & Fraser, 2003a:32) "Focus on continuous value creation" (Hope & Fraser, 2003a:79)
Front-line managers set strategy	"Devolve strategy to business unit teams" ( Hope & Fraser, 2003a:78)
Empowered front line managers	Radical decentralisation: "Empowered people with scope to make strategic decisions are more committed to success" (Hope & Fraser 2003a:144)
Centralised functions are avoided	"Create a network of small, customer-oriented teams" instead of exerting pressure from the centre (Hope & Fraser, 2003a:158)
Planning is a continuing process	"Action planning a continuous and inclusive process" (Hope & Fraser, 2003a:70) "Planning and improvement is a continuous process not just a once a year exercise" (Hope & Fraser, 2003a:124)
Resources are allocated as needed	"Resources-on-demand approach reduces waste" (Hope & Fraser, 2003a:70)
Governance based on a few clear values	"Provide clear principles and boundaries" ( Hope & Fraser, 2003a:145)

**USAGE OF PERFORMANCE MANAGEMENT TECHNIQUES**

Incentives based on budget achievement	Budgets serve as a 'performance contract' (Libby & Lindsay, 2003)
Budget targets fixed in advance	Budgets set the limits to operate within and targets to achieve (Neely <i>et al</i> , 2001)
Performance evaluated in hindsight	Six key principles: Relative improvement contracts with hindsight (Hope & Fraser, 2003a:93)
Targets de-coupled from budgets	Six key principles: No fixed contracts agreed upon in advance (Hope & Fraser, 2003a:93)
Incentives based on internal benchmarks	Set goals relative to internal peers (Hope & Fraser, 2003a:72)
Incentives based on external benchmarks	Six key principles: Base goals on external benchmarks (Hope & Fraser, 2003a:93)
High level KPIs	"Set targets based on high level key performance indicators (KPIs)" (Hope & Fraser, 2003a:21)
Managers are given general targets only	Although managers need some operating guidelines ...they don't need detailed budgets (Hope & Fraser, 2003a:120)
Rewards are team, unit or enterprise wide	"Base rewards on the relative success of operating teams" (Hope & Fraser, 2003a:73) "Team based responsibility" (Hope & Fraser, 2003a:144) "Onus on the team to set their own goals" ( Hope & Fraser, 2003a:71)
Maximise profit of whole organisation	With responsibility "such individuals will also behave in the interests of...the organization (Hope & Fraser, 2003a:120)
Balanced Scorecard (BSC)	"The scorecard is a tool for helping front line teams manage strategy" (Hope & Fraser, 2003a:185)
Economic Value Added (EVA)	"Shareholder value models can support front line strategy and decision making (Hope & Fraser, 2003a:182)

**APPENDIX 3.3: LITERATURE BASIS – QUESTIONS ON BEYOND BUDGETING****PERCEPTIONS OF BEYOND BUDGETING**

Beyond Budgeting is a coherent complete system	Traditional budgeting coherent (Otley,1999); "Budgeting, for all its flaws , is coherent" (Hope &Fraser,2003a:28); "The principles of BB offer a new coherent management model" (Hope & Fraser, 2003a:29)
Beyond Budgeting provides a set of tools for management to choose from	"BB is not a toolset designed to fix a specific problem with budgets" (Hope & Fraser, 2003a:xix) "a coherent set of alternative processes" (Hope & Fraser, 2003a:xix) ...benefits of empowerment after budget abandoned and alternative processes put in place
Beyond Budgeting principles are a common sense, practical solution to budgeting problems	The rolling forecast is nothing but common sense" (Hope & Fraser, 2003a:171)
Beyond Budgeting is a fad, another exotic, theoretical notion	Luft (2006) BB decentralisation fad; Abrahamson (1991) fads as inefficient innovations; Mintzberg (1979) danger of latest fad

**COULD ALTERNATIVES TO TRADITIONAL BUDGETING IMPROVE BUSINESS?**

Abandoning the annual budget would free up resources	Quick wins (Hope & Fraser, 2003a:111); "cost-savings from not budgeting" (Hope & Fraser, 2003a:112)
Using rolling forecasts instead of a fixed plan helps eliminate dysfunctional behaviour	Performance contracts based on budget achievement are conducive to dysfunctional behaviour (Hopwood, 1972; Prendergast, 1997; Libby & Lindsay, 2007) No managers filtering information to make it look better. (Hope & Fraser, 2003a:192)
Decentralisation leads to a more performance oriented organisation	For: Hope & Fraser (2003a:159,198); Against: Dugdale & Lyne (2006)
High level KPIs such as return on capital, free cash flow or cost to income targets are more effective than detailed fixed budgets	"Set targets based on high level key performance indicators (KPIs)" (Hope & Fraser, 2003a:21)
Managers perform better with operating guidelines not detailed budgets	Although managers need some operating guidelines ...they don't need detailed budgets (Hope & Fraser, 2003a:120)
Involving teams closer to the customer in setting strategy instils responsibility to meet targets	"Devolve strategy to business unit teams" (Hope & Fraser, 2003a:78)
It is more effective to deal with investment proposals as and when requirements arise	"Resources-on-demand approach reduces waste" (Hope & Fraser, 2003a:70)
Open reporting with high visibility to a wide audience improves performance	"Open information systems that provide one truth throughout the organisation" (Hope & Fraser, 2003a:159)
Managers are less likely to exhibit dysfunctional behaviour if incentives are de-coupled from budget achievement	Hopwood (1972); Onsi (1973); Prendergast (1997); Welch & Welch (2005); Libby & Lindsay (2007); McVay & Cooke (2006); Hope & Fraser (2003a)
Clear ethical guidelines would deter dishonesty associated with achieving budget targets	Clear principles & boundaries (Hope & Fraser, 2003a:158)

**APPENDIX 3.4: LITERATURE BASIS – QUESTIONS ON BEYOND BUDGETING****BARRIERS PREVENTING ADOPTION OF BEYOND BUDGETING**

No need to adopt as current system is adequate	Simons (1991); Otley (1999); Reid & Smith (2002); Marginson & Ogden (2005); Libby & Lindsay (2007)
Not applicable to my organisation	"They vary in size from small charity to huge complex, global organisation" (Hope & Fraser, 2003a:20); Bunce (2010); Kocourek <i>et al</i> (2000); Otley (2008); Dugdale & Lyne (2010a);
It is too new, not enough organisations have adopted, waiting for more people to do it first	Dimaggio & Powell (1983:148) Institutional Isomorphism; Abrahamson(1991); Scott(2005)
Practical difficulty obtaining external benchmarks such as industry or competitors' data for comparison	Hansen (2003); Otley (2008)
It does not seem to offer a complete solution	Otley (2008:234) "...holistic overview"
Not convinced of the benefits of adopting	Dugdale & Lyne (2006:33) effective for banks does not mean decentralisation is for everyone
Resistance to change generally prevents adoption	Bromwich & Bhimani (1994); Folger & Skarlicki (1999); Modell (2007)
It is too complex to implement	Rickards (2008); Hope & Fraser (2003a:161, 172)
Managers' time is fully utilised, there is no capacity for implementing it	Rickards (2008)
Managers in my organisation do not have the necessary skills for implementing it	Roslender (1995); Langfield-Smith (2008)
Beyond Budgeting is just another fad which will disappear in time	Mintzberg (1979); Abrahamson (1991); Luft (2006); Howard (2004); Langfield-Smith (2008) SMA+ABC;
The techniques are unknown to non-financial managers who are difficult to convince	Berland &Boyns (2002) dissemination; Rogers (2005) Channels; Becker <i>et al</i> (2010) BB seen as a finance issue
Evaluating performance after the event is subjective	Hansen <i>et al</i> (2003)
Rolling forecasts are moving targets, organisations can lose their focus	Otley (2008) difficult to keep focus
A catalyst for change must exist before adoption of such a fundamentally different concept is possible.	Abrahamson(1991) demand-pull; Rogers(1995) external events; Modell (2007)
There is a good case for adopting but there is no top management support	Shields (1995); Malmi (1997); Modell (2007)

**INFLUENCE OF ORGANISATIONAL CULTURE**

The current system is accepted and part of our company culture, a change is not possible	Simons (1991); Otley (1999); Reid & Smith (2002); Marginson & Ogden (2005); Libby & Lindsay (2007)
The techniques of Beyond Budgeting are not compatible with the management style and culture of my organisation	Malmi (1997) culture - resistance to change; Kotter & Schlesinger (1979:236) organisation culture determine success/fail
Beyond Budgeting can be implemented regardless of existing company culture	Malmi (1997) culture - resistance to change; Kotter & Schlesinger (1979:236) organisation culture determine success/fail Hope & Fraser (2003a); Bunce & Fraser (1997)
The predominance of the 'command and control' culture is the main reason why Beyond Budgeting has not been more widely adopted	Carsberg (1980); Hope & Fraser (2003b) Rogers (1995) authority decisions = faster rate of adoption

## APPENDIX 4.1 – QUALTRICS WEB QUESTIONNAIRE

## Kingston Business School

**Beyond Budgeting - theoretical notion or practical solution?**

Thank you for participating in this survey

By participating in the survey you will be making a significant contribution to research relevant to your profession and be taking part in a topical debate. If you choose to enter contact details at the end of the survey you will receive a summary of the research conclusions as soon as the study is completed.

We encourage respondents to agree to a short follow-up phone call by ticking the appropriate box at the end of the questionnaire and supplying us with a telephone number.

In any event your answers are confidential and will be treated anonymously i.e. no answers or comments will be associated with any individual respondent or organisation. Your telephone number, if supplied, will only be used for a follow-up call and not for any other purpose.

Your participation will be greatly appreciated!

**Definition of "Traditional budgeting"**

We will be referring to and asking about "Traditional budgeting". For the purpose of this survey we have defined traditional budgeting as follows:

The traditional budget usually starts with a 12 month sales forecast to arrive at a budget profit and loss and balance sheet which are broken down into 12 monthly periods. Managers' incentives are based on achieving the budgetary targets, against which the actual results are compared monthly.

