

**T.C.  
BAHÇE EĞİTİM ÜNİVERSİTESİ**

**BEYOND BUDGETING: EXAMINATION OF  
APPLICABILITY AND POTENTIAL IMPACTS  
IN TURKEY**

**PhD Thesis**

**GÜLÇİN YILDIRIM**

**STANBUL, 2017**

**T.C.  
BAHÇE EĞİTİM VE İKTİSADİ BİLİMLER FAKÜLTESİ**

**GRADUATE SCHOOL OF SOCIAL SCIENCES  
BUSINESS ADMINISTRATION PHD PROGRAM**

**BEYOND BUDGETING: EXAMINATION OF  
APPLICABILITY AND POTENTIAL IMPACTS  
IN TURKEY**

**PhD Thesis**

**GÜLÇİN YILDIRIM**

**Thesis Supervisor: PROF.DR.F GEN ÖKER TÜRÜDÜOĞLU**

**STANBUL, 2017**



REPUBLIC OF TURKEY  
BAHÇEŞEHİR UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL  
SCIENCES

29.5.2017

We hereby recommend that the dissertation prepared under our supervision by Gülşin Yıldırım entitled "Beyond Budgeting: Examination of Applicability and Potential Impacts in Turkey" be accepted in partial fulfillment of the requirements for the Doctor of Philosophy Business Administration .

Prof. Dr. Figen Öker Turuduoğlu  
*Figen Öker*  
Thesis Supervisor

Recommendation concurred in:

Committee Members

Doc. Dr. Ayşe Pamukcu

Doc. Dr. Fatma Uluçer Özkul

Yrd. Doc. Dr. Hümeyra Adıgüzel

Yrd. Doc. Dr. Özgür M. Bar

Approved:

Program Coordinator

## ABSTRACT

### BEYOND BUDGETING: EXAMINATION OF APPLICABILITY AND POTENTIAL IMPACTS IN TURKEY

Gülçin Yıldırım

Phd in Business Administration

Thesis Supervisor: Prof.Dr.Figen Öker Türüdüo lu

May 2017, 135 Pages

Budget is defined as a detailed action plan of a business, showing the profit, cash flows and financial situation that are expected to be achieved within a given period.

Budgets have historically played a key role in planning and control of the management. However, budgets have faced criticisms about their role. These criticisms are that the budgets are time consuming, not-adaptive to change, far from business strategy, focused on the sales targets rather than customer satisfaction and susceptible to unethical behaviors. These criticisms gave birth to the Beyond Budgeting (BB) approach. Beyond Budgeting is a profoundly different management model that is developed as a reaction to traditional budgeting practice. Defenders of that approach have founded the Beyond Budgeting Round Table in 1998 to address the dissatisfaction caused by traditional budget practice and to develop an approach that may be called as "Management Model without Budgeting". BBRT established a strong global membership program involving a broad network of leading organizations, professionals and academicians. It organizes training and seminar programs to teach this approach to businesses and to level them to practice this new approach.

This study aims to examine in detail the Beyond Budgeting approach, which is suggested as a new management tool to remedy the unfitting nature of the traditional budgeting -once regarded as a key planning and control device for companies- to today's requirements. The study used interviews with 24 senior managers to investigate the level of budget practices, to evaluate the feasibility of Management Model without Budgeting as well as its impacts on the businesses. Based on the interviews, views of these managers on the continuity of budgeting practices in Turkey and on the management model without budgeting have been discussed and interpreted.

**Keywords:** Budgeting, Beyond Budgeting, Descriptive Analysis

## ÖZET

### BEYOND BUDGETING: TÜRK YE'DE UYGULANABİLİR NİN VE POTANSİYEL ETKİLERİNİN İNCELENMESİ

Gülçin Yıldırım

İletme Doktora Programı

Tez Danışmanı: Prof.Dr.Figen Öker Türüdüo lu

Mayıs 2017, 135 Sayfa

Bütçeler, işletmenin tümü için belirli bir dönem içinde ulaşılmaması beklenen karı, nakit akımlarını ve finansal durumu gösteren detaylı bir faaliyet planı olarak tanımlanmaktadır.

Bütçeler tarihsel gelişimi içinde yönetimin planlama ve kontrol seviyeleri içerisinde anahtar rol oynamıştır. Ancak son yıllarda birtakım eleştiriler ve tartışmalarla karşı karşıya kalmıştır. Bu eleştiriler, geleneksel bütçe uygulamasının oldukça zaman alıcı, değişime hızlı uyum sağlayamayan, işletme stratejisinden uzak, müşteri tatmininden çok satış hedeflerine odaklanma ve kimi zaman etik olmayan davranışlara imkân veren bir uygulama olması yönündedir. Tüm bu eleştiriler Beyond Budgeting (BB) yaklaşımını ortaya çıkarmıştır. Beyond Budgeting yaklaşımı, geleneksel bütçe uygulamasına karşı geliştirilmiş oldukça farklı bir yönetim modelidir. Yaklaşımın savunucuları, geleneksel bütçe uygulamasının yarattığı tatminsizliği ortadan kaldırmak ve Bütçesiz Yönetim Modeli olarak kavramlaştırmamız yaklaşımı geliştirmek amacıyla 1998 yılında “Beyond Budgeting Çalışma Grubunu” (Beyond Budgeting Round Table-BBRT) kurmuşlardır. BBRT önde gelen kuruluşları, işletme profesyonelleri ve akademisyenlerden oluşan geniş bir alana kapsayan güçlü bir küresel üyelik programını inşaat etmiştir. Heyet, işletmelere bu yaklaşımı anlamaları, değerlendirilmeleri ve uygulamaları konusunda danışmanlık ve seminerler düzenlemektedir.

Bu çalışmanın amacı işletmeler için önemli bir planlama ve kontrol aracı olarak görülen işletme bütçelerinin günümüz koşullarında gereksinimlere yeterince cevap verememesi ve bunun sonucunda yeni bir yönetim aracı olarak önerilen Bütçesiz Yönetim (Beyond Budgeting) yaklaşımının ayrıntılarıyla incelemektir. Çalışmanın uygulama kısmında, 24 üst düzey yönetici ile mülakatlar yapılarak, bütçe uygulamalarının düzeyi ve Bütçesiz Yönetim Modeli Yaklaşımının uygulanabilirliği ve olası etkileri konusunda görüşleri alınmıştır. Görüşmeler neticesinde mülakat yapılan yöneticilerin görüşleri çerçevesinde Türkiye’de bütçe uygulamalarının devamlılığı ve bütçesiz yönetim modeli konusundaki görüşleri yorumlanmıştır.

**Anahtar Kelimeler:** Bütçeleme, Beyond Budgeting, Betimleyici Analiz

## CONTENTS

|  |             |
|--|-------------|
| <b>TABLES.....</b>   | <b>viii</b> |
| <b>FIGURES.....</b>  | <b>ix</b>   |
| <b>ABBREVIATIONS.....</b>  | <b>x</b>    |
| <b>1. INTRODUCTION.....</b>  | <b>1</b>    |
| <b>2. BUDGETING.....</b>   | <b>4</b>    |
| <b>2.1 DEFINITION, PURPOSE AND FEATURES.....</b>                                       | <b>4</b>    |
| <b>2.2 APPROACHES TO BUDGETING.....</b>  | <b>8</b>    |
| <b>2.2.1 Top Down vs Bottom Up Budgeting.....</b>                                      | <b>8</b>    |
| <b>2.2.1.1 Top down budgeting.....</b>   | <b>8</b>    |
| <b>2.2.1.2 Bottom Up budgeting.....</b>  | <b>9</b>    |
| <b>2.2.2 Incremental Budgeting.....</b>  | <b>10</b>   |
| <b>2.2.3 Zero-based Budgeting.....</b>   | <b>11</b>   |
| <b>2.2.4 Rolling Budgets/Rolling Forecasts.....</b>                                    | <b>14</b>   |
| <b>2.2.5 Activity-based Budgeting .....</b>  | <b>15</b>   |
| <b>2.2.6 The Balanced Score Card .....</b>   | <b>17</b>   |
| <b>2.2.7 Beyond Budgeting .....</b>  | <b>19</b>   |
| <b>3. BEYOND BUDGETING.....</b>  | <b>22</b>   |
| <b>3.1 CRITICISMS OF TRADITIONAL BUDGETING.....</b>                                    | <b>22</b>   |
| <b>3.2 DEFINITION AND FEATURES OF THE BEYOND BUDGETING<br/>    CONCEPT.....</b>        | <b>23</b>   |
| <b>3.3 DIFFERENCES BETWEEN TRADITIONAL BUDGETING AND<br/>    BEYOND BUDGETING.....</b> | <b>28</b>   |
| <b>3.4 BEYOND BUDGETING ROUND TABLE.....</b>   | <b>30</b>   |
| <b>3.5 THE BEYOND BUDGETING PRINCIPLES.....</b>  | <b>31</b>   |
| <b>3.5.1 Enabling Adaptive Management Process.....</b>                                 | <b>37</b>   |
| <b>3.5.2 Enabling Leadership Process.....</b>  | <b>39</b>   |
| <b>3.6 BENEFITS OF BEYOND BUDGETING MODEL.....</b>                                     | <b>40</b>   |
| <b>3.7 THE IMPLEMENTATION OF BEYOND BUDGETING.....</b>                                 | <b>41</b>   |
| <b>3.7.1 Beyond Budgeting Cases.....</b>   | <b>42</b>   |
| <b>3.7.1.1 Handelsbanken.....</b>  | <b>45</b>   |

|  |           |
|--|-----------|
| 3.7.1.2 Borealis.....  | 48        |
| 3.7.1.3 SpareBank.....   | 50        |
| 3.7.1.4 Coloplast.....   | 52        |
| <b>4. RESEARCH.....</b>  | <b>53</b> |
| <b>4.1 LITERATUR REVIEW.....</b>   | <b>53</b> |
| <b>4.2 METHODOLOGY.....</b>  | <b>63</b> |
| 4.2.1 Purpose and Importance.....  | 63        |
| 4.2.2 Qualitative Research.....  | 64        |
| 4.2.3 Data Collection Techniques.....  | 65        |
| 4.2.4 Limitations of The Study.....  | 66        |
| <b>4.3 ANALYSIS.....</b>   | <b>67</b> |
| 4.3.1 Study Population and Sample Used.....  | 67        |
| 4.3.2 Data Collection.....   | 67        |
| 4.3.3 Data Analysis.....   | 70        |
| <b>4.4 RESULTS AND DISCUSSION.....</b>   | <b>70</b> |
| 4.4.1 Analysis of Current Budget Structures.....   | 71        |
| 4.4.2 Analysis of the Viewpoint of the Criticisms of Traditional<br>Bugeting.....            | 88        |
| 4.4.3 Analysis of the Applicability of Beyond Budgeting Approach..                           | 92        |
| 4.4.3.1 Delegation of authority .....  | 93        |
| 4.4.3.2 The “Myth” that companies cannot be managed without<br>a budget .....                | 95        |
| 4.4.3.3 The effect of culture and geographical location .....                                | 96        |
| 4.4.3.4 Size of companies and the condition of the sector .....                              | 98        |
| 4.4.3.5 The leadership issue .....   | 99        |
| 4.4.3.6 BB is a complex and complicated structure requiring<br>big-scaled modifications..... | 100       |
| 4.4.3.7 Benefits of BB have not yet been completely proven.....                              | 101       |
| 4.4.3.8 Attitudes of senior management and employees .....                                   | 102       |
| 4.4.3.9 “Y” generation.....  | 104       |
| 4.4.3.10 Institutionalization.....   | 105       |

|  |     |
|--|-----|
| 4.4.4 Analysis of Respondents' Views on the Applicability of the<br>Beyond Budgeting Approach in Turkey..... | 106 |
| 4.4.5 Analysis of the Views on the Principles of Beyond Budgeting..  | 108 |
| 4.4.6 Analysis of Closeness to the Beyond Budgeting Approach.....  | 109 |
| 5. CONCLUSIONS.....  | 115 |
| REFERENCES.....  | 119 |
| APPENDICES   |     |
| Appendix A.1 Interview Questionnaire.....  | 131 |





## TABLES

|  |     |
|--|-----|
| Table 2.1: Classification of business budgets.....   | 6   |
| Table 2.2: Differences between the Traditional Budgeting and the Beyond Budgeting model..... | 20  |
| Table 3.1: The BB principles as of 2003.....   | 31  |
| Table 3.2: The updated BB principles as of March 2016.....                                   | 33  |
| Table 3.3: Enabling Adaptive Management Process.....   | 38  |
| Table 3.4: Enabling Leadership Processes.....  | 39  |
| Table 4.1: Interviewee profiles.....   | 68  |
| Table 4.2: Interview Guide.....  | 69  |
| Table 4.3: Budget usage purposes.....  | 77  |
| Table 4.4: Budget data periods.....  | 79  |
| Table 4.5: Budget supporting tools.....  | 84  |
| Table 4.6: Structure of Budgets.....   | 87  |
| Table 4.7: Attendance Ratings of Criticisms.....   | 89  |
| Table 4.8: Respondent's opinion about applicability of BB in Turkey.....                     | 107 |
| Table 4.9: Opinions about Beyond Budgeting Principles.....                                   | 109 |
| Table 4.10: Question form Section 2.....   | 112 |

## FIGURES

|   |    |
|---|----|
| Figure 2.1: The functioning of activity-based budgeting and activity-based costing..... | 16 |
| Figure 2.2: Balanced scorecard perspectives.....  | 18 |
| Figure 3.1: Traditional management model.....   | 25 |
| Figure 3.2: BB-based management model.....  | 26 |
| Figure 3.3: Traditional Budgeting versus Beyond Budgeting.....                          | 30 |
| Figure 3.4: Dynamic management model.....   | 50 |



## ABBREVIATIONS

|         |   |   |
|---------|---|---|
| ABB     | : | Activity Based Budgeting                            |
| ABC     | : | Activity Based Costing                              |
| BB      | : | Beyond Budgeting                                    |
| BBES    | : | Beyond-Budgeting Entry Scan                         |
| BBRT    | : | Beyond Budgeting Round Table                        |
| BSC     | : | Balanced Scorecard                                  |
| CAM-I   | : | Consortium for Advanced Manufacturing International |
| CMA     | : | Certified Management Accountant                     |
| CEO     | : | Chief Executive Officer                             |
| CFO     | : | Chief Financial Officer                             |
| ERP     | : | Enterprise Resource Planning                        |
| GM      | : | General Manager                                     |
| HR      | : | Human Resources                                     |
| IMA     | : | Institute of Management Accountants                 |
| IOMA    | : | Institute of Management & Administration            |
| IT      | : | Information Technology                              |
| KPI     | : | Key Performance Indicators                          |
| R       | : | Respondents   |
| RF      | : | Rolling forecast                                    |
| SAP BPC | : | SAP Business Planning and Consolidation             |
| UK      | : | United Kingdom                                      |
| USA     | : | United States of America                            |
| ZBB     | : | Zero-Based Budgeting                                |

## 1. INTRODUCTION

Economic developments and technological advances have complicated the business structures to manage. Decisions taken impact the businesses more as the business size increases. This led to increased caution on the manager side during decision making processes.

The secret of the success in today's business model lies in perfect functioning of planning, organization and control, which are fundamentals of managers.

Managers should first consider planning among these. Main element of planning is budget. Budgets may be the part of the plans, which are prepared according to expectations and projections of the senior management, reflected on the practice level. Therefore, a budget is a monetary version of plans as a means of communication between the planners and implementers. For this reason, budgets are very important in terms of planning, controlling the practice as well as an assessment of success.

Sevgener ve Hacirüstemo lu (1993, p. 306) defines the budget of a company as *"A report or a series of reports that describes the company's future policy and planned actions for achieving a preset goal in monetary and numeric terms."*

Budgets play an important role also for controlling the management. Studies reveal that budget continues to be one of the most important and widely accepted tools for planning and control for organizations. However, budgets are argued whether they are competent to provide expected benefit under today's rapidly moving and harshly competitive market conditions. Criticisms on traditional budgeting may be grouped as in the following:

- Preparation of traditional budget is time-consuming
- It is not adaptive to rapidly changing market conditions
- It is far from business strategy
- It is past-performance oriented
- It is focused on sales targets rather than customer satisfaction

- It is susceptible to unethical behaviors.

Budgeting systems usually lead to behaviors with no economic value and management spends a significant part of its time for budgeting practices. Also, in the rapidly changing market environment, it setbacks the organizations from their flexibility and adaptability. It is away from company strategy and is not sufficient to fulfill the requirements of the competition environment.

Two alternatives were developed in response to these criticisms to traditional budgeting: improving the budgeting systems or completely removing it from the businesses.

The proponents of removing and going beyond the budgeting have founded the "Beyond Budgeting Round Table" in 1998 for their purpose.

Beyond Budgeting, in general, targets to develop a process, by assessing existing management and budgeting processes, where these two processes are linked to each other. This process requires a practice and the transfer of authority, which is competent to rapidly adapt to change. These two are distinct features of Beyond Budgeting *vis a vis* traditional budgeting.

BBRT introduced 12 principles for the successful implementation of BB approach in businesses. Six of these refer to development of flexible management process where the remaining six refer to leadership processes.

According to the defenders of BB approach, this new approach is superior to traditional budgeting in many respects. However, a group of managers defend the view that, although the criticisms were right, traditional budgeting should not be completely opted out. According to these, traditional budgeting practice should be improved by eliminating its weaknesses.

The objective of this research is to analyze the existing budgeting practices, to determine the deficiencies in the implementation and to investigate the views of planners and implementers of budgets on the feasibility of Beyond Budgeting approach in Turkey's

business organizations. For this purpose, senior managers of Turkey' leading companies were interviewed.

In the second section of this study, traditional budgeting system and alternative budgeting approaches were reviewed. Third section of the study examines the Beyond Budgeting approach in detail. Fourth section provides the details of the research and presents the conclusions.



## 2. BUDGETING

### 2.1 DEFINITION, PURPOSE AND FEATURES

The term of budget (“bütçe” in Turkish) first appeared in western countries. The Latin word "Bulga" has been used in French as "Bouge", and "Bougette" and has been used as "Budget" in English since the seventeenth century and it has entered into Turkish from French. The term budget can be defined as a table showing the incomes to be earned and the expenditures planned to be made in the next period (Özen 2008, p. 5).

The budget is the process of the determination of the estimated costs and resources for the activities to be carried out in a specific period. Budgets can be prepared for business units, departments, products, teams, or the whole organization. The budgets can also be defined as financial plans. However, the budgets can also refer to non-monetary resources such as employees or time. Budgeting only helps to control and planning all kinds of organizational operations, but also it supports administrative strategies. The budgets are also used for performance measurement.

Budgeting is a management tool in which operations are coordinated and quantified within an organization. However, the budget is perceived as a financial instrument as it is usually prepared by financial departments and it contains numerical values.

When we look at the literature, we see several definitions for the term budget. Bhimani et al. (2008) define the budgets as a quantitative future plan to assist executives to implement their plans.

The budget is the official and numerical statement of the policies, objectives and targets that the top management has set for a future period of operation (Haftacı 2005, p. 1).

The budget is the action plan of the businesses expressed in figures (Büyükmirza 2007, pp. 663-664).

Atkinson et al. (2012) defines budget as a “quantitative expression of the planned money inflows and outflows to determine whether a financial plan will meet organizational goals”. The process of preparing budgets is called Budgeting. (Atkinson et al. 2012, p. 396).

According to Horngren et al. (2015, p. 198) “A *budget* is (a) the quantitative expression of a proposed plan of action by management for a specified period and (b) an aid to coordinate what needs to be done to implement that plan.”

A business budget is a management tool that specifies the allocation of the necessary resources in detail to ensure the achievement of the planned goals for one year. It includes the estimates for income and expenses, thus it guides the management and facilitates the control. (Eren 2005, p. 416).

According to another definition, the business budget is a report or set of reports describing the policies and actions to be followed by the business in the future to achieve the goals and objectives set in advance in terms of money and numerical figures (Yükçü 1999).

According to these definitions, the budgets seem to be important control and planning tool. While the budget is defined as the detailed determination of the objectives of the business for future terms, budgeting is the process of planning, coordination and control of the activities to achieve these objectives.

The major aim of budgeting is to plan the business activities in the most efficient way and to assist managers in their future decisions.

The basic functions of business management are planning, execution, coordination and control. A business budget is a tool that assists almost all of the functions of the management.



Budgeting fulfills numerous functions in the organizations such as ( en 2012, p. 20):

- a) Planning
- b) Controlling
- c) Coordinating
- d) Communicating
- e) Instructing
- f) Authorizing
- g) Motivating
- h) Performance measuring
- i) Decision-making
- j) Delegating
- k) Educating
- l) Better management of subordinates

Budgets are classified in various forms. In general, budget types can be outlined as follows;

**Table 2.1: Classification of business budgets**

| <b>Classification Basis</b>        | <b>Budget Type</b>        |
|------------------------------------|---------------------------|
| In terms of themes                 | Revenue Budget            |
|                                    | Expense Budget            |
|                                    | Profit Budget             |
| In terms of Objectives             | Program Budget            |
|                                    | Activity Budget           |
| In terms of Technical Constitution | Stable (Static, Fixed)    |
|                                    | Comparative Stable Budget |
|                                    | Flexible Budget           |
| In terms of Scope                  | General (Main) Budget     |
|                                    | Partial (Budget) Budget   |
| In terms of Starting Numbers       | Traditional Budget        |
|                                    | Zero-Based Budget         |
| In terms of the Value of Numbers   | Quantity Budget           |
|                                    | Amount Budget             |
| In terms of Handling Problems      | Project Budget            |
|                                    | Term Budget               |
| Budget Based on Continuity Feature | Fixed Budget              |
|                                    | Dynamic Budget            |

*Source:* PÜSKÜL, A. Seden Özbek, (2010) A Research on Business Budget System and Budget Practices Doctoral Thesis Istanbul University Institute of Social Sciences Istanbul p.11.

The advantages of budgeting in the businesses can be outlined as follows (Aras 2014, pp. 18-19):

- a) The budgets unify the businesses for the common goals. As a road map, it helps the business to move consciously and willingly towards the future.
- b) It facilitates cooperation and communication between the units. It avoids conflicts of interest between the units, and make them find the common ground.
- c) The goals identified in the budget are challenges for the staff. It creates the commitment to achieve this challenge through a positive and determined attitude, and high motivation.
- d) If there is no prepared plan, it means that there is a lack of a reference point, a criterion to control activities. Actually, the budgets are reference points for control.
- e) Also, it facilitates performance assessment by benchmarking budgets and operational outcomes. Sometimes, early warning signs are received from these comparisons. Therefore, it shows in which fields the correction and improvement efforts should be directed.

The weaknesses of the budget structures can be outlined as follows:

- a) It is based on estimates.
- b) Despite the dynamic nature of business life, budgets cannot easily respond to changes due to their rigid structures
- c) Budget awareness and training are required among the employees for budget applications.

Details on the weaknesses of budgeting practices are addressed in Chapter 3. Despite their problems and incompetence, traditional budgeting is used almost universally. Although the shortcomings of traditional budgeting are discussed, according to some views, budgeting has to continue as an important part of the management system. To make traditional budgeting meet the requirements, two important steps need to be achieved. The first one is to restructure the budgeting process in the businesses, and the second is to reconsider how the budget will be used (Türk 2000, p. 43).

## **2.2 APPROACHES TO BUDGETING**

Alternative budget approaches have emerged to improve the missing aspects of budgets (Hansen 2011). Many budgeting methods have been developed, especially in the USA, for this purpose in the last 50 years. The most sensational ones are Zero-Based Budgeting (ZBB), which was introduced by Peter A. Pyhrr in the 1970s, and Activity-Based Budgeting (ABB), which was developed in 1990 based on some concepts of ZBB (Eker 2004, p. 135). The main topics related to modern approaches introduced in budgeting are given below.

### **2.2.1 Top Down vs Bottom Up Budgeting**

There are two different approaches in budgeting, Top-down approach and Bottom-up approach. The Top-down approach is more strategic than the Bottom-up approach (Handerson 1997).

#### **2.2.1.1 Top down budgeting**

In top-down budgeting system, the end users of the budget are not involved in the budget preparation process.

In the top-down approach, the group having the task of drawing up the budget receives the target figures from senior managers. The ideas of the lower management who implements the budget are not questioned in this approach. With its centralist structure, the top-down approach makes distinctions in the business and the budget is prepared by limited staff (Bozeman and and Straussman 1982). In the top-down approach, long-term goals are set, and this approach is an appropriate choice when coordination between the departments is important (Tångeberg and Moqvist 2011).

The advantages and disadvantages of this approach can be summarized as follows (Yılmaz 2001);

Advantages;

- a) Since the decision-makers on budget figures and targets are senior managers, they can see the issues from a broad perspective, so they do not evaluate the case from the narrow perspectives of departments.
- b) They can evaluate the issues better because they have more information about internal and external conditions.

Disadvantages;

- a) The persons to be audited through the budget may not have a positive attitude against the budgets that they are not involved in preparing. There is a danger of perceiving the budgets as auditing tools prepared to threaten, rather than a tool of cooperation by these staff. In this case, the failure in budget control becomes inevitable.
- b) Top executives may not have sufficient technical knowledge about the problems and opportunities at the bottom.

#### **2.2.1.2 Bottom up budgeting**

In bottom-up budgeting system, the budget holders have the opportunity to participate in setting their own budgets. This approach is also called participative budgeting.

Bottom-up budgeting starts at the bottom of the organization. The budgets are set by the low-level managers and they are submitted for the approval by the top management. The top management may approve the budget submitted for approval or return it for amendments.

In the bottom-up approach, a large number of employees participate in the budget preparation process and the process is carried out with various negotiations (Bozeman and and Straussman 1982). This approach is structured at the operational level and therefore it takes much time (Kim and Park 2006). The most important handicap of this

approach is that operational managers focus on the success of their departments, not on the overall success of the organization (Shim and Siegel 2009).

The benefits and drawbacks of bottom-up budgeting are summarized below (Florin 2011);

- Benefits
  - o Decentralized and Participative
  - o Greater Employee Motivation
  - o Suits Large Organizations
  - o Accurate
  - o Better Coordination and Communication
- Drawbacks
  - o Time Required
  - o Misrepresenting Budget Figures
  - o Lack of Expertise
  - o Lack of Context

### **2.2.2 Incremental Budgeting**

In incremental budgeting, the previous years' budget is taken as the initial budget, and incremental amounts are added to previous year's budget to meet the possible new situations.

Incremental budget treats existing programs and departments, and it focuses on the increases and decreases in the allocated financial resources.

The organization's historical costs constitute the starting point in this approach. The focus of this budgeting process is on the expected changes in the previous year's figures. Increases in prices and costs, costs of additional activities and reductions caused by the deferrals to the previous year's budgeted activities are considered as amendment figures in incremental budgeting process (CMI 2015).

The advantages and disadvantages of this method are given below (Northern Ireland Assembly Research Paper 2010);

Advantages of incremental budgeting;

- a) Easy to understand, makes marginal changes and maintains agreements made through negotiations,
- b) Easy to prepare from the administrative perspective
- c) Ensures the decision makers focus on important issues. Managers do not have to spend most of their time on detailed budget documents.
- d) Useful for the situations in which the outcomes are hard to identify.
- e) The budget is stable but the changes are gradual.

Disadvantages of incremental budgeting;

- a) It is retroactive, it focuses on the previous year's budget rather than future plans.
- b) It does not allow comprehensive performance assessment
- c) It does not help managers realize budget loosening
- d) It feeds with data or service presentations inconsistent with the new priorities or the ones no longer relevant
- e) It causes systematic inertia within the organization
- f) It tends to be reactive instead of being proactive
- g) It assumes that current budget lines are relevant and satisfactory

### **2.2.3 Zero-based Budgeting**

Zero-based budgeting method was developed by Peter A. Pyrrh in 1970 to overcome the shortcomings of traditional budgeting. Pyhrr (1970) defines the zero-base budgeting as a business plan and a budgeting process in which managers prepare their budgets in detail from scratch.

In the zero-based budgeting method, the budget is prepared from scratch as if the budget is prepared for the first time. In other budgeting methods, the new budget is usually prepared as a continuation of the previous budget and the basic figures of the previous budget remains the same.

No expenditure item is automatically placed in the zero-based budgeting system, the items are evaluated among the other expenditure items and the ones estimated as efficient are placed in the budget. So that the zero base is essential in this system. In the budgeting process, each activity is prepared as a package of decisions, the priority ones are ranked systematically. Zero-based budgeting is a new budgeting system developed for the capital budget. In this system, budget realizations of each year are neglected and old policies are either ignored or concerned very little (Çataloluk 2006, p.229-242).

In the zero-based budget method, the connection with the past is broken and the functions to be loaded in the new year's budget are considered. Budgeting aims to carry out these functions with the minimum cost. In practice, this is done by creating decision packages at all levels (Yılmaz 2001).

This method is appropriate for the following fields;

- a) Allocation of resources for the fields in which voluntary expenditure is made. For example; Research and Development, advertising and training budgets.
- b) Organizations operating in the public sector, such as local administrations.

There are four distinct stages in implementing ZBB:

- i) Managers should identify the activities that can be individually evaluated for their responsibility centers.
- ii) Each of the individual activities is then described in a decision package. The decision package should define the costs and incomes expected from the given activity. The decision package should be drawn up in such a way that it can be evaluated and ranked against the other packages.

- iii) Each decision package is evaluated and ranked by making cost/benefit analysis.
- iv) The resources are allocated to the various packages.