Traditional budgeting is a top-down process designed to 'command and control' an organisation.

on  100%

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## Kingston Business School

**Your personal background:**

- Q1** Where is your principal place of residence?  

  - UK and Ireland
  - Europe
  - Americas
  - Asia
  - Rest of World
- Q2** When were you awarded the ACMA designatory letters?  

  - 1969 or before
  - 1970-1979
  - 1980-1989
  - 1990-1999
  - 2000-2009
  - 2010-2011
  - Not yet qualified
- Q3** What is your current employment status?  
 Senior management - non-accounting  
 Senior management - accounting / finance  
 Accountant  
 Member in practice / self-employed  
 Educator  
 Employed non-accounting  
 Student  
 Retired  
 Job-seeker  
 Other

on  100%

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APPENDIX 4.2 – QUALTRICS WEB QUESTIONNAIRE

# Kingston Business School

Q4

How many people work in your organisation?

- 1-9
- 10-49
- 50-99
- 100-249
- 250-999
- 1000-9999
- 10000 and over
- Don't know / skip question

Q5

What is the approximate total turnover of your organisation?

- up to € 2 million (£ 1.7 million)
- up to € 10 million (£ 8.5 million)
- up to € 50 million (£ 43 million)
- up to € 500 million (£ 430 million)
- over € 500 million (£ 430 million)
- Don't know / skip question

Q6

What is the principal activity of your organisation?

- Manufacturing
- Construction
- Commercial services, Energy and Utilities
- Wholesale & Retail trade including repairs
- Information and Communication
- Transport
- Education, public / social services
- Agriculture, Mining, Forestry, Fishing
- Other

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Q7

The following statements are concerned with the traditional budgeting process. Please indicate your level of agreement with each statement.

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
Budgeting is an effective, proven, coherent system which works well	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
My organisation is generally satisfied with the budgeting process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I cannot imagine managing a business without a budget	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The annual budgeting process is generally disliked	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The annual budgeting process takes too long, is too expensive and is quickly out-of-date	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Budgeting techniques have evolved significantly over the last 25 years	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Traditional budgeting, when well-implemented, can be beneficial to all organisations in all circumstances	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Budgets are used to exert pressure on and control managers and staff	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Traditional budgeting perpetuates central control	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A fixed annual plan is not compatible with today's fast-moving business environment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
There is too much emphasis on the numbers in the traditional budgeting process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The budgeting process itself is not a problem, the way it is used is the problem	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Incentives tied to budgets sometimes lead to dysfunctional behaviour such as budget padding / slack or short-termism	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business is too complex to be modelled by a budgeting or any other system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other comments on the traditional budgeting process:

Q8

How long does it take on average to prepare the budget in your organisation?

- 1 month or less
- 2 months
- 3 months
- 4 months
- 5 months
- 6 months or more
- Don't know

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## APPENDIX 4.3 – QUALTRICS WEB QUESTIONNAIRE

Q9 Which of the following principles or techniques are used in your organisation?

	Used	Not used
Fixed annual budgets	<input type="radio"/>	<input type="radio"/>
A decentralised management structure	<input type="radio"/>	<input type="radio"/>
Rolling forecasts are used	<input type="radio"/>	<input type="radio"/>
At period end results / reports are available quickly - at the latest within 5 days	<input type="radio"/>	<input type="radio"/>
Reports are available to a wide audience - not just top management. Knowledge is shared	<input type="radio"/>	<input type="radio"/>
Reporting against relative indicators such as prior year or benchmarks, not against plan fixed in advance	<input type="radio"/>	<input type="radio"/>
Reports are transparent, there is only one set of figures for the organisation. Good and bad performance is visible and comparable	<input type="radio"/>	<input type="radio"/>
At all levels focus is on customers and value creation not budget achievement	<input type="radio"/>	<input type="radio"/>
Front-line managers are involved in setting strategy	<input type="radio"/>	<input type="radio"/>
Responsibility for planning, performance and decision-making lies with empowered front line managers	<input type="radio"/>	<input type="radio"/>
Centralised functions are avoided. The organisation comprises a network of decentralised teams with freedom to act.	<input type="radio"/>	<input type="radio"/>
Planning is a continuing process not an annual event	<input type="radio"/>	<input type="radio"/>
Resources are allocated as needed and not planned long in advance	<input type="radio"/>	<input type="radio"/>
Ethical behaviour is ensured through a few clear values, goals and boundaries	<input type="radio"/>	<input type="radio"/>

Other comments on budgeting techniques in your organisation:

Q10 Which of the following principles are used for performance evaluation in your organisation?

	Used	Not used
Incentives based on budget achievement	<input type="radio"/>	<input type="radio"/>
Budget targets fixed in advance	<input type="radio"/>	<input type="radio"/>
Performance is evaluated after the event, not linked to fixed targets agreed upon in advance	<input type="radio"/>	<input type="radio"/>
Targets de-coupled from budgets	<input type="radio"/>	<input type="radio"/>
Incentives based on internal benchmarks such as rankings against peer groups	<input type="radio"/>	<input type="radio"/>
Incentives based on external Benchmarks (e.g. Industry growth, competitor performance)	<input type="radio"/>	<input type="radio"/>
High level KPIs such as return on capital, free-cash flow or cost to income targets	<input type="radio"/>	<input type="radio"/>
Managers are given general targets not detailed budgets	<input type="radio"/>	<input type="radio"/>
Rewards are team, unit or enterprise wide rather than individual incentives	<input type="radio"/>	<input type="radio"/>
Measures aimed at maximising profit of whole organisation	<input type="radio"/>	<input type="radio"/>
Performance measurement targets based on Balanced Scorecard (BSC)	<input type="radio"/>	<input type="radio"/>
Performance measurement targets based on Economic Value Added (EVA)	<input type="radio"/>	<input type="radio"/>

0%  100%





**APPENDIX 4.4 – QUALTRICS WEB QUESTIONNAIRE**

**Q11** Are you aware of the concept of Beyond Budgeting?

- Yes
- No

**Q12** When did you become aware of Beyond Budgeting?

- 5 years ago or less
- 6-10 years ago
- >10 years ago

**Q13** How did you first hear of Beyond Budgeting?

- Accounting Journal
- Accounting literature or textbook
- Financial Press
- Talk, seminar or lecture
- Peer, word of mouth
- Continuing Professional Development (CPD)
- Internet site, forum or blog
- Other (please specify)

Where Beyond Budgeting first heard of - other than above:

**Q14** Which of the following sources have you used to elicit information on Beyond Budgeting?

- Beyond Budgeting Round Table (<http://www.bbrt.org>)
- BetaCodex Network (<http://www.betacodex.org>)
- LinkedIn Beyond Budgeting Group (<http://www.linkedin.com>)
- Xing Beyond Budgeting Group (<http://www.xing.com>)
- Other sources (please specify)
- None of the above

Other sources or comments on information sources:

0% 100%



**APPENDIX 4.5 – QUALTRICS WEB QUESTIONNAIRE**

The next two questions request information about your own knowledge and perceptions of Beyond Budgeting.

**Q15** Which of the following concepts and techniques are you familiar with?

	Very familiar	Familiar	Unfamiliar
Managing without fixed annual budgets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A radically decentralized management structure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rolling forecasts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managers' targets de-coupled from the annual budget	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Relative targets e.g. to industry, competitors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bonuses calculated after the event i.e. not based on predetermined targets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
At period end results / reports are available quickly (fast close)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reports are transparent, there is only one set of figures for the organisation. Good and bad performance is visible and comparable	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reports are available to a wide audience - not just top management. Knowledge is shared	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reporting against relative indicators such as prior year or benchmarks, not against a plan fixed in advance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
At all levels focus is on customers and value creation not budget achievement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Front-line managers are involved in setting strategy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Responsibility for planning, performance and decision-making lies with empowered front line managers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Centralized functions are avoided. The organisation comprises a network of decentralised teams with freedom to act.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ethical behaviour is ensured through a few clear values, goals and boundaries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Resources are allocated as needed and not planned long in advance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Planning is a continuing process not an annual event	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other comments on your familiarity with Beyond Budgeting techniques:

**Q16** This question concerns your perceptions of Beyond Budgeting.

(Please tick the statement(s) which most correspond to your perception(s):

- Beyond Budgeting is a coherent complete system
- Beyond Budgeting provides a set of tools for management to choose from
- Beyond Budgeting principles are a common sense, practical solution to budgeting problems
- Beyond Budgeting is a fad, another exotic, theoretical notion

Other comments on your perceptions of Beyond Budgeting:

0%  100%



**APPENDIX 4.6 – QUALTRICS WEB QUESTIONNAIRE**

**Q17**

The following statements are concerned with alternatives to the traditional budgeting process and whether they could improve performance in your organisation.

Please indicate your level of agreement with the following statements:

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
Abandoning the annual budget would free up resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Using rolling forecasts instead of a fixed plan helps eliminate dysfunctional behaviour	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decentralisation leads to a more performance oriented organisation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High level KPIs such as return on capital, free cash flow or cost to income targets are more effective than detailed fixed budgets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managers perform better with operating guidelines not detailed budgets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Involving teams closer to the customer in setting strategy instils responsibility to meet targets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is more effective to deal with investment proposals as and when requirements arise	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Open reporting with high visibility to a wide audience improves performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managers are less likely to exhibit dysfunctional behaviour if incentives are de-coupled from budget achievement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Clear ethical guidelines would deter dishonesty associated with achieving budget targets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other comments on alternatives to traditional budgeting:

0% 100%



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Please identify which of the following are potentially, or have been, barriers preventing the adoption of Beyond Budgeting.

**Q18**

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
No need to adopt as current system is adequate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Not applicable to my organisation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is too new, not enough organisations have adopted, waiting for more people to do it first	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Practical difficulty obtaining external benchmarks such as industry or competitors' data for comparison	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It does not seem to offer a complete solution	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Not convinced of the benefits of adopting	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Resistance to change generally prevents adoption	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is too complex to implement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managers' time is fully utilized, there is no capacity for implementing it	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managers in my organisation do not have the necessary skills for implementing it	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Beyond Budgeting is just another fad which will disappear in time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The techniques are unknown to non-financial managers who are difficult to convince	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Evaluating performance after the event is subjective	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rolling forecasts are moving targets, organisations can lose their focus	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A catalyst for change must exist before adoption of such a fundamentally different concept is possible.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
There is a good case for adopting but there is no top management support	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other comments on barriers to adopting Beyond Budgeting:

0% 100%



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## APPENDIX 4.7 – QUALTRICS WEB QUESTIONNAIRE

**Q19** Please give your opinion on the following statements concerning the **influence of organisational culture** on the decision to implement Beyond Budgeting

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
The current system is accepted and part of our company culture, a change is not possible	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The techniques of Beyond Budgeting are not compatible with the management style and culture of my organisation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Beyond Budgeting can be implemented regardless of existing company culture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The predominance of the 'command and control' culture is the main reason why Beyond Budgeting has not been more widely adopted	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other comments on the influence of organisational culture on not adopting Beyond Budgeting:

0%  100%



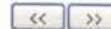
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**Q20** We would like to interview a selection of respondents in more depth in a short interview to gain a greater understanding of the reasons behind the slow uptake of Beyond Budgeting. It would help us if you would be prepared to undertake a telephone interview lasting between 10-15 minutes. If you would be willing to participate please leave a telephone number below and the time of day you would prefer to be called.

I would be happy to answer further questions on this subject:

- Yes  
 No

0%  100%



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**APPENDIX 4.8 – QUALTRICS WEB QUESTIONNAIRE****Q21**

Name (optional):

Contact telephone number:

Preferred time of the day for a phone call:

If you would like a summary of the results please indicate below and leave an e-mail address to which the summary can be sent.

**Q22**

I would like to receive a summary of the results of this research:

- Yes  
 No

0%  100%Survey Powered by [Qualtrics](#)**Q23**

Name (optional):

E-mail address for the research summary:

0%  100%Survey Powered by [Qualtrics](#)

# Kingston Business School

We thank you for your time spent taking this survey.  
 Your response has been recorded.

0%  100%Survey Powered by [Qualtrics](#)



**APPENDIX 5.1 – INSIGHT NEWSLETTER ARTICLE (CIMA, 2011e)**

**CIMA** Chartered Institute of Management Accountants  
**Insight**  
Incorporating Synergy The e-magazine for management accountants

# Survey: why don't more companies use beyond budgeting?

March 2011



**Is beyond budgeting a theoretical notion or a practical solution? A team of researchers aims to find out and is looking for help from CIMA members.**

A team of researchers at Kingston University, London is seeking respondents for a survey investigating the slow adoption of 'beyond budgeting'. The research is being undertaken by Phil Hudson ACMA, supported by his supervisors Dr Thérèse Woodward and Dr Andrew Holt, for a doctoral thesis.

Beyond budgeting is a practice-led development in budgeting that was first discussed in CIMA's Management Accounting magazine (since renamed Financial Management) in February 1997. The concept is still topical and subject to ongoing research and is included in the CIMA 2010 syllabus.

Advocates of the technique indicate that benefits are significant for those organisations that have implemented it. Despite this, adoption does not appear to be widespread, with a recent research paper even talking of it in the past tense.

We are looking for CIMA members to help us obtain an understanding of the reasons why the uptake has been relatively slow. We would be grateful if you could take part in a short web based [survey](#) on the subject, which should only take ten minutes to complete. An overview and background of the research project follows, explaining why we have chosen to survey members for this research.

## **APPENDIX 5.2 - INSIGHT NEWSLETTER ARTICLE (cont.)**

### **Researching better budgeting**

Interest in the subject was sparked over ten years ago when it was being presented regularly in the financial press and was the subject of courses and lectures. The principles sounded like common sense and the benefits full of promise.

But news of ever increasing numbers adopting the concept remained elusive. We want to find out why.

Our research starts by examining the traditional budget, which was first used over 120 years ago and plays a variety of roles in organisational activity, including:

- forecasting and planning
- departmental and sales / production coordination
- motivating employees
- performance evaluation and control
- authorisation of actions such as investment or personnel decisions.

With such potentially conflicting roles to fulfil, the budget has inevitably attracted much criticism over the last century. Some see budgeting as too costly, too time consuming and liable to quickly become out of date. Some also believe it can cause dysfunctional behaviour, such as budget padding or gaming, as staff strive to achieve a low, achievable budget.

As a result, it is no surprise that many accountants are discovering that traditional systems of budgetary control are increasingly cumbersome and ineffective for guiding organisational activity. We have looked at what alternatives there are to the annual budgeting procedure. Our research has found that practitioners and academics have come up with various solutions to the problems of traditional budgeting over the years, with flexible budgeting, zero based budgeting and activity based budgeting being just a few such examples.

Each of these tackles specific problem areas but fails to provide a complete replacement for the traditional budgetary process. In contrast, the proponents of beyond budgeting present what they believe is a full replacement for the traditional budgetary process.

### **Explaining the concept**

The theory is largely a creation of Peter Bunce and Robin Fraser; and Jeremy Hope and Robin Fraser. Its core tenet is the abolition of the traditional budgetary process, with the concept presented as a new general management model implemented in two phases: the abandonment of the budget and then radical decentralisation.

During phase one, the fixed budget is abandoned and replaced by adaptive processes such as rolling forecasts and relative performance measures using benchmarks or peer groups. The second phase builds on the adaptive processes and moves organisations from a top down command and control hierarchy to radical decentralisation, pushing responsibility to front line managers. The resulting 'responsibility model' replaces the former traditional 'dependency model'.

The founders of the concept maintain it is not just an academic theory but also a feasible, practical solution which can offer practical advice, for example providing a set of guidelines or principles for organisations to follow. To this end, they set up a 'Beyond budgeting round table' (BBRT) in 1997, which disseminates information and offers support to interested companies.

### **APPENDIX 5.3 – INSIGHT NEWSLETTER ARTICLE (cont.)**

There are no easily available statistics on the number of companies who have adopted beyond budgeting, but it appears to be low. In 2000 the Economist Intelligence Unit observed that only 20-30 organisations were known to have abandoned budgets. In December 2010 there were 70 BBRT members and 90 organisations listed as past or present members; these organisations however do not claim to have implemented it. Jürgen Daum lists two non BBRT member companies, IKEA and Boots Healthcare, as proof that it works and organisations can be managed without a fixed annual budget.

The total number of companies associated with beyond budgeting – that is, included as examples in articles or showing an overt interest – appears to be less than 100. Additionally, a CIMA survey on management accounting tools published in January 2010 found that it was the least popular of the budgeting tools surveyed, being used by less than 5% of the organisations surveyed. A further CIMA sponsored survey, also published in 2010, confirmed: ‘The beyond budgeting recommendations have not yet made a significant impact on the systems adopted in many companies.’

#### **Be involved in the survey**

The research focuses on a specialist subject and in order to answer the questions, a good knowledge of budgeting techniques as well as hands-on experience of budgeting is essential. CIMA members are ideally placed to respond as, in addition to having the necessary knowledge, they are in the unique position of having an overview of their organisations’ systems. ACMAs and FCMAAs tend to be in managerial positions and many will be responsible for the budgetary process in their organisation.

Any member studying during the last ten years has encountered beyond budgeting in the CIMA syllabus. Members who completed their studies prior to the introduction of the concept may have seen articles in Financial Management and the financial press. CIMA describes chartered management accountants as financially qualified business leaders operating in all areas of an organisation. They create value by applying leading techniques with a commercial and forward-looking focus, adapting to the changing needs of business and industry.

By participating in the survey you will be making a significant contribution to research relevant to your profession and be taking part in a topical debate. If you choose to enter contact details at the end of the survey you will receive a summary of the research conclusions as soon as the study is completed. In any event your answers are confidential and will be treated anonymously - no answers or comments will be associated with any individual respondent or organisation. Your participation will be greatly appreciated!

#### **Access the survey**

#### **Links**

**[Better forecasting and budgeting mastercourse](#)**

**[CIMA professional development](#)**

#### **Contact us**

What did you think of this article? Please email [insight@cimaglobal.com](mailto:insight@cimaglobal.com) with editorial comments, questions and suggestions. Please email [advertising@cimaglobal.com](mailto:advertising@cimaglobal.com) for advertising questions and rates.

Insight is the global e-magazine for management accountants. It is sent to 140,000 members, students and other professionals every month.



**APPENDIX 6 – ACCOMPANYING TEXTS TO DOUBLE ENTRIES NEWSWIRE AND FORUMS**

**Double Entries (issue number 17.06 from 23.03.2011) accompanying text:**

***CIMA activities. What's wrong with beyond budgeting?***

*A team of researchers from Kingston University are inviting participation in research to try to understand why beyond budgeting has not been adopted more widely.*

*Presented by some in the early 2000's as a panacea for the problems with traditional budgeting the take-up so far has been low.*

*Any readers participating in the online survey which can be found [here](#) can be sure they are making a welcome and valuable contribution to this research."*

**CIMAsphere (posted 08.03.2011) and LinkedIn (posted 17.02.2011) accompanying text:**

*I would like to draw your attention to the article in the March issue of the Insight E-magazine entitled "Why don't more companies use beyond budgeting?"*

*We, a team of researchers from Kingston University, London, are surveying members as part of a research project trying to understand why the take-up of Beyond Budgeting has been slow up to now.*

*CIMA members are ideally placed to contribute to the research. We have all learned budgeting techniques and have all been exposed to budgeting. Most of are, or at some stage have been, responsible for the budgeting process in our organisations.*

*I would appreciate it if as many members as possible could participate in the survey which should take around 10 minutes to complete.*

*The survey can be reached directly with the following link:*

*[http://kingston.qualtrics.com/SE/?SID=SV\\_d6yu75sCeapeHME](http://kingston.qualtrics.com/SE/?SID=SV_d6yu75sCeapeHME)*

*The Insight article can be found under:*

*<http://www.cimaglobal.com/Thought-leadership/Newsletters/Insight-e-magazine/Insight-2011/Insight-March-2011/Why-dont-more-companies-use-beyond-budgeting/>*

*Thanks to all who participate!*

*Phil Hudson ACMA*

**Financial Management magazine (May 2011, p.64) accompanying text:**

***What's wrong with 'beyond budgeting'?***

*A team of researchers from Kingston University is inviting CIMA members to participate in research to understand why beyond budgeting has not been adopted more widely.*

*Presented by some in the early 2000s as a panacea for the problems with traditional budgeting, the take-up so far has been low. Any readers participating in the online survey –*

*which can be found at [www.hudson.de/bb](http://www.hudson.de/bb) – can be sure they are making a welcome and valuable contribution to this research.*

**APPENDIX 7 – 10<sup>th</sup> APRIL 2011 COVER E-MAIL TO MIPS (EXAMPLE)**

**Phil Hudson**

---

*(Fictional interviewee details)*

**From:** Phil Hudson [Phil@hudson.de]  
**Sent:** Sonntag, 10. April 2011 22:39  
**To:** 'Gustav@accounting.co.uk'  
**Subject:** ACMA requesting help on a budgeting issue

Interviewee Accounting Ltd,  
Gustav Jones,  
High Lane,  
Monmouth,  
Gwent  
Tel. 01600 123456

Dear Gustav,

After a lifetime in industry as an ACMA management accountant I have started researching accounting innovations, in particular Beyond Budgeting, as part of a distance learning doctorate programme and am requesting support from my fellow ACMA/FCMAs.