The positive and negative aspects of this method can be outlined as follows (ACCA 2013);

**Benefits of ZBB;**

- a) Since ZBB does not consider the resources allocated in the previous year, all activities of the organization are reassessed on an annual basis in zero base. Therefore, inefficient and redundant activities are terminated and pointless waste of money is avoided.
- b) Because of its nature, it supports a bottom-up budgeting approach in order to make the method practical.
- c) It is against the status quo and encourages an inquisitive attitude among the managers.
- d) It responds to changes in a business environment from a year to the next.
- e) It provides efficient resource allocation.

**Drawbacks of ZBB;**

- a) Unit managers may not have enough knowledge to create decision packages. This may require training, and trainings can be time-consuming and costly.
- b) In large organizations, the volume of documents drawn up for ZBB may be in an unmanageable size due to so many activities.
- c) Because many activities cannot be quantitatively compared, it may be difficult to rank the packages. Qualitative factors must be considered, but this is not as easy as it seems. Top management may not have enough time and knowledge to rank thousands of packages.
- d) Identification of the decision packages and specification of their purposes is a time consuming and costly process. A solution to this problem is to use incremental budgeting techniques each year and to use ZBB every three or five years or when significant changes are made. This means that an organization can benefit from some of the advantages of ZBB without considering its annual periods and cost practices.



e) Since decisions are taken during the budgeting period, managers may feel that they cannot respond to the changes that may occur during the year. If necessary actions cannot be taken in the face of urgent opportunities and threats, it becomes unavoidable that the situation arises negative consequences for the business.

f) The organization's information system may be insufficient to provide the necessary data to prepare the ZBB.

#### **2.2.4 Rolling Budgets / Rolling Forecasts**

According to this approach, the budgets should be constantly updated by adding a further period when the current accounting period ends. The use of this method is advantageous particularly in the fields in which future costs and/or activities cannot be fully predicted (Ross 2008).

Rolling Budget becomes a continuous process by being updated every three or four months (Barrett and Fraser 1977). This approach ensures that the constant update of the budgets, which are used for evaluation, and the unpredictable changes are considered in the next period (Mejzini and Seidel 2015). When a term ends, top management can compare actual results with budget goals and objectives.

A typical rolling budget should be prepared as follows;

([www.kfknowledgebank.kaplan.co.uk](http://www.kfknowledgebank.kaplan.co.uk))

- a) The budget to be prepared for the coming year (ie. January - December) should be split appropriately. For example quarterly control periods base etc.
- b) At the end of the first control period (March, 31) the period's outcomes are compared to the budget figures. The results of this analysis are used to update the budgets for the remaining control periods and to add to the budget of the next quarter, therefore the company again has an available budget for the coming year (April – March period).
- c) The planning process is repeated at the end of each three-month control period.

Rolling forecast (RF) is used to overcome the weaknesses of traditional budgets, it enables the companies to focus on the high level financial and operational management,

speed and value-adding activities in decision-making processes (Cardo 2014). Roll forecasts have to be strategy-oriented to be productive. They should not be as detailed as a budget but they should contain significant profit and loss and balance sheet items. Also, statistical applications should be used for analyzing the data, understanding the trends, and heading to the reasonable trends. The forecasts should be integrated into the budget. Because, the forecasts provide updated information required for preparing the budget (Golyagina and Valuckas 2012). Rolling forecasts encourage flexible resource allocation and planning, and provide accurate projections for capital expenditure estimates, show trends in performance indicators, support decision-making, and cash management, and support the implementation of strategies (Hope and Fraser 2003).

Besides their advantages, Roll forecasts have also some disadvantages. The preparation process is costly and time-consuming. Because the forecasts are regularly reviewed and updated, it may become a quite complex process for the practitioners who do not have enough training (Cardo 2014, p.486).

### **2.2.5 Activity-based Budgeting**

Activity based budgeting is an approach to budgeting that is closely related to activity based costing. Activity-based budgeting is an important component of future-oriented plans in businesses in which activity-based costing system is used.

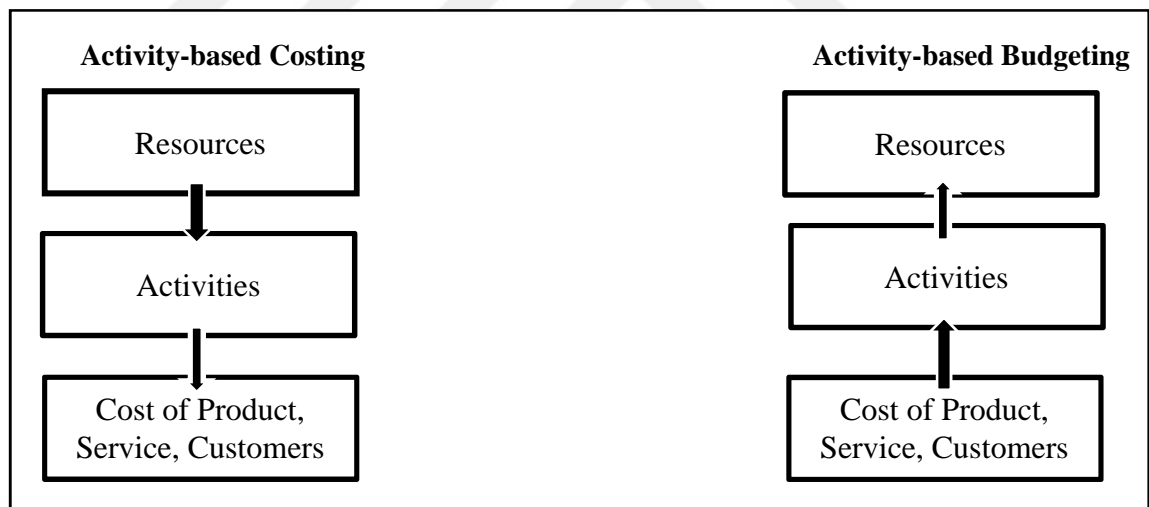
The concept of ABB was first introduced by Robin Cooper and Lybrand Deloitte in 1990. The first theoretical framework study on ABB was carried out by Brimson and Fraser, and the second theoretical framework study was carried out by Kaplan and Cooper. These two studies have been the base models for Activity-Based Budgeting and the following studies on the model are descriptive for these base models (Karaca 2008, p. 90).

Activity-based budgeting can be defined as an operational plan that uses the estimated costs of the activities required to sell products and services in order to determine the business units' resource requirements for the coming period (Öker 2003, p. 80, Horngren et al. 2003, p. 190).

ABB is a crucial budgeting technique designed to reduce the disadvantages of the traditional budgeting process. The purpose of the ABB is to determine the requirements of resources to meet the future demands for products and services. Thus, the resources may be procured more efficiently (Cooper and Slagmulder 2000, p. 85).

The process of Activity-based budgeting has the reverse functions of activity-based costing (ABC) system. ABC process starts with resources, and the relationships between the resources and the activities are established through resource factors. Then, the relationships between activities and products or customers through the activity factors. In this top-down process, product/customer cost is calculated. On the other hand, contrary to the activity-based costing process, the activity-based budgeting process is a bottom-up process (Kaygusuz 2003). Figure 2.1 displays the workflow in activity-based budgeting and activity-based costing processes:

**Figure 2.1: The functioning of activity-based budgeting and activity-based costing**



*Source:* Adapted from Horngren et al. (2015)

Four key steps in activity-based budgeting are (Bhimani et al. 2008, p. 485):

- a) Determine the budgeted costs of performing each unit of activity at each activity area
- b) Determine the demand for each individual activity based on new products, existing products, and budgets
- c) Calculate the costs of performing each activity

d) Identify the budgets as the costs of performing different activities

Dahlgren and Holmström summarize the benefits of ABB as;

- It provides new information on the activities and cost of activities. From a control point of view, this information makes indirect cost centers more transparent and increases efficiency.
- It establishes a clear relationship between the strategy and operations.
- It establishes an informational link between Activity Based Costing and Activity-Based Budgeting.

The disadvantages of activity-based budgeting specified in the literature, in general, are listed below (Karaca 2008, p. 145);

- The managers and the employees may not care enough about the achievements to be gained in the Activity Based Budgeting process.
- Since Activity Based Costing System must be established first for applying Activity Based Budgeting, establishment and implementation of Activity Based Budgeting may be quite difficult.
- Activity-based budgeting can cause unease for employees due to its complexity.

### **2.2.6 The Balanced Score Card**

The Balanced Score Card (BSC) is an approach that combines the financial and non-financial control measures as an alternative to the budgets (Ross 2008, p. 12).

BSC was developed by Kaplan & Norton (1992) as a new tool for evaluating the performance of organizations. The BSC provides managers with a range of measurement tools to display the comprehensive view of organizations (Türüdüo lu et al. 2014).

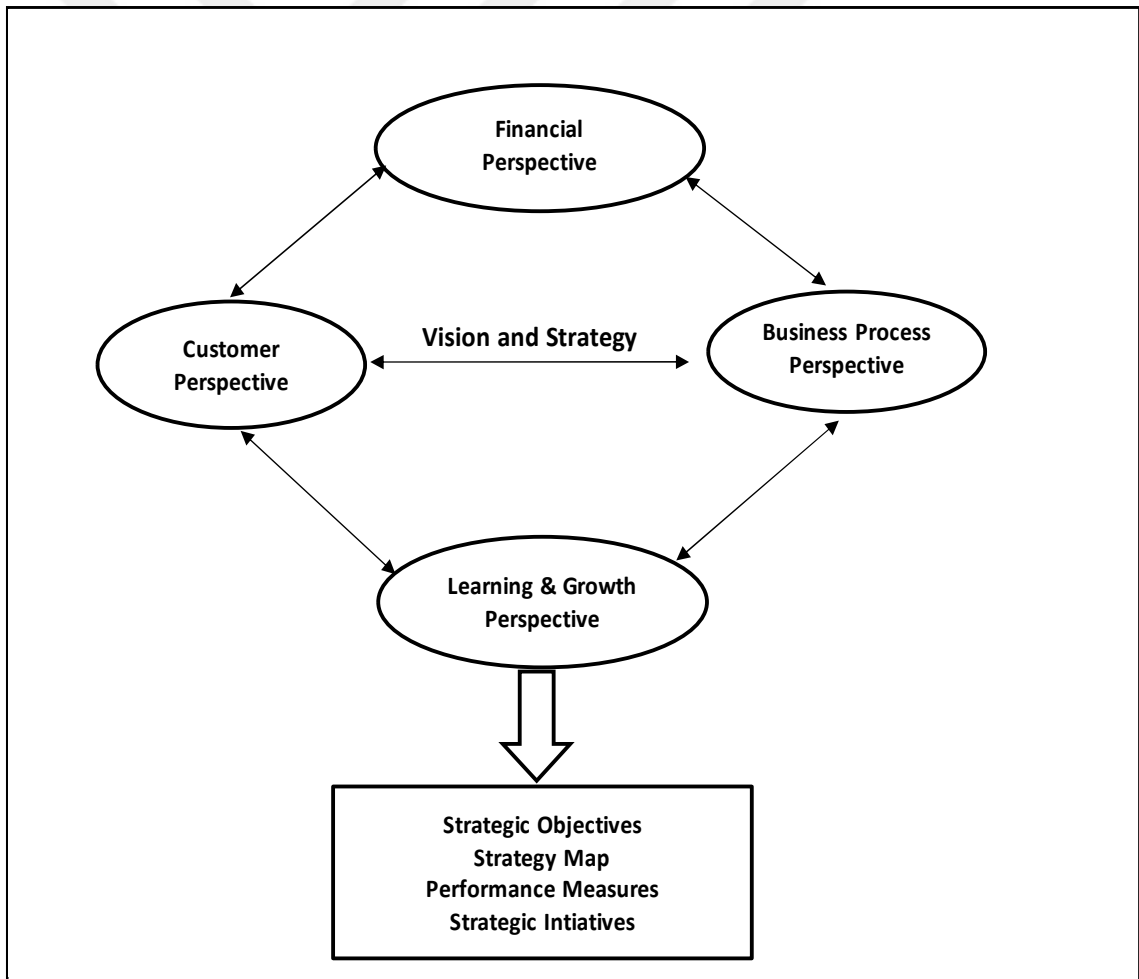
The BSC provides a framework in which businesses' vision, mission and strategy, including non-financial criteria are transformed into performance metrics in order to find solutions to the problems they experience in performance appraisal (Güner 2008). It is

closely related to business strategy because it contains not only financial data but also other operational measurement tools (Hendricks et al. 2004, p. 2). While balancing financial and non-financial data, the BSC also considers the balance between strategy and practice (Kuşu and Kırılı 2013).

BSC assesses organizations under four major perspectives. These are;

- Learning & Growth Perspective,
- Business Process Perspective
- Customer Perspective
- Financial Perspective

**Figure 2.2: Balanced scorecard perspectives**



*Source:* Adapted from Robert S. Kaplan and David P. Norton, “Using the Balanced Scorecard as a Strategic Management System,” Harvard Business Review (January-February 1996), p.76.

Benefits of applying BSC can be listed as follows (Argüden et al. 2000);

1. It allows the company strategy to be transformed from vision into the concrete steps
2. The BSC helps not only to govern the strategy but also it facilitates putting into practice and enhancing it.
3. Transformation of long-term strategies into short-term applications enables the immediate reaction to developments that may occur in the present and future.
4. It ensures the consistency of the team and individual targets with the strategy and inclusive as a whole.
5. It ensures to specify competency development programs and to rank them.
6. It associates performance management and reward systems with strategy.
7. It develops data collection systems for the development of organizational learning processes and strategies.

In the end, the BSC is an instrument that facilitates the organization to break down the corporate strategy into consistent and concrete steps, to ensure communication in the organization, and to improve the effectiveness of performance management through indicators that can be monitored regularly.

### **2.2.7 Beyond Budgeting**

Beyond budgeting is an approach that tries to overcome the limitations and weaknesses of the traditional budgeting approach.

BB aims to remove traditional budgeting practices to revise how the organization can be managed better and to develop control mechanism for the management through this stage (CIMA 2007).

The skepticism about the budgets is expressed in the most radical way in Beyond Budgeting.

Defenders of this approach launched the "Beyond Budgeting Round Table" in 1998 to try to assist businesses to understand and adopt this approach, which can be described as "the Budgetless Management Model".

BBRT's solution is a radical solution and argues that budgets have to be removed to overcome deficiencies in the budgeting process (CIMA 2007).

Details of the approach will be given in the following section, and the main distinctions between the traditional budgeting model and the Beyond Budgeting model are given in Table 2.2:

**Table 2.2:** Differences between the Traditional Budgeting and the Beyond Budgeting model

|                                  | <b>Traditional Budgeting Management Model</b>    | <b>Beyond Budgeting Management Model</b>                |
|----------------------------------|--|---|
| <b>Targets and incentives</b>    | Incremental goals<br>Fixed rewards               | Flexible goals<br>Relative rewards                      |
| <b>Planning and control</b>      | Fixed annual plans<br>Variance controls          | Continuous planning<br>KPI's and rolling forecasts      |
| <b>Resource and coordination</b> | Pre-allocated resources<br>Central co-ordination | Resources on demand<br>Dynamic coordination             |
| <b>Organisational culture</b>    | Central control<br>Focus on managing numbers     | Local control of goals/plans<br>Focus on value creation |

Source: <http://kfkknowledgebank.kaplan.co.uk/KFKB/Wiki%20Pages/Beyond%20Budgeting.aspx>

Advantages of Beyond Budgeting model (Sardjoe 2009);

- One of the greatest advantages of the BB approach is that it uses existing management methods used in the past such as the BSC. It is not difficult to apply BB model in an organization that implements modern management methods because people already are familiar with these methods. Another benefit of the BB model is that it costs less than the traditional budgeting system. The creation of the traditional budgeting process is time-consuming and costly.
- The data flow within the organization is fast in the BB system. This ensures fast and accurate decision-making process. It facilitates the managers to access new data and to make more accurate judgments.

Not so much research has been made on BB model since it is a relatively new approach. However, the general disadvantages of this approach can be summarized as follows.

- The adoption of the understanding of decentralization which is the prerequisite for a successful BB application may be very difficult or impractical.
- The employees must be motivated for the success of the BB model. It has some risks in the transition period since the managers are familiar with the traditional budgeting system for a long time.





### **3. BEYOND BUDGETING**

#### **3.1 CRITICISMS OF TRADITIONAL BUDGETING**

Although budgets are the most important control tools for many organizations today, many managers are not satisfied with their current budget practices and indicate that they are in need of change (Hansen 2011, p. 289).

Academics and practitioners have been drawing attention to the function of traditional budgets and the role of budgeting in the management of institutions recently. The budgets and budgeting systems have been argued to have certain shortcomings, and therefore the use of budgeting in general is criticized especially in the organizations operating in dynamic and rapidly changing environments. Critics say that budgets are inefficient in resource allocation (Wallander 1999), and design of the management control system, and there is a lack of alignment between budgets and corporate strategy (Hansen et al. 2003, Østergren and Stensaker 2011).

In a study carried out by the Cranfield School of Management and Accenture in 2001, 12 key critiques have been identified for the traditional budgeting approaches as follows:

- 1- Budgets are time consuming and costly.
- 2- Budgets are not good at responsiveness and flexibility and are often a barrier to change.
- 3- Budgets rarely focus on strategy, and they often contain contradictions.
- 4- Budgets create quite little value compared to the time wasted for preparing them.
- 5- Budgets generally focus on cost reduction rather than value creation.
- 6- Budgets strengthen vertical command and control.
- 7- Budgets do not reflect the developed network structures adopted by the organizations.
- 8- Budgets encourage fraudulent and wrong behaviors.
- 9- Budgets are rarely updated, improvements and updates are often made annually.
- 10- The budgets are based on unsupported assumptions and forecasting studies.

11- Budgets build barriers among the departments rather than reinforcing knowledge sharing.

12- The budgets make the people feel unworthy.

The traditional budget approach was developed in the 1920s to control costs. As organizations grew and became more complex, senior management needed more budget processes to control different product lines, the complexity of new technologies, and motivate managers to achieve specific goals. Today's budgeting processes, particularly in large-scale organizations, involve thousands of people and huge amounts of time and resources, often for a period of one year (Atkinson et al. 2012).

According to the critics, the traditional budgeting process has progressed without any restriction for too long. The traditional model may be useful in a case in which market conditions are stable, competition and innovation are not as intense as they are today, and customers are not demanding. Critics argue that the traditional budgeting process is a demode ritual and a process that prevents organizations and managers from responding to ever-changing market conditions. Traditional budgeting structures reflect a top-down approach. Also, it focuses on the management control functions rather than supporting organizations achieve their strategic goals (such as target budget).

### **3.2 DEFINITION AND FEATURES OF THE BEYOND BUDGETING CONCEPT**

Despite the criticism mentioned above towards traditional budgeting, two alternatives emerged;

- Improving budget systems or
- Removing the budgets completely

Some critics have emphasized that the solution to the shortcomings of budgeting in today's conditions cannot be the improvement of budget systems. They stated that all the budget processes have to be removed and an alternative management model has to be developed. As an alternative to traditional budget systems, prominent critics such as Jeremy Hope and Robin Fraser have introduced the Beyond Budgeting approach, which

suggests abandoning budgets, as a new management model. According to Hope and Fraser (2001), the budgets are systems from the past and the people in the central office makes a number of decisions and they notify the lower-level employees what to do within the framework of decisions made. But such a remote control mechanism is no longer functional in a competitive era.

Developing the concept of BB at the beginning of the twenty-first century, Hope and Fraser formulated the concept with their inferences from the business world. According to the conceptual framework they introduced, the new management model contains a set of tools and principles that allow organizations to control and manage their operations without annual and fixed traditional budgets. BB aims to remove traditional budget practices to review how the organizations can be better managed and thus improving the control mechanism of the management.

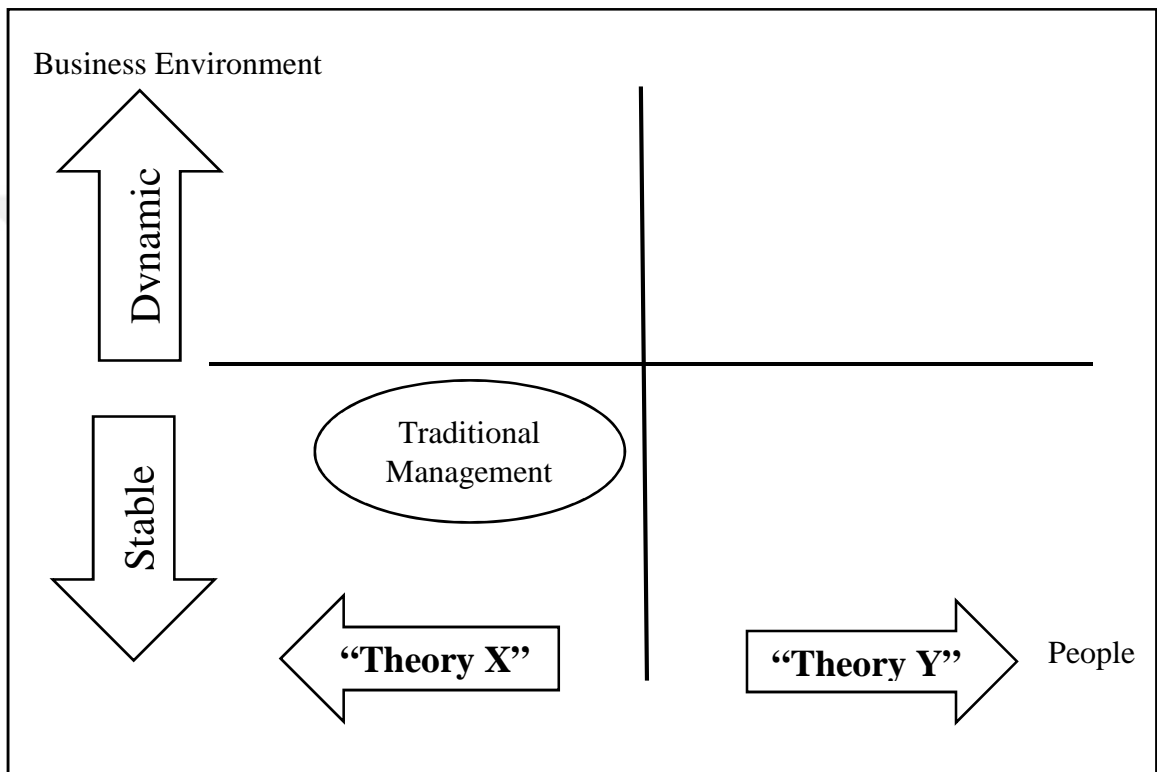
BB is suggested as a solution to the problems of the traditional management model based on the budgeting process. Some researchers consider BB as a revolutionary philosophy and believe that the approach is a set of principles prepared for the challenges of organizations related to the rapidly changing business environment and market uncertainties.

BB is an alternative approach to traditional power and control systems. It is a positive «management and control» method that triggers the development of the entire management model by abandoning current budget practices. Charles Horngren emphasized that the BB approach was not a negative idea, on the contrary, abandoning the budget systems, which was the essence of the concept, was a positive approach that would trigger the development of all administrative control processes, in the preface of the book, *Beyond Budgeting*, which was written by Hope and Fraser in 2003.

BB aims to overcome the weaknesses and limitations of the traditional budgeting approaches. The essence of the approach is the fact that traditional management models, predominantly based on budgets, are insufficient in managing today's organizations. Aligning with the change in the world, the necessity of change in the management

processes is emphasized. The approach suggests that the budget-based management model cannot meet the expectations of the employees and the customers in the organizations especially with the type Y human model, therefore the organizations need to be managed with a different perspective. Figure 3.1 shows the traditional management model from the perspective of the defenders of BB.

**Figure 3.1: Traditional management model**



Source: [https://www.bergen-chamber.no/visageimages/Pdf\\_files/bjarte\\_bogsnes\\_bb.pdf](https://www.bergen-chamber.no/visageimages/Pdf_files/bjarte_bogsnes_bb.pdf)

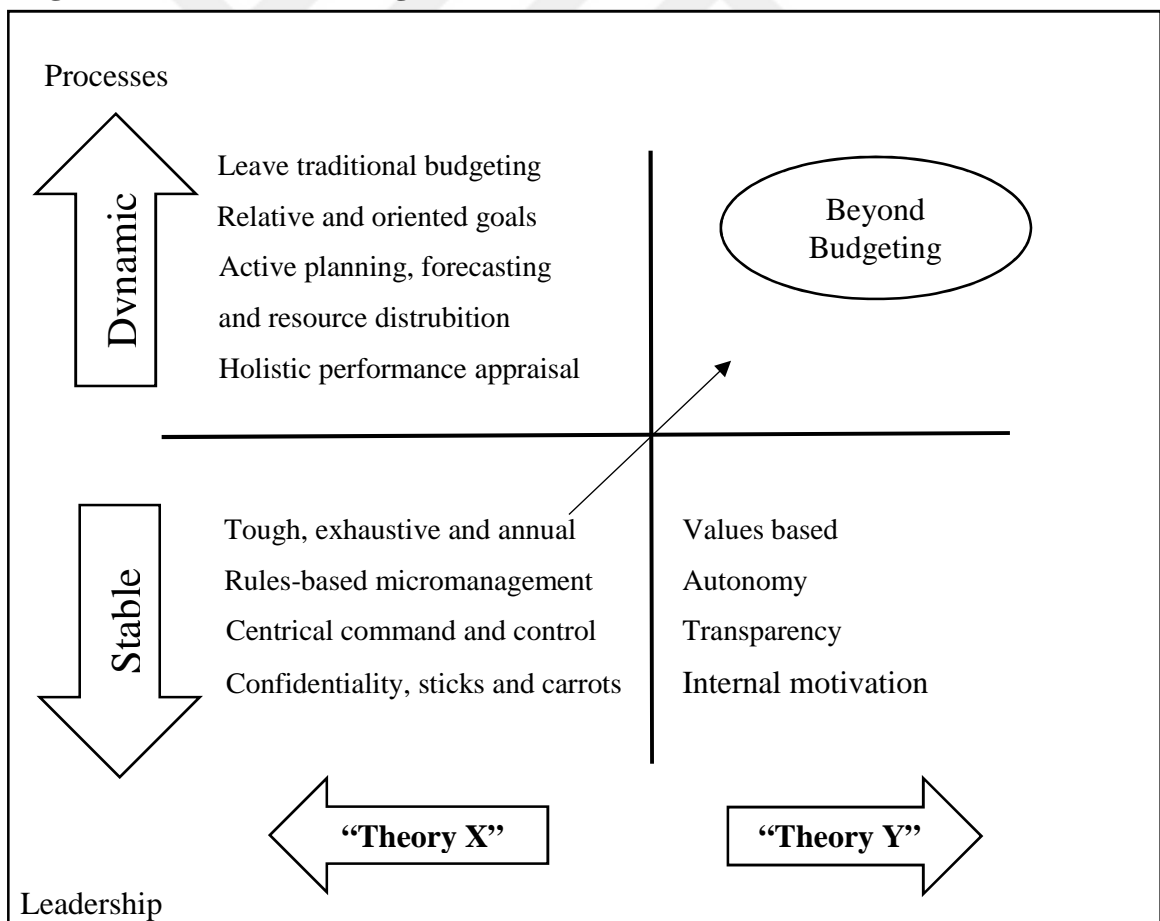
Traditional management covers more stable market conditions involving type X human model.

Bogsnes (2009) states that the traditional model which is based on annual budgets depends on the assumption that the majority of the people are from "Theory X", while the BB approach classifies the people according to "Theory Y". Figure 3.2 displays the BB-based management model.

Theory X and Theory Y were developed by D. McGregor in 1960. McGregor published the book, *The Human Side of Enterprise*, in 1960. He examined and compared two different human types, type X and type Y, in his book. People of type "Theory X" are usually the ones who do not like to take responsibility and to work, they swing the lead when it is possible. Such people should be closely monitored and controlled. "Theory Y" defines skilled, talented employees who are ambitious and want to take responsibility (Aktan 1999).

McGregor's Theory X and Theory Y essentially emphasize the importance of human relationships within the organization. According to McGregor, in order to improve organizational performance, it is necessary to adopt Theory Y, which attaches importance to communication, motivation and rewarding, delegation of power and responsibility.

**Figure 3.2: BB-based management model**



Source: [https://www.bergen-chamber.no/visageimages/Pdf\\_files/bjarte\\_bogsnes\\_bb.pdf](https://www.bergen-chamber.no/visageimages/Pdf_files/bjarte_bogsnes_bb.pdf)

Generation-Y is different from previous generations, who have difficulty in demanding new job opportunities and who are focused on not losing their jobs rather than competition. They are less loyal to the companies they work for and do not tend to be patient when they do not agree with the managers. It is an obligation for the companies to recognize, motivate and keep generation-Y at work to protect their future assets (Acilio lu 2015).

Beyond Budgeting represents an effective and valuable tool in the implementation of organizational strategies. This tool should encourage useful management planning, resource management and control (Hillestad and Espedal 2011).

BB makes the managers think in depth again how they manage their organizations in the post-industrial world in which sustainable competitive advantage exists only through innovative management models. Also, it deals with saving employees from the dull practices of bureaucracy and boring control systems, providing them time to think, equipping them with information, sharing, learning and empowering them.

In BB approach, the concept of budget does not just mean planning and control. The definition of the budget in BBRT is comprehensive and it describes all management processes. It generally refers to the management and control model that focus on annual budgets. In this context, budget defines the culture of management and performance management system.

Hope and Fraser (2001) define BB as a model that allows companies save their employees from the chain of "fixed performance contract". The new model gives employees the freedom to move, to use personal judgments in decision-making, to use the information resources of the company to meet customers' needs, and therefore it facilitates them work with the goal of profitably, and better than the competitors.