I am writing to you, a member in practice [*offering budgeting and planning services,*] to draw your attention to my survey in the April CIMA Insight E-magazine entitled "Why don't more companies use beyond budgeting?". I would highly appreciate your contribution to this research by completing the survey which should take around 10 minutes.

The survey can be accessed directly under:  
[http://kingston.qualtrics.com/SE/?SID=SV\\_6x6Df7CWKsEJyOo](http://kingston.qualtrics.com/SE/?SID=SV_6x6Df7CWKsEJyOo)

The Insight article can be found under the following link:  
<http://www.cimaglobal.com/Thought-leadership/Newsletters/Insight-e-magazine/Insight-2011/Insight-April-2011/Survey-whats-wrong-with-beyond-budgeting/>

I thank you in advance for your participation.

Yours sincerely,

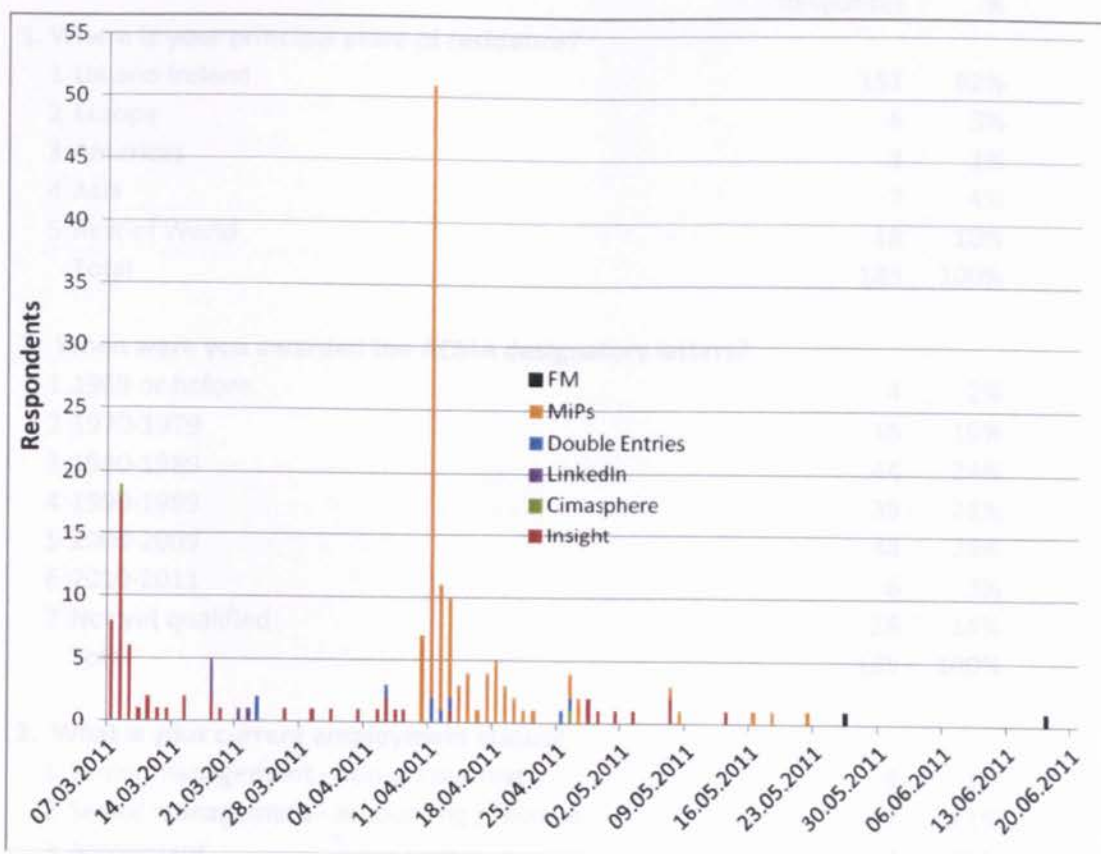
Phil

Phil Hudson ACMA  
Görresstrasse 56  
58636 Iserlohn  
Germany  
Email: [phil@hudson.de](mailto:phil@hudson.de)  
Tel: +49 2371 836777

***Short Biography:***

*I am a 53 year old ACMA and have been a member of CIMA since 1976, an ACMA since 1982. I have been working without interruption as a management accountant in industry for 35 years at various levels in several countries. In 2008 I started studying part time for a Doctor of Business Administration (DBA) at Kingston University and my research area is a long-standing subject of interest of mine – Beyond Budgeting. I am hoping this research will provide a valuable insight into the problems of introducing management accounting innovations by documenting management accountants' experiences with budgeting and Beyond Budgeting.*

PS. Please accept my apologies if you should find this mail intrusive or unwelcome.

**APPENDIX 8 – QUESTIONNAIRES COMPLETED BY DAY IN CHRONOLOGICAL ORDER****Reference dates:**

07.03.2011	March Insight e-magazine distributed and put online
08.03.2011	CIMAsphere forum posted
17.03.2011	LinkedIn forum posted
23.03.2011	March Double Entries electronic newswire distributed and put online
06.04.2011	April Insight distributed and put online with summary article
10.04.2011	E-mails sent to MiPs
05.05.2011	Financial Management magazine arrives by post
17.06.2011	Last questionnaire completed
30.06.2011	Qualtrics system closed – no further answers possible

**APPENDIX 9.1 – QUESTIONNAIRE RESPONSE SUMMARY**

	Responses	%
<b>1. Where is your principal place of residence?</b>		
1 UK and Ireland	151	82%
2 Europe	6	3%
3 Americas	3	2%
4 Asia	7	4%
5 Rest of World	18	10%
Total	185	100%
<b>2. When were you awarded the ACMA designatory letters?</b>		
1 1969 or before	4	2%
2 1970-1979	18	10%
3 1980-1989	44	24%
4 1990-1999	39	21%
5 2000-2009	48	26%
6 2010-2011	6	3%
7 Not yet qualified	26	14%
Total	185	100%
<b>3. What is your current employment status?</b>		
1 Senior management - non-accounting	9	5%
2 Senior management - accounting / finance	42	23%
3 Accountant	37	20%
4 Member in practice / self-employed	96	52%
5 Educator	4	2%
6 Employed non-accounting	3	2%
7 Student	5	3%
8 Retired	1	1%
9 Job-seeker	0	0%
10 Other	5	3%
<b>4. How many people work in your organisation?</b>		
1 1-9	99	55%
2 10-49	9	5%
3 50-99	4	2%
4 100-249	8	4%
5 250-999	14	8%
6 1000-9999	30	17%
7 10000 and over	15	8%
8 Don't know / skip question	0	0%
Total	179	100%

**APPENDIX 9.2 – QUESTIONNAIRE RESPONSE SUMMARY**

	Responses					%		
<b>5. What is the approximate total turnover of your organisation?</b>								
1 up to € 2 million (£ 1.7 million)	99					55%		
2 up to € 10 million (£ 8.5 million)	12					7%		
3 up to € 50 million (£ 43 million)	13					7%		
4 up to € 500 million (£ 430 million)	24					13%		
5 over € 500 million (£ 430 million)	24					13%		
6 Don't know / skip question	7					4%		
Total	179					100%		
<b>6. What is the principal activity of your organisation?</b>								
1 Manufacturing	14					8%		
2 Construction	8					4%		
3 Commercial services, Energy and Utilities	19					11%		
4 Wholesale & Retail trade including repairs	6					3%		
5 Information and Communication	12					7%		
6 Transport	1					1%		
7 Education, public / social services	17					9%		
8 Agriculture, Mining, Forestry, Fishing	3					2%		
9 Other	113					63%		
<b>7. The following statements are concerned with the traditional budgeting process.</b>								
<i>Please indicate your level of agreement with each statement:</i>								
1 Budgeting is an effective, proven, coherent system which works well	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree	Responses	Strongly Agree /Agree	Strongly Disagree /Disagree
2 My organisation is generally satisfied with the budgeting process	26	96	28	29	4	183	67%	18%
3 I cannot imagine managing a business without a budget	44	65	33	35	6	183	60%	22%
4 The annual budgeting process is generally disliked	34	81	44	21	3	183	63%	13%
5 The annual budgeting process takes too long, is too expensive and is quickly out-of-date	48	49	34	47	6	184	53%	29%
6 Budgeting techniques have evolved significantly over the last 25 years	17	59	59	43	5	183	42%	26%
7 Traditional budgeting, when well-implemented, can be beneficial to all organisations in all circumstances	25	88	24	39	7	183	62%	25%
8 Budgets are used to exert pressure on and control managers and staff	23	103	31	25	1	183	69%	14%
9 Traditional budgeting perpetuates central control	25	90	37	26	5	183	63%	17%
10 A fixed annual plan is not compatible with today's fast-moving business environment	43	73	36	26	5	183	63%	17%
11 There is too much emphasis on the numbers in the traditional budgeting process	33	70	26	50	4	183	56%	30%
12 The budgeting process itself is not a problem, the way it is used is the problem	37	89	35	21	1	183	69%	12%
13 Incentives tied to budgets sometimes lead to dysfunctional behaviour such as budget padding / slack or short-termism	58	111	9	4	1	183	92%	3%
14 Business is too complex to be modelled by a budgeting or any other system	4	21	52	69	37	183	14%	58%