Also, Hope and Fraser (2001) emphasize that employees are the most important and valuable assets of the organizations and benefiting from their skills and experience is indispensable for the growth of the company in the future. The authors claim that the

employees spend their energy and creativity to engage in classical budgeting processes during the annual budgeting rather than creating value for stakeholders, especially for customers and shareholders.

Hope and Fraser (2001) see the BB model as an effective method for overcoming the problems of the traditional management model mentioned earlier, and for building a flexible and adaptable organizational structure. BB is based on abandoning annual budgeting process absolutely. But only abandoning the annual budgets is not enough to improve organizations' performance, and achieve challenging competition conditions of the modern world. Certain regulations are also needed in terms of the attitudes of managers to their employees. In other words, this concept forces change of management style.

### **3.3 DIFFERENCES BETWEEN TRADITIONAL BUDGETING AND BEYOND BUDGETING**

There are two major elements that distinguish the BB approach from the traditional budget system. First, traditional budgets are based on predetermined fixed annual plans that bind the managers. But goals in the BB approach, are developed according to competitors and important global criteria. These goals are reviewed and revised when needed. The managers are more motivated to achieve these goals, as their objectives are directly linked to competition in the market rather than artificial internal goals. Secondly, the BB model is a management model in which the power is delegated more. Unlike traditional hierarchical and centralized management, the managers have much more responsibilities for their teams and working groups. This structure allows employees to act with the feeling of primary responsibility and is more motivating. Because the BB approach requires radical intellectual and operational changes throughout the organization, its implementation is difficult for many organizations.

The main distinction between traditional budgeting and the Beyond Budgeting system is the focus of management and the way organizations are managed.

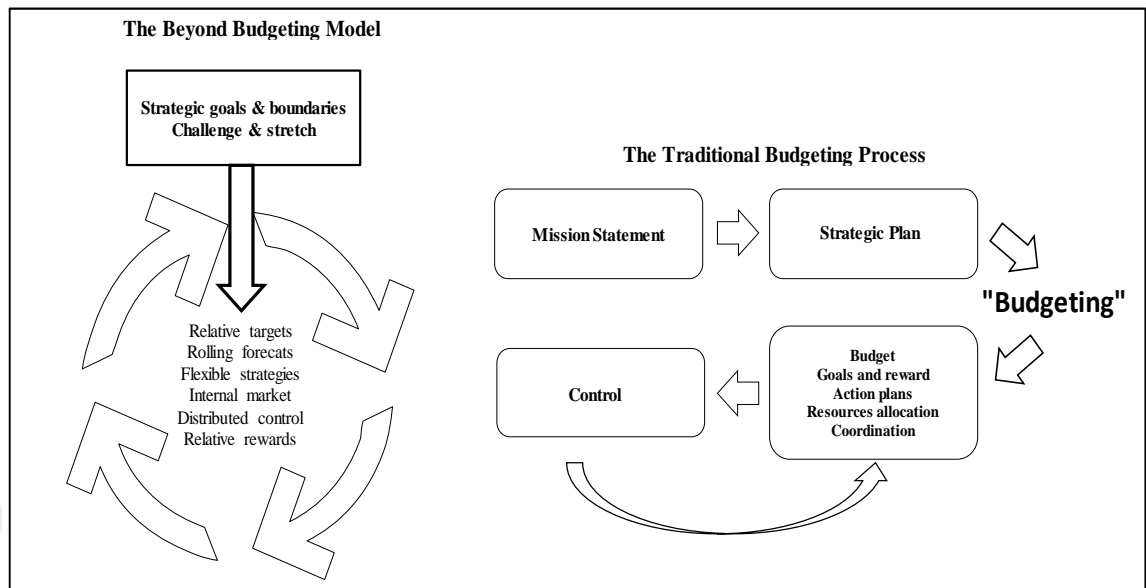
Instead of the terms of plan and control, the management in the BB approach uses the terms such as process, customer, learning, value, loyalty and trust. Management focuses on market and competition. To achieve this, the BB model states that a bottom-up information system is required. Powers and responsibilities are delegated in this system contrary to the centralized structure in the traditional budget system. It provides much more freedom and confidence to managers to create extraordinary ideas and participate in innovative projects.

The use of Rolling Forecast is another distinction. Forecasts prepared on a monthly or quarterly basis allow managers to work with more realistic figures. Managers evaluate the actual performance of the competition conditions, the economic situation and the outcomes of their competitors. Defenders of the BB model point out that this method is the best way to adapt to a dynamic and volatile market conditions.

As seen in Figure 3.3, the traditional method starts with defining the tasks. Then the strategic plan and budgeting process starts. The budgeting process includes targets, awards, activity plans, resource allocation and coordination. This process is followed by the control process. Controls are based on budget. In the process of BB model, strategic plans are identified and the emerging risks are determined. Relative goals and awards, Rolling forecast, flexible strategies are defined. This structure is a constant cycle. It is constantly updated during the process to achieve the target.



**Figure 3.3: Traditional Budgeting versus Beyond Budgeting**



Source: Hope and Fraser 1999, Building a new management model for the information age

### 3.4 BEYOND BUDGETING ROUND TABLE

Defenders of the need of an unbudgeted management model by abandoning budgets completely have established the "Beyond Budgeting Working Group" in 1998 in the UK for this purpose. Believing that abandoning the budgeting process can only overcome its deficiencies, BBRT has introduced the Beyond Budgeting approach.

BBRT was established in response to increasing dissatisfaction and frustration with traditional budgeting. BBRT has created a strong global membership program that includes a large network of leading organizations, business experts, thought leaders and academics. BBRT encourages its member organizations to share their knowledge and experiences on the best BB practices around the world in order to get rid of the chain of command structures in the organizations.

Currently, BBRT has two active communities, one in Western Europe and the other in North America.

### 3.5 THE BEYOND BUDGETING PRINCIPLES

The Beyond Budgeting Round Table (BBRT) of the Consortium for Advanced Manufacturing International (CAM-I) was established in 1998 in London. BBRT has reviewed 13 companies that were managed absolutely or largely without a budget. At the end of the review, the founders of BBRT, Jeremy Hope, Robin Fraser and Peter Bunce BB published their first set of principles in the BBRT white pages in June 2002. However, these principles have been presented in the form of questions and answers. A year later, Hope and Fraser (2003) published their first book on BB. They have found 12 BB principles that support the BB approach in their books. Six of these principles aims to establish a flexible organizational structure in which employees are empowered. The other six principles define the adaptable management model needed to create a flexible organizational structure.

The principles were expressed as follows (Hope and Fraser 2003):

**Table 3.1: The BB principles as of 2003**

| <b>Principles of adaptive processes</b>   | <b>Principles of radical decentralization</b>   |
|---|---|
| Set stretch goals aimed at relative improvement   | Provide a governance framework based on clear principles and boundaries   |
| Base evaluation and rewards on relative improvement contracts with hindsight            | Create a high-performance climate based on relative success   |
| Make action planning a continuous and inclusive process                                 | Give people freedom to make local decisions that are consistent with governance principles and the organization's goals |
| Make resources available as required  | Place the responsibility for value creating decisions on front-line teams   |
| Coordinate cross-company actions according to prevailing customer demand                | Make people accountable for customer outcomes   |
| Base controls on effective governance and on a range of relative performance indicators | Support open and ethical information systems that provide "one truth" throughout the organization                       |

Source: <http://bbrt.org/the-beyond-budgeting-principles/>

A company that wants to practice BB approach should follow these twelve principles set out by BBRT for a successful implementation. These twelve principles constitute a holistic model. Principles are an inseparable part of the whole and support each other (Bogsnes 2009). The follow-up of these principles is expected to contribute to the improvement of the performance of the organizations.

BBRT has updated its principles according to its studies throughout the time. In 2011, the BB principles were divided into two groups: leadership and processes. Leadership principles aim to develop the culture of business. Process principles aim to make the organization operate more efficiently.

The leadership principles of the BB approach are (Do an 2016):

1. Values: Gathers people around a common goal, not around a central plan
2. Governance: Adopts a management understanding of governing through shared values and sound judgment; not through detailed rules and regulations.
3. Transparency: Make information open and transparent, it does not control it.
4. Teams: Not organize around the central functions but around the responsible team networks.
5. Trust: Establishes a trusting environment to manage teams and improve their performances, not interferes so much.
6. Accountability: Ensures the sense of responsibility based on unity and cohesion, not hierarchical.

Principles of processes are (Do an 2016):

1. Goals: Aims to develop medium-term goals not sets short-term or fixed goals.
2. Rewards: Has a rewarding system based on a performance system not based on fixed targets.
3. Planning: Requires continuous and comprehensive planning rather than annual top-down planning.

4. Coordination: Provides coordination based on dynamic and mutual interaction rather than annual planning and budgeting periods.
5. Resources: Procures resources in line with needs, not with annual budget allocation.
6. Control: Budget controls are based on quick and frequent feedback, not based on variance analysis.

BBRT revised Beyond Budgeting principles in 2016. The revised BB principles are again presented in two groups. These principles include the most crucial leadership and management process principles required to fully benefit from BB. Principles updated by BBRT in March 2016 are presented in the table below:

**Table 3.2: The updated BB principles as of March 2016**

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

Source: <http://bbrt.org/the-beyond-budgeting-principles/>

BBRT has set BB principles as a conclusion of its studies with business world and academics since 1998. The purpose of these principles is to guide the organizations in the

implementation phase of BB. Bjarte Bogsnes defines the BB principles as a management philosophy, not a receipt. Implementing BB principles not only leads to more flexible and applicable organizations but also ensures stronger performance. Details of the current BB principles are given below.

1. Purpose - Engage and inspire people around bold and noble causes; not around short-term financial targets: The goals of the organization should be shared with all employees. This share creates high motivation and enthusiasm among employees. Enterprises with great goals also attract quality employees, and it enhances performance. For this reason, BBRT recommends that organizations set noble and bold goals.

2. Values - Govern through shared values and sound judgement; not through detailed rules and regulations: An organization can be defined with its value. Value oriented governance guide employees, grant them autonomy and freedom. This approach improves creativity and sense of responsibility among employees. Thus, organizational performance is improved. Rule-based management may be suitable for exceptional circumstances. BBRT recommends value sharing and a common sense management style.

3. Transparency - Make information open for self-regulation, innovation, learning and control; don't restrict it: Transparency is an important principle for BB because it has a very positive effect on the organizations. It is an important message which expresses that the company operates correctly. Another feature of transparency is that it provides accurate and timely information to lower-level employees. Another positive feature of transparency is the creation of an excellent social control mechanism. BB advises that information should not be restricted unless absolutely necessary. When the organization is completely transparent, it will work faster and more efficiently.

4. Organisation - Cultivate a strong sense of belonging and organise around accountable teams; avoid hierarchical control and bureaucracy: Organizing according to BB means that the employees in a company are considered as accountable and social assets. Finally, the three key points to be followed are below:

- a) Decision-making processes must not be centralized.
- b) Employees are given the opportunity and supported to interact freely and directly within the organization.
- c) Teams have the freedom to initiate and coordinate their activities.

The combination of these three key elements provides a strong sense of belonging, high participation and accountability throughout the organization, and therefore it creates flexible and adaptable organizations.

5. Autonomy - Trust people with freedom to act; don't punish everyone if someone should abuse it: Autonomy is essential for the involvement of the employees and it is very important for high performance in the organization. Today, employees are mainly educated people. Providing them with responsibility and freedom of movement increases accountability and organizational performance. The dissemination of the feeling of trust from the bottom to the top within the organization increases the motivation of the employees. BBRT argues that the addition of more rules and procedures is typically a mismanagement reaction when trust is exploited within the company. The managers should treat such issues as exceptions to ensure the participation of employees. They should not add more bureaucracy to the organization. Employees enjoy being coached and supported and they dislike macro management.

6. Customers - Connect everyone's work with customer needs; avoid conflict of interest: One of the most important goals of organizations is to have loyal customers. For this reason, one of the BB principles aims to focus on the needs of the customers and serve them. According to the BB approach, organizational structures, activities and processes should be designed to understand customer needs and to find out best practices of service. In performance-driven organizations, everyone works in line with customer needs. In this model, everything should focus on the customer needs.

7. Rhythm - Organize management processes dynamically around business rhythms and events; not around the calendar year only: BB requires organizations to change their perspective which is focused on the calendar year. BB aims to design management

processes according to business and market dynamics. BB focuses on setting goals, forecasting, resource allocation, and performance appraisal. These processes should be directed and arranged more according to the rhythm of the work. BB's perspective does not completely reject the calendar year-based approach. In some cases, the calendar year-based approach may be reasonable. However, BB emphasizes that the management model of the companies should be more flexible and agile unless unavoidable circumstances.

8. Targets - Set directional, ambitious and relative goals; avoid fixed and cascaded targets: Many organizations have many goals, but not all of them are functional. Setting reasonable goals for employees supports achieving these goals. BB also emphasizes that the goals should be related to the company's general objective. Setting fixed targets causes poor performance. Therefore, BB recommends setting guidelines, assertive and relative goals.

9. Plans and forecasts - Make planning and forecasting lean and unbiased processes; not rigid and political exercises: According to the BB model, planning and forecasting are very different from targets. The target should be assertive, but the plans and forecasts should be realistic. In BB model, target setting and planning processes should be used instead of annual budgets. Planning and forecasting should be done simply without bias. Plans and forecasts should clearly show the road map of the organization.

10. Resource allocation - Foster a cost conscious mind-set and make resources available as needed; not through detailed annual budget allocations: The purpose of resource allocation in the BB model is to ensure the use of resources in the most appropriate way. The goal is not always to keep the costs at the minimum. The aim is to create cost awareness. Costs should be allocated when they create value. Cost management tools that can be applied depending on the particular situation of a company or industry must be developed and they should lead to greater autonomy, flexibility and finally the best use of the resources.

11. Performance evaluation - Evaluate performance holistically and with peer feedback for learning and development; not based on measurement only and not for rewards only;

Feedback from co-workers and managers should be taken into account in the performance evaluation process. The main purpose of performance evaluation is not just rewarding, but supporting learning and development.

12. Rewards - Reward shared success against competition; not against fixed performance contracts: In the BB model, the rewarding system should be based on achievements against relative targets. BB uses the word "share" because profit sharing leads to better performance than individual incentives. Today, cooperation and teamwork are very important factors for success in many companies. For this reason, BB recommends the establishment of a profit-sharing reward system and avoiding individual incentives.

When used together, BB's leadership and performance principles provide a better harmony between the company's strategies and its operational activities. With BB implementation, the negative behaviors of managers and employees are reduced, operations become more flexible and adaptable, lower costs are achieved, and as a result economic and stakeholder values increase.

Example BB practices are given in the following sections, and the following section summarizes how to activate the management and leadership processes required by the BB approach.

### **3.5.1 Enabling Adaptive Management Process**

Player et al. (2012) describe what they did to activate the management processes of the organization. The changes made in this context are summarized in Table 3.3.