**APPENDIX 9.3 – QUESTIONNAIRE RESPONSE SUMMARY**

	Responses	%
<b>8. How long does it take on average to prepare the budget in your organisation?</b>		
1 month or less	89	50%
2 months	33	18%
3 months	29	16%
4 months	12	7%
5 months	4	2%
6 months or more	7	4%
Don't know	5	3%
Total	179	100%

	Used	Not used	Responses	Used	Not used
<b>9. Which of the following principles or techniques are used in your organisation?</b>					
1 Fixed annual budgets	109	39	148	74%	26%
2 A decentralised management structure	62	85	147	42%	58%
3 Rolling forecasts are used	97	51	148	66%	34%
4 At period end results / reports are available quickly - at the latest within 5 days	95	52	147	65%	35%
5 Reports are available to a wide audience - not just top management. Knowledge is shared	78	69	147	53%	47%
6 Reporting against relative indicators such as prior year or benchmarks, not against plan fixed in advance	97	49	146	66%	34%
7 Reports are transparent, there is only one set of figures for the organisation. Good and bad performance is visible and comparable	117	29	146	80%	20%
8 At all levels focus is on customers and value creation not budget achievement	67	79	146	46%	54%
9 Front-line managers are involved in setting strategy	82	64	146	56%	44%
10 Responsibility for planning, performance and decision-making lies with empowered front line managers	86	57	143	60%	40%
11 Centralised functions are avoided. The organisation comprises a network of decentralised teams with freedom to act.	50	93	143	35%	65%
12 Planning is a continuing process not an annual event	109	37	146	75%	25%
13 Resources are allocated as needed and not planned long in advance	97	49	146	66%	34%
14 Ethical behaviour is ensured through a few clear values, goals and boundaries	116	30	146	79%	21%

**APPENDIX 9.4 – QUESTIONNAIRE RESPONSE SUMMARY**

	Used	Not used	Responses	Used	Not used
<b>10. Which of the following principles are used for performance evaluation in your organisation?</b>					
1 Incentives based on budget achievement	87	59	146	60%	40%
2 Budget targets fixed in advance	97	50	147	66%	34%
3 Performance is evaluated after the event, not linked to fixed targets agreed upon in advance	61	83	144	42%	58%
4 Targets de-coupled from budgets	52	92	144	36%	64%
5 Incentives based on internal benchmarks such as rankings against peer groups	36	108	144	25%	75%
6 Incentives based on external Benchmarks (e.g. Industry growth, competitor performance)	32	114	146	22%	78%
7 High level KPIs such as return on capital, free-cash flow or cost to income targets	72	73	145	50%	50%
8 Managers are given general targets not detailed budgets	57	88	145	39%	61%
9 Rewards are team, unit or enterprise wide rather than individual incentives	74	70	144	51%	49%
10 Measures aimed at maximising profit of whole organisation	103	44	147	70%	30%
11 Performance measurement targets based on Balanced Scorecard (BSC)	42	102	144	29%	71%
12 Performance measurement targets based on Economic Value Added (EVA)	18	126	144	13%	88%
			Responses	%	
<b>11. Are you aware of the concept of Beyond Budgeting?</b>					
1 Yes			100	63%	
2 No			59	37%	
Total			159	100%	
			Responses	%	
<b>12. When did you become aware of Beyond Budgeting?</b>					
1 5 years ago or less			57	59%	
2 6-10 years ago			29	30%	
3 >10 years ago			11	11%	
Total			97	100%	
			Responses	%	
<b>13. How did you first hear of Beyond Budgeting?</b>					
1 Accounting Journal			37	38%	
2 Accounting literature or textbook			24	25%	
3 Financial Press			11	11%	
4 Talk, seminar or lecture			15	15%	
5 Peer, word of mouth			9	9%	
6 Continuing Professional Development (CPD)			22	23%	
7 Internet site, forum or blog			3	3%	
8 Other (please specify)			7	7%	

**APPENDIX 9.5 – QUESTIONNAIRE RESPONSE SUMMARY**

	Responses			%		
<b>14. Which of the following sources have you used to elicit information on Beyond Budgeting?</b>						
1 Beyond Budgeting Round Table ( <a href="http://www.bbrt.org">http://www.bbrt.org</a> )			25	25%		
2 BetaCodex Network ( <a href="http://www.betacodex.org">http://www.betacodex.org</a> )			0	0%		
3 LinkedIn Beyond Budgeting Group ( <a href="http://www.linkedin.com">http://www.linkedin.com</a> )			3	3%		
4 Xing Beyond Budgeting Group ( <a href="http://www.xing.com">http://www.xing.com</a> )			1	1%		
5 None of the above			59	58%		
6 Other sources (please specify)			15	15%		
	Very familiar	Familiar	Unfamiliar	Responses	Very familiar /Familiar	Unfamiliar
<b>15. Which of the following concepts and techniques are you familiar with?</b>						
1 Managing without fixed annual budgets	14	60	17	91	81%	19%
2 A radically decentralised management structure	11	53	27	91	70%	30%
3 Rolling forecasts	52	37	3	92	97%	3%
4 Managers' targets de-coupled from the annual budget	16	55	20	91	78%	22%
5 Relative targets e.g. to industry, competitors	19	54	18	91	80%	20%
6 Bonuses calculated after the event i.e. not based on predetermined targets	14	40	36	90	60%	40%
7 At period end results / reports are available quickly (fast close)	48	34	9	91	90%	10%
8 Reports are transparent, there is only one set of figures for the organisation. Good and bad performance is visible and comparable	48	36	7	91	92%	8%
9 Reports are available to a wide audience - not just top management. Knowledge is shared	36	43	12	91	87%	13%
10 Reporting against relative indicators such as prior year or benchmarks, not against a plan fixed in advance	36	43	12	91	87%	13%
11 At all levels focus is on customers and value creation not budget achievement	23	51	17	91	81%	19%
12 Front-line managers are involved in setting strategy	29	51	11	91	88%	12%
13 Responsibility for planning, performance and decision-making lies with empowered front line managers	28	50	13	91	86%	14%
14 Centralised functions are avoided. The organisation comprises a network of decentralised teams with freedom to act	17	54	20	91	78%	22%
15 Ethical behaviour is ensured through a few clear values, goals and boundaries	31	48	12	91	87%	13%
16 Resources are allocated as needed and not planned long in advance	23	57	11	91	88%	12%
17 Planning is a continuing process not an annual event	42	48	2	92	98%	2%



**APPENDIX 9.6 – QUESTIONNAIRE RESPONSE SUMMARY**

	Responses					%		
<b>16. This question concerns your perceptions of Beyond Budgeting</b>								
<i>Please tick the statement(s) which most correspond to your perception(s):</i>								
1 Beyond Budgeting is a coherent complete system					13	15%		
2 Beyond Budgeting provides a set of tools for management to choose from					44	49%		
3 Beyond Budgeting principles are a common sense, practical solution to budgeting problems					43	48%		
4 Beyond Budgeting is a fad, another exotic, theoretical notion					10	11%		
	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree	Responses	Strongly Agree /Agree	Strongly Disagree /Disagree
<b>17. The following statements are concerned with alternatives to the traditional budgeting process and whether they could improve performance in your organisation</b>								
<i>Please indicate your level of agreement with the following statements:</i>								
1 Abandoning the annual budget would free up resources	13	34	11	25	4	87	54%	33%
2 Using rolling forecasts instead of a fixed plan helps eliminate dysfunctional behaviour	12	43	16	12	4	87	63%	18%
3 Decentralisation leads to a more performance oriented organisation	8	32	33	11	3	87	46%	16%
4 High level KPIs such as return on capital, free cash flow or cost to income targets are more effective than detailed fixed budgets	11	34	25	14	3	87	52%	20%
5 Managers perform better with operating guidelines not detailed budgets	16	32	30	9	0	87	55%	10%
6 Involving teams closer to the customer in setting strategy instils responsibility to meet targets	26	51	8	1	0	86	90%	1%
7 It is more effective to deal with investment proposals as and when requirements arise	10	45	21	10	1	87	63%	13%
8 Open reporting with high visibility to a wide audience improves performance	22	49	11	5	0	87	82%	6%
9 Managers are less likely to exhibit dysfunctional behaviour if incentives are de-coupled from budget achievement	10	42	26	7	2	87	60%	10%
10 Clear ethical guidelines would deter dishonesty associated with achieving budget targets	14	35	26	11	1	87	56%	14%

**APPENDIX 9.7 – QUESTIONNAIRE RESPONSE SUMMARY**

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree	Responses	Strongly Agree /Agree	Strongly Disagree /Disagree
<b>18. Please identify which of the following are potentially, or have been, barriers preventing the adoption of Beyond Budgeting:</b>								
1 No need to adopt as current system is adequate	7	37	18	16	5	83	53%	25%
2 Not applicable to my organisation	11	22	17	26	7	83	40%	40%
3 It is too new, not enough organisations have adopted, waiting for more people to do it first	6	21	22	28	5	82	33%	40%
4 Practical difficulty obtaining external benchmarks such as industry or competitors' data for comparison	8	45	12	18	0	83	64%	22%
5 It does not seem to offer a complete solution	6	21	39	17	0	83	33%	20%
6 Not convinced of the benefits of adopting	9	26	20	28	0	83	42%	34%
7 Resistance to change generally prevents adoption	21	40	10	9	2	82	74%	13%
8 It is too complex to implement	7	17	35	19	4	82	29%	28%
9 Managers' time is fully utilised, there is no capacity for implementing it	5	26	20	30	2	83	37%	39%
10 Managers in my organisation do not have the necessary skills for implementing it	10	28	19	21	4	82	46%	30%
11 Beyond Budgeting is just another fad which will disappear in time	5	8	28	33	9	83	16%	51%
12 The techniques are unknown to non-financial managers who are difficult to convince	12	34	16	16	4	82	56%	24%
13 Evaluating performance after the event is subjective	13	31	19	17	3	83	53%	24%
14 Rolling forecasts are moving targets, organisations can lose their focus	6	23	13	34	7	83	35%	49%
15 A catalyst for change must exist before adoption of such a fundamentally different concept is possible.	15	42	11	13	1	82	70%	17%
16 There is a good case for adopting but there is no top management support	15	25	21	18	3	82	49%	26%
<b>19. Please give your opinion on the following statements concerning the influence of organisational culture on the decision to implement Beyond Budgeting</b>								
1 The current system is accepted and part of our company culture, a change is not possible	6	30	17	30	1	84	43%	37%
2 The techniques of Beyond Budgeting are not compatible with the management style and culture of my organisation	8	22	21	27	6	84	36%	39%
3 Beyond Budgeting can be implemented regardless of existing company culture	4	25	14	33	8	84	35%	49%
4 The predominance of the 'command and control' culture is the main reason why Beyond Budgeting has not been more widely adopted	17	38	14	13	2	84	65%	18%

**APPENDIX 10 – 8/9<sup>th</sup> JUNE 2011 EXAMPLE INTERVIEW ADVANCE E-MAIL**

**Phil Hudson**

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*(Fictional interviewee details)*

**From:** Phil Hudson [Phil@hudson.de]  
**Sent:** Mittwoch, 8. Juni 2011 23:13  
**To:** 'Gustav@accounting.co.uk'  
**Subject:** Check contact details - preparation for phone call

Interviewee Accounting Ltd.,  
Gustav Jones,  
High Lane,  
Monmouth,  
Gwent  
Tel. 01600 123456

Dear Gustav,

Thank you for participating recently in the survey "Beyond Budgeting - theoretical notion or practical solution", at the end of which, I am pleased to note, you indicate you are prepared to undertake a short telephone interview on the subject of budgeting.

I am contacting you to confirm your contact details and inform you I would like to contact you again during the next few weeks to fix a date and time for a telephone call.

Please check the telephone number above is correct and should your contact details change before I get in touch, I would be grateful if you would please let me know with a short e-mail.

I look forward to speaking to you soon.

Yours sincerely,

Phil

(As with the questionnaire I can assure you that all replies will be treated anonymously and in confidence. No connection will be possible between individual organisations or persons and any responses.)

Phil Hudson ACMA  
Görresstrasse 56  
8636 Iserlohn  
Germany

Email: phil@hudson.de  
Tel: +49 2371 836777

**APPENDIX 11.1 – EXAMPLE OF AN INTERVIEW PREPARATION SHEET (Page 1 of 2)**

**Interview preparation – 014 – Gustav Jones (SMA004,UKI,Q,>500 Mio€) Q=2000-09,**  
Insight-Link

**+44 1600 123456**

Good Evening,

Phil Hudson here, am I speaking to Gustav?

We swapped a couple of e-mails trying to find a date and time. Could we try and fix a date and time for a 10-15 minute interview, ...or would it be convenient now?

Great. Thank you for agreeing to take part in a short interview.

For data accuracy the interview is being recorded. However anything we discuss will be confidential and anonymous. No connection will be possible in the thesis to any person or organisation.

Gustav, in the questionnaire, you indicated you had heard of the concepts of Beyond Budgeting.

Q1 Generally, do you have any opinions on why the fixed annual budget persists and hasn't been replaced by something new like Beyond Budgeting?

Q2 Why do you think the fixed budget hasn't been replaced by rolling forecasts or perhaps relative targets?

Q3 Are you aware of any (external) pressures on businesses to produce a fixed annual budget? (Banks or stock exchange analysts)

Q4 Do you find business contacts expect a fixed annual budget to be compiled?

Q5 You heard of Beyond Budgeting through:

- Talk, seminar, lecture
- Your talk by Robin Fraser – who is driving the transformation process? Hear of BBRT?

Q6 Qualified between 2000-09:

- Did you hear about BB in your CIMA studies?

Q7 Do you read Financial Management or any of the newsletters such as Insight or Double Entries?

Q8 CPD

You do your CPD – how do you see the role of CPD regarding new innovations? Does CPD make you aware of new innovations?

Is it even CIMA's role to make members aware of innovations?

How might you otherwise have heard of it?

**APPENDIX 11.2 – EXAMPLE OF AN INTERVIEW PREPARATION SHEET (Page 2 of 2)**

Q9 How could CIMA bring new innovations in management accounting to your attention?

Q10 Would you like to add anything to the issue of budgeting or Beyond Budgeting or management accounting innovations?

Thanks again for agreeing to be interviewed. You've been a great help.

All the best Gustav

**For reference:**

Gustav's Questionnaire comments:

- Q8 Traditional Budgets: "Although the company I work for doesn't use traditional annual budgets in the strictest term (we have quarterly rolling 'forecasts' which the management are held accountable to in the same way they would an annual budget and are very focused on the numerical output rather than the business case."

- Q11 Techniques used: "Relative indicators are currently being looked at - we do compare forecast to previous quarterly submissions to understand stability of the business and forecasts are built bottom up but all too often targets are then pushed down when the forecast doesn't meet expectations of senior managers which weren't communicated in the first place."

- Q18 How heard of BB: "Although we didn't call it beyond budgeting i am currently part of a global finance transformation team where looking at our company and how finance can align its processes to the business value streams is something we have been thinking about which led to attending a talk given by Jeremy Hope."

- Q29 Culture: "I would say that my organization prides itself on being empowering to managers at all levels but at the back end of the current forecasting process still drive down targets when the original forecast does not meet expectations. To truly implement senior management would have to relax a little and trust their staff to do what they are paid to do - something quite radical at the moment!"