**Table 3.3: Enabling Adaptive Management Process**

| Management Processes                                      | What they did/do   |   |
|---|--|---|
|   | Before BB  | After BB  |
| <b>Setting Targets without Budget</b>                     | Targets were set based on financial figures and interviews between managers and subordinates before the beginning of the year. Annual fixed targets represented the main component of the annual fixed performance contract. All activities throughout the year have focused on achieving budgeted figures.  | Targets have been set through KPIs. KPIs are determined based on medium-term targets through internal and external benchmarking. Targets are updated annually. In some cases, KPIs are determined by senior management and lowered to other levels. Targets provide a framework for the strategy setting process and in no case are annual fixed targets set. Therefore, it becomes possible to accelerate the processes and maximize the profit potential.   |
| <b>Rewarded People without Budget</b>                     | It was assumed that the employees would be motivated and rewarded in time if a correct match of goals and awards is obtained. For this reason, the rewards were based on a predetermined fixed achievement. The benefit of this method was that the employees knew the current situation and the stage which they needed to achieve. It entirely depended on the employees to achieve the goal and get the award. It was known that budgeting could lead to fraudulent behaviors in this way. Managers had to choose between fighting the system by not approving the budget targets or achieving the budget targets whatever the cost is. | After implementing BB, many companies decided to evaluate their medium-term targets as a whole and to reward according to them. Performance appraisals are made on how the unit performs compared to the predetermined criteria and competitors. The benefit of this practice is gained as a reduction in fraudulent behavior.  |
| <b>Managed Action Planning without Budget</b>             | The planning process was moving from bottom to top and sometimes from top to bottom through the plans prepared by local teams and negotiated with top management and approved by top management. Moreover, many of the plans were based on the development of departments and were not in line with strategic objectives. The plans prepared after long negotiations included descriptive instructions on what employees should do next year. Nevertheless, these predefined plans lost their functionality in the increasingly dynamic business environment.  | In order to achieve medium-term targets, we started to monitor medium-term outlook each year and the short-term outlook of each quarter. Operational unit teams and, in some cases, frontline employees were responsible for observation. At this point, the role of top management is to identify strategic and medium-term objectives and to follow the managers' achievement levels. For this purpose, useful tools such as Rolling Forecast, BSC and activity based accounting are used. These tools assisted management to achieve strategic goals, to respond to the changes in the market quickly, and to meet customer needs. |
| <b>Managed Resources without Budget</b>                   | Sources were allocated according to agreed figures in the budget process. It was found to be beneficial for some time to allocate all resources to a specific point. Until the next budget preparation process, it was not necessary to examine the use of resources. In this context, top managers used to work as central committees that approve or disapprove investment plans based on annual budgets.  | The resources were determined so that employees could access them when they needed. Senior teams have been formed to manage resources. Operational resources are managed by considering KPIs that can be carried out by the managers. This approach prevents fraudulent behaviors related to resource allocation. Delegating the use of resources makes frontline employees responsible for using resources.  |
| <b>Coordinated Actions without Budget</b>                 | Budget-related plans were made. For example, in order to match production and sales plans, it was necessary to obtain the necessary resources by considering the marketing plan of the marketing department. Each unit's plan was in line with the plan of the whole organization. However, it is doubtful whether the departments' plans are consistent with the strategy of the entire company. Because department managers focus on their own departments' plans regardless of their strategic objectives.  | Organizations coordinate their plans and activities through the process of handling customer requests, not through the center. It is ensured through strong communications between these units. The goal is to offer products and/or services that are fully compatible with customer expectations. It is thus possible that the organization acts as an integrated system that implements a common strategy as a whole. This system encourages sharing and collaboration and focuses on increasing the quality of service.   |
| <b>Measured and Controlled Performance without Budget</b> | Performance controls were based on budgets and additional measures were taken to improve performance. For this reason, unit managers must set out variations and provide updated budgets and estimates. This perspective was an obstacle to focus on future periods.   | Organizations understand that budget is not the unique way to measure their performance. The employees are more conscious that they have more useful tools to guide them, different from budget-based assessments. Measures and controls are focused on forecasting the future, not on the mistakes. Rolling forecast, KPI's, performance tables are used for this purpose. To improve the measure performance, these instruments are combined with actual financial results, trend analyses and previous year benchmarking studies.  |

### 3.5.2 Enabling Leadership Processes

Player et al. (2012) provide information on leadership processes (Table 3.4) in the following table.

**Table 3.4: Enabling Leadership Processes**

| Leadership Processes  | What they abandoned/promote  |  |
|---|--|--|
|   | Before BB  | After BB   |
| <b>Leaders Created a High-Performance Climate</b>             | The set of the targets for the current year based on the previous year's data has been abandoned. Performance measurement is transformed into an internal focal point rather than relying on financial data that does not provide real control. The annual target setting process for each department has been transformed into an integrated value creation system. | High standards based on world standards have been set for performance evaluation. The culture of performance based on relative success has been established. The balance between internal and external competition has been improved by identifying the customers they have.   |
| <b>Leaders Built a Clear Governance Framework</b>             | Command, compliance and control approach has been abandoned. The understanding that giving information and responsibility to the lower level employees was wrong has been abandoned.   | These organizations have realized that there is a need for clearly defined management frameworks and guidelines to create the culture of high performance. It has been found that employees are challenged in the face of extraordinary success, exceptional rewards in terms of fair distribution of award, responsibility, and a clear and honest work environment. For this reason, senior management has changed the management model that prioritizes leadership and delegates responsibilities at lower levels. They emphasize that this model of management is an approach that enables constant development, motivation, dedication and emergence of strategic strategies. |
| <b>Leaders Empowered People to Make Decisions</b>             | The culture of dependence that middle and lower level managers had before they make a decision was abandoned. The approach that the low-expectation strategies were safer was abandoned. It was abandoned only because senior management was competent in strategy setting and forecasting.  | Expectations and standards are kept high in order to improve working desire and performance. Anyone who could contribute to the strategy-building process was included in the process. The emphasis was on identifying the creative strategies of employees and contributing to the successful implementation of these strategies.   |
| <b>Leaders Given People the Capability to Act</b>             | The decision of the top management to approve or reject a plan based on short-term figures has been abandoned. Managers abandon the approach of developing their own units and ignoring the other units. Most importantly, the approach of spending money because it is in the budgeting has been quit.  | Companies have transformed the role of top management into an entrepreneur who supports an existing or new investment idea. Local units were given the freedom to manage their own resources and their retrospective responsibilities. An internal market has been created in which central units support operational processes. Local units have gained the ability to respond more quickly to threats and emerging opportunities.  |
| <b>Leaders Focused People on Customer Outcomes</b>            | Establishment of functional hierarchy and large-scale business units, for decreasing the costs, have been abandoned. The approach of sales targets of fixed quantities has been abandoned. The assumption that customers can be convinced to purchase everything that the company sells has been abandoned.  | A decentralized management model has been adopted. The culture of "Can do and No blame" became widespread. Managers do what they need to do and correct things that need to be corrected. When things do not work out well, they know that they have the people who will support them. They have also created teams that serve customer needs and focus on customer satisfaction. The result emerged as more satisfied, more profitable customers and employees with higher-level responsibility.  |
| <b>Leaders Supported Open and Ethical Information Systems</b> | Due to the technological developments, the idea that information can be controlled is left behind. The idea that knowledge was only necessary for employees in the center has been abandoned.  | The information flow has been developed for clarity and transparency. Frontline employees and other managers can also access strategic, competitive, and market-based information that only senior executives can access before. And they understood that any information in the organization should be transparent. Thus, all employees rely on identified figures and support the decision-making process. The result is more transparent and reliable information and ethical reporting method.   |

### 3.6 BENEFITS OF BEYOND BUDGETING MODEL

BBRT believes that replacing the management model based on command and control, with the Beyond Budgeting alternative is a sustainable basis for high performance. The BB approach ensures that organizations have an adaptable and strengthened structure with the benefits listed below: ([https://gallery.mailchimp.com/33069b15098259cee2f42cf2b/files/7reasonstoleave\\_the\\_traditional\\_command\\_control\\_management\\_thinking\\_behind1.pdf](https://gallery.mailchimp.com/33069b15098259cee2f42cf2b/files/7reasonstoleave_the_traditional_command_control_management_thinking_behind1.pdf))

BB modeled organizations;

- **Responds quickly to threats and opportunities.** Adaptive organizations operate quickly and simply by giving managers the ability to act immediately and steadily within their lean values and strategic boundaries. The key is to make the strategy an open, continuous and adaptable process. The company is able to respond to emerging threats and opportunities, that they face, and it is not limited to a fixed and outdated plan.
- **It attracts and retains successful employees.** Adaptive organizations, such as Google, Handelsbanken and W.L. Gore, are regularly on the top of the "best companies to work" list. The causes are obvious. From the employee's perspective, talented people want to learn and improve themselves. They consider their time to think, to reflect what they think and to try new ideas. Decision-making responsibility and a sincere working environment are expected. Employers, on the other hand, desire to work with people who have proper attitudes, have distinctive ideas, and can add value. They want to include people with good team players and ability to become leaders in every level, who can participate in decision-making processes.
- **Activates and encourages continuous innovation.** Innovation involves thinking and acting on strategies, business models, processes or management practices. In adaptive organizations, people work in an open, self-questioning environment. Open management principles determine the ideal environment and build the mutual trust needed to share knowledge and share best practices. It is also encouraged by abandoning individual awards based on budget and preferring team awards based on business unit or group performance.

- **It provides operational excellence.** Adaptive organizations work with low costs. They do not only relate their work with customer needs, but they also align the products, processes, projects and structures with strategy. Business managers question the resources used by just asking "Does the customer add value?", it is often enough to get rid of unnecessary work.
- **It leads to loyal and profitable customers.** Adaptive organizations know how customers want to trade with them. The key issues are whether customers want only low-cost operations, value-added services, or customized solutions. Companies know how to meet customers' needs in a profitable way by using this approach. It does not mean only being aware of the needs of the customers but also their net profitability.
- **Good governance and ethical behavior are supported.** Adaptive organizations are equipped with strong values and untouchable principles. However, this structure is not a loose structure. Insufficient performance is revealed and such a structure always challenges employees. Employees should always be prepared to show that real performance improvements can really be accomplished and be compared to ones with similar problems and opportunities.
- **Leads to value creation continuously.** Leaders in adaptive organizations focus their attention (either explicitly or implicitly) on creating wealth in the long term. In particular, managers focus on high-performance expectations and employees' desires. Companies that work in this way tend to compete successfully for years, not just a quarter.

### **3.7 THE IMPLEMENTATION OF BEYOND BUDGETING**

The implementation process of the BB approach requires fundamental changes for the organizations. This change can often be challenging. Although the sample BB practices in the literature can guide organizations to describe the basic principles of the BB approach, the fact that organizations have different dynamics makes it difficult to create a universal framework of practice appropriate for each structure.

Hope and Fraser (2003, p. 143) defined the nine major steps for businesses that want to implement the BB approach as follows;

- 1- Define the conditions for change and prepare a draft plan
- 2- Get ready to convince the board
- 3- Take action
- 4- Design and implement new processes
- 5- Train and teach
- 6- Think again about the role of the finance department
- 7- Change your behaviors according to new processes, not according to management orders
- 8- Evaluate the benefits
- 9- Combine the benefits

Hope and Fraser (2003) also state that the following criteria are requisite for a successful BB application:

- 1- For the necessity of change, the situation in which the change is beneficial must be clearly stated.
- 2- Administrators should think carefully about the possible level of the delegation of the responsibility within the organization.
- 3- There should be a clear management framework that defines the priorities and boundaries.
- 4- A high-performance system based on visible and relative success is required for each level.
- 5- Lower-level employees must have the freedom to make decisions about predetermined parameters.
- 6- Confidence and openness at all levels within the organization should be encouraged.

### **3.7.1 Beyond Budgeting Cases**

Introducing and integrating the aforementioned leadership and performance principles into a company's control system and accepting them requires some steps to be taken. Hence, the professional literature includes many sample reports on which well-known firms have successfully integrated the BB into management processes. Although they are quite brief, the following case studies presented by BBRT reflect ongoing work.

Hope and Fraser (1999) have been in important conclusions about the management by investigating organizations which used new management model by abandoning budgets like Handelsbankes, Volvo, IKEA, SKF, Schlumberger and Boots. These deductions are presented under the following six headings;

- 1. Budgets are barriers:** The budgets are far from meeting the needs of the information age, and it is an obstacle to competitive success. Abandoning budgets is not as difficult as one might imagine, and alternatives of budgets offer much more successful results. More than 50 executives in the aforementioned companies, do not consider returning to use the budget, they have indicated that the budgets make them spend lots of time, they have missed important earnings opportunities and could not respond to customer expectations quickly.
  
- 2. Ten principles and practices:** Abandoning the budgets completely requires mandatory regulations in management principles and practices. Based on their interviews, Hope and Fraser (1999) identified 10 principles and practice elements for budget-free management. These ten principles and implementation elements are as follows;
  1. Target setting: Targets should be set not for the concerns about the budget but to maximize the company's long-term value and to combat in a competitive environment.
  2. Strategy: Strategies should not be limited to a period of one year. The strategy should be set clear and plain and it should be open to the bottom of the organization.
  3. Growth and improvement: Encourage the people for radical behaviors and challenges.
  4. Resource management: Resources should be managed to create value throughout the investment rather than according to short-term budgets.
  5. Co-ordination: Coordination of departments should be made according to cause and effect relation between enterprise units and responsibility centers, not according to the budgets.
  6. Cost management: Considering the costs according to the value they create instead of increase or decrease in the costs compared to the previous year.

7. **Forecasting:** The rolling forecast should be used instead of budgeting during strategy and decision making.
  8. **Measurement and control:** Use Key Performance Indicators instead of detailed reports to monitor performance.
  9. **Rewards:** The rewarding system should be arranged at the level of the company and team level from a comparative perspective rather than personal financial targets.
  10. **Delegation:** The managers should be given freedom of movement and responsibility.
- 
3. **New steering mechanisms:** Alternative management tools can be used to manage the organization more effectively. Management information and control systems can be improved to make better decisions by using effective techniques (eg. Rolling forecast). Above all, the new management model means to abandon budgets to get rid of the annual preparation cycle, to negotiate and sustain management performance. Although the budgeting process is based on the control of planned events, the new model supports the constant repetition of the objective strategic evaluation.
  4. **Organisational levels:** The requirements and the work must be considered when determining the management model.
  5. **Building the new model:** Creating a new model is a time-consuming process. The structure should be constructed by considering the competition, structure, culture and values of the company. The delegation of powers, teams and information systems are the other considerations.
  6. **Implementation:** Changing the budget processes is a very radical decision for companies. Not everyone may be happy with these changes. For this reason, the management should pay attention for the implementation.

Despite the fact that they are quite short, the following case studies presented by BBRT reflect ongoing studies.

### 3.7.1.1 Handelsbanken

With the unique management model of Handelsbanken which has emerged in the early 1970s, the bank has consistently achieved impressive results. This success has been achieved by giving first priority to the customers and abandoning the use of traditional management tools such as budgets and estimates.

Handelsbanken was founded in 1871. Today it is one of the largest Scandinavian banks in the world. It operates with more than 11,000 employees in 25 countries around the world. In the early 1970's the bank has been reorganized in a decentralized structure and defined its operations according to customer needs. The management model of the bank is stable and robust. It enables continuous adaptation in a dynamic and volatile economic environment and creates a competitive environment.

The impressive results that the bank achieved without the budgets;

- For 41 years in a row, the Bank has achieved its financial targets to provide higher shareholder return than the average of its competitors.
- The bank is number one in the ratings of bank customer satisfaction in Scandinavian countries.
- It is the most cost-effective bank in the Europe.
- Unlike its competitors, Handelsbanken did not need financial support during the financial crises
- The bank has provided 45% positive return in the last five years to its shareholders. This is about three times higher than that of the second most successful bank in Europe. In this period, the average return of the European banks was 68% negative.

The Bank's unique management model is that it has a clear strategy; Being the best and most profitable universal bank in its market. For this purpose, each region and branch have the freedom to define their own strategy and marketing plans. Branch managers will decide which products will be offered and which customers will be served. As a result, the bank does not make any central marketing campaign. The branches have the best



knowledge of local customers. Therefore, marketing activities are decided on a local basis.

The Bank defines the application which has been carried out successfully as follows;

"Creating a stronger and more adaptable organization without losing control."

The key elements that constitute the bank's unique management model can be grouped under six headings;

### **1- Determination of targets;**

The objective of Handelsbank is to achieve a higher profitability than the average of competing banks in its market. The aim is mainly to have lower costs than the competitors and more satisfied customers.

Beyond this general goal, the bank does not operate with the centralized targets or budgets. A branch is free to set its own goals, and these goals can be shared with the regional managers.

Strategic plans and detailed estimates based on size and scale assumptions have been abandoned. The focus has been given on profitability, not size and scale.

### **2- Removal of centralist structure;**

Localization is the most prominent element of the management model of the bank. It means restoring the banking principle based on the trust and respect for the individual. This approach leads to better and faster decisions to be made near the customer. It increases the commitment of the employees. It creates opportunities for the employees to make their best and to create an impact. This helps the bank have more satisfied customers. The high degree of trust in employees helps them to work more willingly, to be in an effort to improve themselves, to be in search of new ideas to achieve company's strategy and to gain the spirit of struggle to overcome the challenges.

The organization and its operating method are based on the responsibility of the branches for individual customers. There is no centralized responsibility on the basis of product or market segment. The organizational structure of the bank encourages interaction between branches, highly educated specialists and effective support functions.

### **3- Focus on the customer;**

The goal is to achieve the target profitability by having more satisfied customers than the competitors. Service quality should meet customers' expectations.

Bank employees do not have any variable compensation. Thus, the employees do not attempt to convince the customer for a particular service or product. In the short term, it is recommended that the focus should be on what is right for the customer, not what is profitable for the bank.

### **4- Cost effectiveness;**

Having an effective cost structure is another strong element of the bank's unique culture. All branches are evaluated according to cost/income ratio.

All branches have gained the culture of effective cost awareness. Branches are not opened at central locations to cut the costs. The branches always look for ways to provide more effective and quality service to their customers.

### **5- Reporting and tracking of results;**

The increase in the level of localization increases the need for follow-up and control. In the end, the bank's business control system is central and it monitors profitability and business effectiveness at the branch level. Regional banks and other business segments are assessed by their return on equity. Branches are monitored through their cost-income ratio. It does not include risk-weighted capital cost, actual funding cost and actual credit losses.

The Bank focuses on very few key measures that are deeply related to the organization. The same simple measures are applied at the administrative level and define the bank's competitiveness.

The two main elements of the Bank's financial reporting are transparency and comparability. Transparency guarantees that branches know their activities well, thus providing a meaningful comparison in benchmarking performance measurement. The combination of these two elements stimulates learning and continuous improvement.

#### **6- Restructuring of the award system;**

Another interesting element of the successful business model of the bank is that the bank has a profit-sharing program instead of bonus programs like almost all other important companies.

There is no bonus program for any employees working at bank's board of directors, senior management or branch operations and they just earn the salary. This is the same for all the other personnel except for a number of staff members working at investment banking activities.

When the bank achieves a higher profit than the average of the competitors, one-third of the exceeding amount is paid to the profit-sharing fund. The noteworthy element of the award system is that each employee receives an equal share. This creates a strong sense of belonging.

#### **3.7.1.2 Borealis**

As one of the Europe's leading petrochemical manufacturer, Borealis, has abandoned using the budget in 1996 as a result of a general dissatisfaction with budget practices. This dissatisfaction stems from the double role of the budget. On one hand, the upper limit for costs was determined, on the other hand, an effective base or basic quantity was determined for expenditures. Managers were generally inclined to spend the amounts that

the budget allowed them. This is because the figures below the budget at the end of the year were causing cuts in the spending budget for the following year. As a result, resources were often wasted. Moreover, budgets were not always able to reflect changes in the business environment. On the contrary, top management considered the budgets as an annual practice in which large resources were processed in a specific period (Rickards 2006).

After the corporate merger in 1996, the new top management began to meet new tools and mechanisms. Performance evaluation and financial control were separated from each other. While previous financial budgets have been the main focus of control activities, Borealis has set the new control system as the basis for a more comprehensive, more detailed management performance concept. The monetary and non-monetary performance indicators are used in this system like Balance Scorecard. Thus, the system uses dynamic financial estimates with 5-quarter control periods. These dynamic estimates bring financial controls to a potentially consolidated level. The development of methodologies for controlling investments and fixed costs strengthens the BB tools of the enterprise.

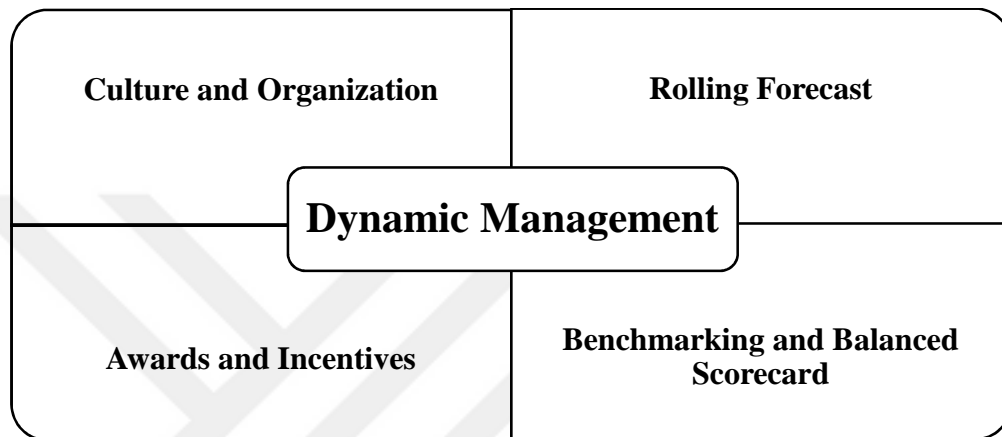
Top management has required the use of these new tools throughout the organization. As a result, the use of tools was soon established in the company, but the process of changing the company's culture in the way that spreading of authorities to the basement and empowering employees with more authority has progressed more slowly.

When a new top management team got the force, Borelias met with budgets again. The business is now formulating financial plans. However, the formulation of financial plans does not mean that they returned to traditional budgets. The enterprise has not returned to a comprehensive budget preparation process based on time-consuming and complex meetings. Also, these financial plans were never made on the basis of fixed performance contracts, as was the case before.

### 3.7.1.3 SpareBank

The SpareBank group decided to establish a dynamic management model in line with Beyond Budgeting principles in 2007. The dynamic management model (Figure 3.4) consists of the following elements;

**Figure 3.4: Dynamic management model**



► **Rolling Forecast**

The group has established a forecasting system that is cycled in 12 months for each quarter.

The estimates are controlled at the end of the quarter and compared with the previous quarter.

The reasons for the differences in the forecasts are questioned and the necessary actions are determined.

► **Benchmarking and Balanced Scorecard**

The group has determined the long-term objective and the goals to be achieved for this purpose.

The level of achieving these targets is calculated by comparing it to the results of the competitors.

Corporatewide Balanced Scorecards sets out the parameters that need to be focused

► **Awards and Incentives**

The group has developed a new rewarding and incentive program. All employees are rewarded by a fixed amount.

The rewarding is done at group and company level.

The level of achieving longterm goals is compared with the results of the competitors, based on a relative performance.

By the use of the new system, discussions on short-term fixed targets and potential misbehaviors to meet budget figures have been avoided

► **Culture and Organization:** The new management policy consists of three phases;

Administrative Conception;

- Strategic information should be transparent
- Improving the skills should be emphasized
- Knowledge and understanding of business models, competition conditions, value drivers, etc. should be encouraged
- Strategic issues should be discussed at the sub-management level.

Participation;

- Middle-level management and other employees should be included in the decision-making process
- Employees should take part in higher levels of the organization

Responsibility;

- Responsibilities should be delegated to employees
- Authority processes and freedom of movement should be structured from the scratch
- If you have an administrative conception, the participation and responsibility come automatically.

### 3.7.1.4 Coloplast

Coloplast is a Denmark-based international pharmaceutical company offering customized medical solutions. The company launched a project to implement the Beyond Budgeting approach by quitting the budgets completely in May of 2009. Five workflows were identified for the new planning process;

1. **Setting long-term targets instead of traditional annual targets;** The goals in the new structure are set for the long term. Each department in the organization identifies its goals and the actions to be taken to achieve these goals. The decisions to work for challenging goals is taken by the top management but the departments are responsible for defining the goals and achieving them.
2. **Using Rolling Forecasts as an new reporting tool;** Estimates are qualified and well-supported predictions of the near future. The 12-month cycle forecasts provide an overview of resources and activities for the future and long-term goals.
3. **Designing new reporting system and analysis;** The results based on the actual figures of the previous periods and the developments in the trends of the current period are evaluated, rather than comparing the outcome to the budget figure.
4. **The development of a tighter resource allocation mechanism;** A more strict resource allocation system has been developed to allow resource allocation for new business projects in a persistent manner. Therefore, the headquarters is confident that new investments are in line with the business work and not just because they are included in the budget.
5. **Development of bonus and incentive system;** The bonus system is separated from the forecasts and the budgets. Instead of this, specific targets have been set for each department. Finally, ongoing plans are no longer influenced by the political games or personal agendas. Coloplast has been working on the continuous improvement of bonus and incentive programs.

## 4. RESEARCH

### 4.1 LITERATUR REVIEW

Drury (2012) details the six functions of traditional budgets as follows:

- 1) Arranging company's long-term plans,
- 2) Coordinating the different departments within the company and assisting to improve relationships between them,
- 3) Ensuring the share of ideas and expectations between the top management and all the employees in the company,
- 4) Encouraging managers to achieve challenging targets and goals
- 5) Controlling the business activities by using variance analysis
- 6) Evaluating the performance of the managers through their achievement levels of their specified targets.

Organizations need plans to control and coordinate their activities to achieve their future goals. The need for planning and control has been emphasized since the 1950s. One way of meeting this need is to use management control systems. Hofstede (1967) defines the management control, particularly the management control model that includes budget control process and budgets, as a major need for each organization. The budgets arose in the 1920s to assist managers to control their costs and cash flows. When it was the 1960s, the budgets became a fixed performance agreements between employers and employees. The budgets first focused on estimating future incomes and expenditures, and it has played a key role in measuring managerial performance over time (Goode and Malik 2011).

Almost all businesses, regardless of sector or scale, rely on budgets and budgeting systems to achieve their strategic objectives. Many organizations view budgets as an integral part of their managerial control systems (Webb 2002). According to Arnold (1996), Hansen et al. (2003), and Blumentritt (2006), budgets are not only base for



operational control but also they are the primary control tool for all fields in the organizations.

The budgets are used for various purposes. The most notable use areas are the maximization of profit, communication within the organization, performance appraisal, motivation of employees, increasing productivity, and ensuring control within the organization.

Ahmad et al. (2003) conducted a survey with the participation of 162 companies in Malesia and they proved that organizations mostly use their budgets as planning and control mechanisms.

In a study on management accounting practices in India, the participants were asked to rank the 6 purposes for using budgets within the management accounting practice (budgeting for controlling costs, planning cash flow, coordinating activities, planning day to day operations and performance avaluation), according to the benefits they created. Participants reported that all budget associated applications provide benefits in high or moderate levels and these practices would keep their importance in the future too (Joshi 2001).

The study conducted by Jones (2008) shows that companies use budget for three main purposes; performance appraisal, planning and control. The results of the study conducted by Elkhool and Wallin (2000) show that about 80% of businesses use budgets to control and appraisal, 70% of them to plan, and about 30% to motivate their employees. The major uses of the budgets by the companies analyzed by De With and Dijkman, (2008) are planning (84.2%), performance measurement of the company (86%), performance measurement of the managers (84.1%), and resource allocation (77.3%).

The benefits of budgets, reported in the studies by various researchers (Oak and Schmidgall 2009, Joshi and Com 1997), are specified as follows; facilitating the share of information between the top management and subordinate level, improving the work ethic of the employees, increasing the motivation, and steering the lower level employees to

focus on the company targets. Shields and Young (1993) reports that budgets contribute to the development of the culture of democracy within the company. Clarke and Toal (1999) believe that budgets are important tools for organizations. Hilton et al. (2000) state that budgets are widely used for planning and control purposes.

Blocher et al. (2002) suggest that budgets assist in resource allocation, they coordinate operations and they are used for performance appraisal. Pierce and O'Dea (1998) emphasize that budgets are necessary in today's business world.

Surveys show that organizations widely use budgets. In their study on 12 banks in Bahrain, Joshi and Com (1997) determined that the percentage of the use of budgets among banks was 100%. A similar result was found in the study of Joshi et al. (2003) on 146 companies in Bahrain. The percentage of using operational budgets was 100% in this study. In an analysis of the management accounting practices in Australia and Japan, Wijewardena and Zoysa (1999) found that budgets were the most important management accounting tool in Australia and the second most important tool in Japan. In their study on the UK companies, Armstrong et al. (1996) found that 70% of participating companies used a budgetary control system.

Although traditional budgeting is subject to many criticisms, it is still used universally. The use of traditional budgets in developed and developing countries is around 90% (Pietrzak 2013). Many companies do not consider abandoning budget processes. Since budgets have a long-standing background in the culture of many companies, it is difficult to convince managers that their businesses can be managed better without a budget (Libby and Lindsay 2007).

In their study on 40 companies operating in the UK, Dugdale and Lyne (2006) found that budgets have still been live and used at a good level. The majority of the managers who participated in the survey emphasized the importance of the budgets. The managers stated that budgets were used for the purposes of planning, control, performance measurement, coordination and communication. Also, the participants do not agree that the budgets cause negative behavior.