**APPENDIX 12 – Respondent attribute reference table**

Respondent ID	Region	(Un-) Qualified	Org. Turnover	Respondent ID	Region	(Un-) Qualified	Org. Turnover	Respondent ID	Region	(Un-) Qualified	Org. Turnover
ACC01	UKI	UQ	> 500 Mio€	MIP26	UKI	Q	to 2 Mio€	MIP88	UKI	Q	to 2 Mio€
ACC02	ROW	Q	to 10 Mio€	MIP27	UKI	Q	to 2 Mio€	MIP89	UKI	Q	to 2 Mio€
ACC03	ASIA	UQ	unknown	MIP28	UKI	Q	to 2 Mio€	MIP90	UKI	Q	to 2 Mio€
ACC04	UKI	UQ	unknown	MIP29	UKI	Q	to 2 Mio€	MIP91	UKI	Q	to 2 Mio€
ACC05	ASIA	UQ	to 2 Mio€	MIP30	UKI	Q	to 2 Mio€	MIP92	UKI	Q	to 2 Mio€
ACC06	UKI	UQ	> 500 Mio€	MIP31	UKI	Q	to 2 Mio€	MIP93	UKI	Q	to 2 Mio€
ACC07	ASIA	UQ	> 500 Mio€	MIP32	UKI	Q	to 2 Mio€	MIP94	UKI	Q	to 2 Mio€
ACC08	UKI	Q	to 500 Mio€	MIP33	UKI	Q	to 2 Mio€	MIP95	UKI	Q	to 2 Mio€
ACC09	ROW	UQ	to 500 Mio€	MIP34	UKI	Q	unknown	MIP96	UKI	Q	to 2 Mio€
ACC10	ROW	Q	> 500 Mio€	MIP35	UKI	Q	to 2 Mio€	OTH01	UKI	Q	> 500 Mio€
ACC11	ROW	UQ	to 2 Mio€	MIP36	UKI	Q	to 2 Mio€	OTH02	ROW	Q	to 500 Mio€
ACC12	UKI	Q	to 500 Mio€	MIP37	UKI	Q	to 2 Mio€	OTH03	AMER	Q	to 10 Mio€
ACC13	ROW	Q	> 500 Mio€	MIP38	UKI	Q	to 2 Mio€	RET01	UKI	Q	unknown
ACC14	UKI	Q	to 500 Mio€	MIP39	UKI	Q	to 2 Mio€	SMA01	UKI	Q	to 50 Mio€
ACC15	EUR	UQ	to 2 Mio€	MIP40	UKI	Q	to 2 Mio€	SMA02	UKI	Q	to 50 Mio€
ACC16	UKI	Q	> 500 Mio€	MIP41	UKI	Q	to 2 Mio€	SMA03	UKI	Q	to 10 Mio€
ACC17	ROW	Q	> 500 Mio€	MIP42	UKI	Q	to 2 Mio€	SMA04	UKI	Q	> 500 Mio€
ACC18	ROW	UQ	> 500 Mio€	MIP43	UKI	Q	to 2 Mio€	SMA05	UKI	Q	to 10 Mio€
ACC19	UKI	UQ	> 500 Mio€	MIP44	UKI	Q	to 2 Mio€	SMA06	AMER	Q	> 500 Mio€
ACC20	UKI	Q	to 500 Mio€	MIP45	UKI	Q	unknown	SMA07	ROW	UQ	> 500 Mio€
ACC21	UKI	UQ	> 500 Mio€	MIP46	UKI	Q	to 2 Mio€	SMA08	EUR	Q	to 500 Mio€
ACC22	UKI	UQ	to 50 Mio€	MIP47	UKI	Q	unknown	SMA09	ROW	Q	to 500 Mio€
ACC23	ROW	UQ	to 50 Mio€	MIP48	UKI	Q	to 2 Mio€	SMA10	EUR	Q	to 500 Mio€
ACC24	UKI	UQ	> 500 Mio€	MIP49	UKI	Q	to 2 Mio€	SMA11	EUR	Q	> 500 Mio€
ACC25	UKI	Q	to 500 Mio€	MIP50	UKI	Q	to 2 Mio€	SMA12	ROW	Q	to 500 Mio€
ACC26	ROW	UQ	to 50 Mio€	MIP51	EUR	Q	to 2 Mio€	SMA13	UKI	Q	to 10 Mio€
ACC27	UKI	UQ	unknown	MIP52	UKI	Q	to 2 Mio€	SMA14	UKI	Q	> 500 Mio€
ACC28	UKI	Q	to 2 Mio€	MIP53	UKI	Q	to 2 Mio€	SMA15	UKI	Q	> 500 Mio€
ACC29	UKI	Q	to 2 Mio€	MIP54	UKI	Q	to 2 Mio€	SMA16	UKI	Q	to 500 Mio€
ACC30	UKI	Q	to 2 Mio€	MIP55	UKI	Q	to 2 Mio€	SMA17	ROW	Q	to 500 Mio€
ACC31	UKI	Q	to 500 Mio€	MIP56	UKI	Q	to 2 Mio€	SMA18	ROW	Q	> 500 Mio€
ACC32	UKI	Q	to 500 Mio€	MIP57	UKI	Q	to 2 Mio€	SMA19	UKI	Q	to 500 Mio€
EDU01	UKI	UQ	unknown	MIP58	UKI	Q	to 2 Mio€	SMA20	UKI	Q	to 500 Mio€
EDU02	ROW	UQ	to 50 Mio€	MIP59	UKI	Q	to 2 Mio€	SMA21	UKI	Q	> 500 Mio€
EDU03	UKI	Q	to 2 Mio€	MIP60	UKI	Q	to 2 Mio€	SMA22	ROW	Q	to 500 Mio€
ENA01	ROW	Q	to 2 Mio€	MIP61	UKI	Q	to 2 Mio€	SMA23	UKI	Q	to 500 Mio€
ENA02	UKI	Q	> 500 Mio€	MIP62	UKI	Q	to 2 Mio€	SMA24	UKI	Q	to 50 Mio€
MIP01	UKI	Q	to 2 Mio€	MIP63	UKI	Q	to 500 Mio€	SMA25	UKI	Q	to 50 Mio€
MIP02	UKI	Q	to 2 Mio€	MIP64	UKI	Q	to 500 Mio€	SMA26	UKI	Q	to 2 Mio€
MIP03	UKI	Q	to 2 Mio€	MIP65	UKI	Q	to 2 Mio€	SMA27	UKI	Q	to 50 Mio€
MIP04	UKI	Q	to 2 Mio€	MIP66	UKI	Q	to 10 Mio€	SMA28	UKI	Q	to 50 Mio€
MIP05	UKI	Q	to 2 Mio€	MIP67	UKI	Q	to 2 Mio€	SMA29	ASIA	UQ	> 500 Mio€
MIP06	UKI	Q	to 2 Mio€	MIP68	UKI	Q	to 2 Mio€	SMA30	UKI	Q	to 500 Mio€
MIP07	UKI	Q	to 2 Mio€	MIP69	UKI	Q	to 2 Mio€	SMA31	UKI	Q	to 10 Mio€
MIP08	UKI	Q	to 2 Mio€	MIP70	UKI	Q	to 2 Mio€	SMA32	UKI	Q	to 10 Mio€
MIP09	UKI	Q	to 2 Mio€	MIP71	UKI	Q	to 2 Mio€	SMA33	UKI	Q	to 10 Mio€
MIP10	UKI	Q	to 2 Mio€	MIP72	UKI	Q	to 2 Mio€	SMA34	UKI	Q	to 10 Mio€
MIP11	UKI	Q	to 2 Mio€	MIP73	UKI	Q	to 2 Mio€	SMA35	AMER	Q	to 10 Mio€
MIP12	UKI	Q	to 50 Mio€	MIP74	UKI	Q	to 2 Mio€	SMA36	UKI	Q	to 50 Mio€
MIP13	UKI	Q	to 2 Mio€	MIP75	UKI	Q	to 2 Mio€	SMA37	UKI	Q	> 500 Mio€
MIP14	UKI	Q	to 2 Mio€	MIP76	UKI	Q	to 2 Mio€	SNA01	EUR	Q	to 500 Mio€
MIP15	UKI	Q	to 2 Mio€	MIP77	UKI	Q	to 2 Mio€	SNA02	UKI	UQ	to 10 Mio€
MIP16	UKI	Q	to 2 Mio€	MIP78	UKI	Q	to 2 Mio€	SNA03	UKI	UQ	> 500 Mio€
MIP17	UKI	Q	to 2 Mio€	MIP79	UKI	Q	to 2 Mio€	SNA04	UKI	Q	to 2 Mio€
MIP18	UKI	Q	to 2 Mio€	MIP80	UKI	Q	to 2 Mio€	SNA05	UKI	Q	to 50 Mio€
MIP19	UKI	Q	to 2 Mio€	MIP81	UKI	Q	to 2 Mio€	SNA06	UKI	Q	to 500 Mio€
MIP20	UKI	Q	to 2 Mio€	MIP82	UKI	Q	unknown	SNA07	UKI	Q	to 2 Mio€
MIP21	UKI	Q	to 2 Mio€	MIP83	UKI	Q	to 2 Mio€	STU01	ASIA	UQ	unknown
MIP22	UKI	Q	to 2 Mio€	MIP84	UKI	Q	to 2 Mio€	STU02	UKI	UQ	unknown
MIP23	UKI	Q	to 2 Mio€	MIP85	UKI	Q	to 2 Mio€	STU03	ASIA	Q	unknown
MIP24	UKI	Q	to 2 Mio€	MIP86	UKI	Q	to 2 Mio€	STU04	ASIA	UQ	unknown
MIP25	UKI	Q	to 2 Mio€	MIP87	UKI	Q	to 2 Mio€				

**APPENDIX 13 – Questionnaire questions 9 & 10: comparison of budgeting techniques and principles used in organisations of respondents aware of the concept of Beyond Budgeting and those not aware**

9. Which of the following principles or techniques are used in your organisation?									
Principle / technique	Aware of Beyond Budgeting			Not aware of Beyond Budgeting			All respondents		
	Used	Responses	%	Used	Responses	%	Used	Responses	%
1 Fixed annual budgets	72	93	77%	37	55	67%	109	148	74%
2 A decentralised management structure	46	92	50%	16	55	29%	62	147	42%
3 Rolling forecasts are used	60	92	65%	37	56	66%	97	148	66%
4 At period end results / reports are available quickly - at the latest within 5 days	59	92	64%	36	55	65%	95	147	65%
5 Reports are available to a wide audience - not just top management. Knowledge is shared	53	93	57%	25	54	46%	78	147	53%
6 Reporting against relative indicators such as prior year or benchmarks, not against plan fixed	61	92	66%	36	54	67%	97	146	66%
7 Reports are transparent, there is only one set of figures for the organisation. Good and bad performance is visible and comparable	73	92	79%	44	54	81%	117	146	80%
8 At all levels focus is on customers and value creation not budget achievement	43	92	47%	24	54	44%	67	146	46%
9 Front-line managers are involved in setting strategy	50	93	54%	32	53	60%	82	146	56%
10 Responsibility for planning, performance and decision-making lies with empowered front line managers	53	91	58%	33	52	63%	86	143	60%
11 Centralised functions are avoided. The organisation comprises a network of decentralised teams with freedom to act.	30	92	33%	20	51	39%	50	143	35%
12 Planning is a continuing process not an annual event	66	93	71%	43	53	81%	109	146	75%
13 Resources are allocated as needed and not planned long in advance	62	93	67%	35	53	66%	97	146	66%
14 Ethical behaviour is ensured through a few clear values, goals and boundaries	73	93	78%	43	53	81%	116	146	79%

10. Which of the following principles are used for performance evaluation in your organisation?									
Principle / technique	Aware of Beyond Budgeting			Not aware of Beyond Budgeting			All respondents		
	Used	Responses	%	Used	Responses	%	Used	Responses	%
1 Incentives based on budget achievement	54	92	59%	33	54	61%	87	146	60%
2 Budget targets fixed in advance	60	93	65%	37	54	69%	97	147	66%
3 Performance is evaluated after the event, not live	41	92	45%	20	52	38%	61	144	42%
4 Targets de-coupled from budgets	38	92	41%	14	52	27%	52	144	36%
5 Incentives based on internal benchmarks such as rankings against peer groups	25	92	27%	11	52	21%	36	144	25%
6 Incentives based on external Benchmarks (e.g. industry growth, competitor performance)	23	93	25%	9	53	17%	32	146	22%
7 High level KPIs such as return on capital, free-cash flow or cost to income targets	50	92	54%	22	53	42%	72	145	50%
8 Managers are given general targets not detailed budgets	33	93	35%	24	52	46%	57	145	39%
9 Rewards are team, unit or enterprise wide rather than individual incentives	40	91	44%	34	53	64%	74	144	51%
10 Measures aimed at maximising profit of whole organisation	60	93	65%	43	54	80%	103	147	70%
11 Performance measurement targets based on Balanced Scorecard (BSC)	30	92	33%	12	52	23%	42	144	29%
12 Performance measurement targets based on Economic Value Added (EVA)	9	92	10%	9	52	17%	18	144	13%

**APPENDIX 14 – NVivo 9 Thematic overview (1 of 2)****Theme: “Little peer to peer budget discourse”****(REASON FOR NON-ADOPT → ADDITIONAL INSIGHTS → Arising in interviews → )**

<Internals\025-SMA10> - § 2 references coded [8,36% Coverage]

Reference 1 - 5,29% Coverage

I really would like to have that kind of discussion. I just read recently in some of the issues that there was a convention or something that was dedicated again to beyond budgeting. So I need this kind of discussion because it's like a very vital issue for me because I.... So I would like to see it more and it's something I would like [them] to contribute somehow. I don't know.

Reference 2 - 3,07% Coverage

I'm wondering how the discussion is not so, you know, live about that. I mean many of my friends struggle with that and it's like everyone let's say accepts that without challenging it, you know. I don't know why it is so.

<Internals\117-MIP42> - § 1 reference coded [4,48% Coverage]

Reference 1 - 4,48% Coverage

it's just always quite sort of good to, you know, hear actual kind of research projects that are happening, you know, being able to talk about it to somebody. I mean this is the first time I've done anything like this, you know, certainly over the phone, you know, I mean I've been qualified since 2002 so it's maybe something that's, you know going to gain a bit more precedence in the future.

<Internals\130-MIP54> - § 1 reference coded [0,70% Coverage]

Reference 1 - 0,70% Coverage

Thank you for giving me the opportunity to speak. I don't know if it was of any value to you, but it was interesting.

<Internals\134-MIP57> - § 2 references coded [3,25% Coverage]

Reference 1 - 2,76% Coverage

So yeah, I think it's difficult, but I also think that doing what you're doing in getting people involved on the telephone, I think that... you know, that is a good thing and that's something that I – you know, as I said to you – I would like to follow up more on because I think it would be very useful for where I'm at at the moment. I think that's one of the ways that, you know, they could get innovation in – having more encouragement in this type of thing.

Reference 2 - 0,48% Coverage

it's only when you start to talk to people that you think “Oh yeah, that's good.”

<Internals\177-SMA33> - § 1 reference coded [2,33% Coverage]

Reference 1 - 2,33% Coverage

It's good because I mean I must admit after I did the survey I did go away and look up some background details on beyond budgeting. So, you know, as much as anything it was just another little, you know, area to explore.



**APPENDIX 15.1 – NVivo 9 Thematic overview (2 of 2)**

**Theme: “Lack of Beyond Budgeting awareness”**

**(REASON FOR NO-ADOPT → DIFFUSION THEORY → )**

<Internals\015-SMA05> - § 1 reference coded [5,50% Coverage]

Reference 1 - 5,50% Coverage

I don't believe they do, no. I'm a member of CIMA, as you know, and beyond budgeting is in the syllabus. That's how I found out about it. Not all finance professionals are a member of Cima, you know, I think even the awareness of it... like my finance director knows roughly beyond budgeting but he doesn't understand the concepts and the philosophy of it. I don't think it's got a lot of traction at the moment

<Internals\018-EDU02> - § 1 reference coded [0,44% Coverage]

Reference 1 - 0,44% Coverage

I think despite everything I think there's still a great lack of understanding

<Internals\028-SMA11> - § 1 reference coded [2,91% Coverage]

Reference 1 - 2,91% Coverage

Oh, absolutely. I think very, very few people are. I mean depending where you work, you know, most people will... You know, people very rarely get any formal training in this thing and, you know, people very rarely are told about what the latest position is in the... you know, what the latest best practice is etc.

<Internals\058-SMA22> - § 4 references coded [5,45% Coverage]

Reference 1 - 0,31% Coverage

Budget holders don't necessarily have finance backgrounds

Reference 2 - 0,56% Coverage

The sort of lack of... probably the lack of knowledge of potential other ways of doing it and, you know

Reference 3 - 2,25% Coverage

It's not something that's widely... Certainly in my experience it's not something that's widely talked about or I guess even the concept is not widely known to many people or those that have heard of it their knowledge of it is weak and I guess, you know, that's where I would position myself as well in the fact that I've heard of it and I've read some things about it, but I would struggle to present on it.

Reference 4 - 2,32% Coverage

I think there's probably a communication and educational kind of thing round there because as accountants we're not particularly clear on what all that is and how it all hangs together because it's a fairly sort of early stage kind of project or theory or principle I guess and just can't explain it well and because we can't explain it well, then management don't take any confidence in it as being a practical solution.

<Internals\073-MIP05> - § 1 reference coded [0,76% Coverage]

Reference 1 - 0,76% Coverage

I think the biggest thing for me is [the theory's] all well and good, but I need the tools behind it

<Internals\083-SMA27> - § 1 reference coded [1,54% Coverage]

Reference 1 - 1,54% Coverage

It sounded like something very specific. I kind of understand it as a concept that... you know, this conceptual idea there must be something better, but I don't know the specifics of beyond budgeting.

**APPENDIX 15.2 – NVivo 9 Thematic overview (2 of 2)**

**Theme: “Lack of Beyond Budgeting awareness” (Continued)**

<Internals\095-MIP23> - § 3 references coded [2,19% Coverage]

Reference 1 - 0,66% Coverage

They're probably aware of the concepts in bits, same as I was, but they're not probably aware of the concept as a structured piece.

Reference 2 - 1,04% Coverage

I'm familiar and very familiar with probably more than half of some of the key aspects of beyond budgeting, but at the same time as a theory or a methodology or a way of working it's probably not out there.

Reference 3 - 0,48% Coverage

So therefore the budgeting process itself, I think nobody's told them there's anything better.

<Internals\117-MIP42> - § 1 reference coded [4,59% Coverage]

Reference 1 - 4,59% Coverage

Well, I mean, certainly people aren't... been around about, you know, from a sort of business perspective. They are not familiar with it, it seems to be quite a new sort of phenomenon and you know, from the one perspective it's something that I've really just came to hear about quite recently. So it's a..., I think from the people around about me there's not really much knowledge or understanding of it.

<Internals\133-SMA30> - § 2 references coded [3,10% Coverage]

Reference 1 - 0,36% Coverage

Probably because it's not a widely known concept.

Reference 2 - 2,74% Coverage

But I mean I've heard very little of the concept and very little of it since in the wider press. So that'll be through my own professional publication, which is the CIMA magazine, Management Accounting, and I haven't come across very many articles in relation to beyond budgeting. So I think it's a concept that's not getting embedded into the general accountancy populous.

<Internals\136 MIP58> - § 2 references coded [3,59% Coverage]

Reference 1 - 3,24% Coverage

I think unless you're in a very large multinational who is actively training or you're somehow involved in academic work or reading, that you're going to have a lot of people out there who may have seen it, but I'm not going to do the research into it, they may have read an article about it but to actually implement something is a completely different thing.

Reference 2 - 0,35% Coverage

People don't recognise beyond budgeting

**APPENDIX 16 – Interview themes not directly relevant to non-adoption**

RESPONDENT INFO.	ORGANISATION INFO.	SUPPLEMENTARY INFO.
Attends CIMA events or training	BB adopted	BB to ABC-BSC-Lean Comparison
Attends no CIMA events	BB being examined and considered	BB to commitment accounting comparison
Background personal & professional	BB concepts under another name	BSC Comments
Budget methods and philosophy	BB Project in progress	Budget as a journey
CIMA responsible	Incentives decoupled from budget	CIMA - advantages of qualification
CIMA not responsible	Keep fixed budget	CIMA commercially motivated
Critical of traditional budgeting	Misc. organisation details	CIMA courses too low level
Exact year of qualification	No incentive schemes	CIMA have a leading role
Exciting times for MA	Relative targets used	CIMA in shadow of CAs
How BB aware	Rolling forecasts not used	CIMA to promote web-site more
- Aware by working with CIMA	Rolling forecasts used	CIMA too insignificant, unknown
- Aware CIMA Master course		CIMA training gaps
- Aware CIMA syllabus		CPD
- Aware partly		- CPD CIMAs too diverse for prescriptive CPD
- Aware through accountancy degree		- CPD anything CIMA counts
- Aware through BBRT		- CPD core knowledge
- Aware through CPD		- CPD could be improved
- Aware through peer or boss		- CPD expensive and commercial aspects
- Aware via CIMA Webcast		- CPD flexible not prescriptive
- Aware via FM or accounting journal		- CPD importance of CPD
- Hope & Fraser book		- CPD makes aware of innovations
- Not aware of BB		- CPD no innovations
- Not certain how made aware of BB		- CPD no time to do it
- Read in book		- CPD other institutes
- University Research Unit		- CPD tick the boxes, a necessary evil
In praise of BB techniques		- CPD voluntary choice for CPD
In praise of Rolling forecasts		Danger not keeping up-to-date
Read Financial Management magazine		Diffusion methods suggested
- FM rarely read or skimmed		- CIMA access to journals
- FM read regularly		- CIMA branches to share experiences
Read Insight		- CIMA events including regions
- Insight not aware		- CIMA fellows and innovations
- Insight rarely read or skimmed		- CIMA from the top
- Insight read regularly		- CIMA special interest group
Responsible for budgeting		- CIMA Webinars, webcasts, forums & CPD resour
Source for innovations		- CIMA Website info & case studies
- Born out of necessity		- Direct e-mail notification
- CIMA generally		- External seminars or coaching
- CIMA Hot Topics List		- FM-Magazine & Insight
- CIMA web-site		- Involve marketing people
- Consultants or auditors		- LinkedIn + other forums
- Financial Management		- New CPD category or mandatory part
- Peers		Importance of forecasting
- Preparing to give lectures		Importance of management accounting systems
- Professional institutions		More strategic emphasis required

**APPENDIX 17 – Number of times respondents / interviewees were specifically referred to by ID in chapter 5**

<b>ID</b>	<b>Survey</b>	<b>Interviews</b>	<b>ID</b>	<b>Survey</b>	<b>Interviews</b>
ACC09	1	2	MIP63		1
ACC12	1		MIP68		1
ACC13	2		MIP69		2
ACC17	3	4	MIP70		2
ACC22	2		MIP96		4
ACC28	1	1	OTH02		4
ACC32	2		SMA03	1	
EDU01	1		SMA04	2	8
EDU02		7	SMA05		2
MIP05		3	SMA06	1	
MIP07	1		SMA07	3	
MIP10	1		SMA08		2
MIP14	1	2	SMA09		1
MIP15		3	SMA10	2	6
MIP16		2	SMA11		7
MIP17		4	SMA12		3
MIP19		3	SMA15		4
MIP22		1	SMA16		6
MIP23		4	SMA17	5	1
MIP24		5	SMA20	1	4
MIP33		2	SMA21	1	2
MIP35		2	SMA22		9
MIP38		5	SMA24	1	3
MIP40	1	4	SMA27		2
MIP42		3	SMA28		3
MIP48		1	SMA30		2
MIP49	2		SMA33		3
MIP54		8	SMA38		2
MIP55		2	SMA39		3
MIP57		2	SNA04	2	
MIP58	1	2	SNA05	2	