In their study based on CMA Canada and IMA USA members, Libby and Lindsay (2010) reported that 80% of the participants from Canada and 77% of the participants from the US use budgets primarily for control purposes and that they did not consider abandoning budget practices in the near future. Only 5% of the participants emphasized that they were thinking of quitting budgets, while 1% emphasized that they would definitely quit budgeting in the next two years. On changing the budget systems, most of the participants reported that they planned a change. Researchers have reached the conclusion that traditional budgets cannot be eliminated in the near future, because they are still considered to be an important tool for the companies, and the companies try to improve their budgets instead of abandoning them.

De With and Dijkman (2008) interviewed with 134 companies listed on the Amsterdam stock exchange. The great majority of the companies (70.7%) are satisfied with their budget practices, 2.4% are very satisfied and 17.1% are moderately satisfied.

Ekholm and Wallin (2000) conducted a survey on 650 Finnish companies. The most striking result of this research is that only 6.0% of the participating companies plans to quit their budgets, and the majority of companies (60.7%) are satisfied with their budget practices. Companies participating in the research believe that the correct budget process is an excellent tool to allow the organization to consider future operations.

The study by Stolt (2003) shows that 84% of the companies in Sweden are still using budgets for planning and control purposes.

In their study on Spain, Lorain et al (2014) found that although the participating Spanish companies were facing with huge market uncertainties, they considered the budgeting as an important tool. They also determined that 97% of these companies have still been using the budget.

In addition to its advantages, the disadvantages of traditional budgeting have also been examined in the studies. Stewart (1990) suggests that budgets mislead the users. According to Stewart (1990), budgets prompt the experts to control wrong areas and it causes to miss the actual control areas. Neely et al. (2001) ranked the most important

weaknesses of traditional budgeting in their research. The disadvantages revealed by the research are; budgets are time-consuming, it is costly to prepare, they do not focus on strategy, and they often contain inconsistencies, and they are far from creating value, they generally focus on cost reduction rather than value creation, they cannot be updated frequently, they are based on unsupported estimates, they support vertical chain of command and control, they build barriers between the units and make the people feel invaluable rather than facilitating the share of data. Libby and Lindsay (2010) reached the similar results too. In their study, they found that traditional budgets are time-consuming, costly, inadequate to solve problems, quickly outdated, not reflecting the strategy, insufficient in performance appraisal and leading fraudulent behaviors.

Prendergast (2000) has listed a number of problems related to budgeting used for planning and control. First of all, the budgeting process requires a lot of work. Secondly, the budgets give erroneous results due to the rapidly changing business world and shortening of the product life cycle. Finally, budgets cause unfair gains. Prendergast (2000) also points out that budgets are the cause of disputes between senior management and subordinates.

Hansen et al. (2003) have collected the negative aspects of traditional budgets in three categories as time, process, and employee.

The most mentioned shortcoming of the budgets is that it is a time-consuming activity. McNally (2002) emphasizes that the budgeting process is time-consuming and costly. Neely et al. (2003) estimate that planning and budgeting processes take 20% of all the time of managers. Libby and Lindsay (2003) support this view by saying that it takes 4-5 months to prepare budgets, also mid-level managers and finance managers spend 20% - 30% of their time for this process. Centage Corp. and the Institute of Management & Administration (IOMA) conducted a research on the senior finance managers and chief finance officers (CFO) of the top 1000 companies in the UK. The study revealed the length of time wasted to prepare a budget. Observations made in 2003 showed that it took 14.1 weeks to prepare annual budgets, but it decreased to 12.9 weeks in the repeated study in 2005 (Williams 2008). Bartam (2006) found that while the companies in which the

budgeting practices were least successful spent 210 days to prepare budgets, it took 79 days in the most productive companies to prepare budgets. The time spent for this process, which is controversial to add value to the company or not, is quite serious.

For the topic budget gaming, Jensen (2003) states that the integrity of the whole company will be in danger if the managers take part in such behavior. The traditional system relies on an erroneous principle of rewarding the managers for their achievements or otherwise penalizing them. It just causes behaviors that do not add value. In order to end this game, Jensen (2003) suggests that the use of budgets as a performance appraisal system should be abandoned.

Despite the widespread use of budgeting, some researchers and practitioners allege that traditional budgets can no longer meet the needs of the modern business world and managers (Goode and Malik 2011). A study on CFOs in Europe in 1998 also indicated that 88% of the participants were not satisfied with budget models (Raghunandan et al. 2012). In a study carried out by Ekan Management in 2011 on companies operating in Sweden, 67% of the participants stated that the existing systems were insufficient and a future-oriented analysis system had to be developed. 76% of participants emphasized the need for new management processes to ensure more successful decisions to compete in the market (Johansson 2014). As the conclusion of the research conducted by Ekan Management, the companies stated that they are in search of new control methods. Kaplan and Norton (2001) reported that the value of budgets decreased and they added less value than expected to the organizations. In the study conducted by Cranfield University School of Management (2001), 80% of participating companies stated that they were not satisfied with the planning and budget processes.

In response to these criticisms, alternative budgeting methods have been developed that can meet the requirements of the modern business world. Beyond budgeting, advanced budgeting, rolling budgets, and activity based budgeting have emerged as major alternative approaches.

According to Hansen et al. (2003), two situations arise when there is dissatisfaction with traditional budget practices; abandoning or improving traditional budget practices. Some authors, however, argue that the second method is not sufficient because the budget processes have been shaken to its foundations (Hope and Fraser 2003a). Also, the budgets have been called as "unnecessary evil" (Wijewardena and Zoysa 1999), "a thing of the past" (Gurton 1999) or even "broken" (Jones 2008).

As a result, the Consortium for Advanced Manufacturing International (CIMA) in Europe has launched a project called the Beyond Budgeting Round Table.

The skepticism about the budgets is expressed in the most radical way in Beyond Budgeting. BB approach was founded by Jeremy Hope and Robin Fraser. BB has been introduced as an impressive idea that leads the management accounting to contribute to the operations and performance of the business (Cardo et al. 2014). The BB approach began to be developed at the end of the 1990s, and it hit the top when Hope and Robin Fraser published a book with the same name in 2003 (Becker et al. 2010). Hope and Fraser (1999) are the first ones to suggest that budgets should be abolished. In the words of the authors, the main idea underlying BB is to completely abolish budget contracts. Notable publications about BB are the studies of Bogsnes (2009), Hope and Fraser (2003a), Bunce et al. (1995), and Morlidge and Player (2010).

The major purpose of the BB management model is to increase the flexibility of the organizations and to assist them to improve their performance continuously in the business environment where competition and uncertainties are common (Bunce 2004). BB focuses on new mechanisms that can substitute budgets, and it requires organizational and behavioral changes to support these new mechanisms (Raghunandan et al. 2012).

According to Shah (2007), the BB approach provides a fair allocation of the scarce resources, and it encourages constant learning and transparency.

BB is not just a system, it requires a complete revision in organizational culture and change in the understanding of management (Becker et al. 2009). Hansen (2011) states

that this can be done in two stages; performance appraisal should be made through a relative system which is based competitors and the organization should have a decentralized structure.

According to Hope (2003), there are two major distinctions between BB and traditional budget management method. BB is a more adaptable and decentralized management model.

There are several case studies on BB in the academic literature. In one of these case studies, Östergren and Stensaker (2011) report how the BB is implemented. Similarly, Henttu-Aho and Järvinen (2013) describe how companies can attempt to quit budgets while currently using a system for financial target sets. Bourmistrov and Kaarbøe (2013) explain how companies, implementing BB, are able to separate target sets from planning and resource allocation which is one of the basic principles of the BB approach.

In research on the use of BB, Hope and Fraser (2003) reported that a Scandinavian bank, Svenska Handelsbank, completely abandoned traditional budgeting and has grown steadily since then. The bank has been reorganized in a decentralized structure so that all branches can act as independent profit centers (Daum 2002, pp.1-3). Svenska Handelsbanken is seen as a role model for the new approach to abandon budgets (Lindsay and Libby 2007a, Hope and Fraser 2003a). For this reason, SH has been the subject of many researches in this field (Mejzini and Seidel 2015, Olesen 2013, Siverbo 2014).

Rickards (2006) also published a study summarizing the implementation processes of companies that successfully integrate the BB approach into their management processes. Borealis, Unilever, Rhodia, UBS AG, German Railways, and BASF-IT Services are cases in the study of Rickards (2006).

Fraser and Waal (2001) conducted a survey to determine whether the BB approach had a positive effect on the financial performance of the organizations. 217 employees from different companies responded the survey between March-September 2000 and it was

found that the BBRT model allowed companies to respond more quickly and easily to the opportunities and threats in the market, thereby it improved financial performance.

Pilkington and Crowther (2007) have found that BB has been mostly used by large companies with over 1,000 employees. Small companies tend to implement strict budgets to control their employees. This is most likely related to the size of the company, its management model, and the company's competency in training employees on unknown concepts.

Although BB has many advantages over traditional systems, it is also exposed to criticism. Since the managers are bound to the budget culturally, they may have difficulties in managing their organization without a budget (Goode and Malik 2011).

CIMA (2007) believes that having no budget will create various problems. The business will not have a framework for planning, coordinating and controlling its activities. Without having detailed plans showing current status and future goals, the businesses can lose their way. Finally, a radical cultural change may disappoint the employees and the decentralized structure may not be practical for some organizations.

In a case study on a Norwegian oil company practicing BB, Østergren and Stensaker (2011) concluded that both managers and employees agree that the BB system is a perfect control system. However, the introduction of a BB-based control system instead of budgets has some difficulties.

Sandalgaard and Bukh (2014) conducted a case study on FoodCorp Company which changed its management accounting system by getting inspired by BB approach. As a conclusion of the study, the authors stated that change would cause unexpected consequences.

According to the researchers, the introduction of relative performance appraisal instead of fixed budget targets have some difficulties. BB is not a standard solution and it may not be equally suitable for any organization and any condition. Moreover, the study



revealed that the presence of corporate structure in the organizations has impact on the implementation of BB.

In the study conducted by Muzadzi (2014) in Zimbabwe, participants were asked to participate in the expression "enhancing the company performance of the BB approach", while 28% of the respondents said that they did not participate and 19% disagreed. 48% of the subjects remain neutral on the subject, while the remaining 5% are totally opposite. The proportional size of the subjects remained neutral shows that participants have difficulty in understanding the BB approach.

In the study conducted by Muzadzi (2014) in Zimbabwe, participants were asked if they agree with the expression "BB approach increases the company performance", while 28% of the respondents agreed with the expression, 19% said they did not agree. While 48% remained neutral on the issue, the remaining 5% were totally against. The relatively large percentage of the ones who remained neutral on the subject suggests that participants have difficulty in understanding the BB approach.

A survey conducted by CIMA in 2009 shows that organizations use a range of budget tools. 61% of participants are from the UK and the rest are from Europe, Asia, Africa, Australia, America and the Middle East. BB is the least used tool among the budget tools used. The most common tools are ZBB, Rolling forecasts, cash estimates and fiscal year based estimates.

Lohan et al (2010) examined an international gas and oil company and they concluded that while the BB model provides a comprehensive performance management model, it is not applicable to every organization.

In their study, Heupel and Schmitz (2015) point out that the implementation of BB will provide many advantages, especially to the information-based organizations. However, the implementation of the system can be difficult as it requires the change of understanding of the managers and employees. Many organizations seem not yet ready for this tension by giving up their existing comforts. Heupel and Schmitz consider it as

the major reason for not getting enough interest, although BB is a system that really contributes to organizations and establishes the culture of democracy within the organization.

The BB movement is still in its early stages of development. Studies on the topic remain limited. Rickards (2006) states that more research and practical applications on the subject are required before suggesting that BB is a real breakthrough in management accounting.

## **4.2 METHODOLOGY**

This section covers information on the purpose and the importance of study and the philosophy, approach, design and data collection method of the research. It also covers the reasons for selecting the applied method and explanations about the boundaries of the research.

### **4.2.1 Purpose and Importance**

The research aims to analyze the current situation of the budget practices in Turkey, to identify the problems during the implementation and to reveal the opinions of the budget makers and users regarding the applicability of the Beyond Budgeting approach in Turkish companies.

As mentioned in the literature review section, studies have been made on BB concept in many countries, especially in Europe, but no study has been made on BB approach in Turkey. This study has the character of being a conceptual framework by considering all aspects of BB concept and being a guide for the future applications by measuring the applicability in big-size companies in Turkey. The BB management approach, which has not been yet applied in Turkey, has the character of a revolution in the understanding of management as an approach in which the powers are delegated and the emphasis is given on human resources, instead of the centralized approach of classical management. The study is important not only for its contribution to the literature but also it describes the implementation to make it clearer.

#### **4.2.2 Qualitative Research**

The design of the research is the process of planning and arranging the strategy and structure of the research study. Before selecting the research method to be used during the collection of actual data, a research design in a qualitative or quantitative structure should be identified (Bryman and Bell 2011).

The power of qualitative research originates from the ability of the people to provide complex textual definitions of how they experience a specific research problem. Qualitative research provides information about the "human" aspect of a problem, that is, contradictory behaviors, beliefs, ideas, feelings, and relationships. Qualitative methods are also effective in determining abstract factors whose role in the research cannot be easily determined, such as social norms, socio-economic status, gender roles, ethnicity and religion (Mack et al., 2005, pp. 1-2).

The researcher has two basic strategies in choosing the qualitative or quantitative approaches. According to Bryman and Bell (2007), the quantitative method focuses on the numbers and digitizes the analysis and data collection process. The qualitative approach mostly emphasizes the words and their meanings and focuses on how and why an event occurs.

If a phenomenon is revealed as a potential study area and if there is no available research on the subject, the researcher should choose a qualitative approach to understand the phenomenon and create possible hypotheses. Research should be made at the later stages to see if the possible hypotheses are correct (Easterby-Smith et al. 2012).

Qualitative research techniques have important features such that they provide sensitivity for the natural environment, the researcher has a participatory role, it has a holistic approach, it facilitates to reveal the perceptions, it is flexible in research design and it has an inductive analysis (Yıldırım and Şimşek 2004).

### 4.2.3 Data Collection Techniques

Qualitative research uses verbal and written narratives or records of human experiences using a variety of methods and resources. Many data collection techniques (interview, observation, participant observation and documentation) can be used in a single qualitative research project.

The data collection process in this study was conducted by using individual interview technique, a qualitative research method. The reason for using this technique is that the participants' personal views and experiences are considered to be very important for the research.

Interviewing is the major data collection tool in a qualitative research. It is a good way of becoming acquainted with the people's perceptions of reality, their understandings, their definitions, and their way of building the reality. Also, it is one of the most powerful ways to understand others.

The interviewing method allows the participants to examine the participants' views on the topic in depth and to avoid misunderstandings that may arise regarding the questions.

Interviewing methods can be applied in three categories (Berg 2001, p. 69-70).

- Standard / structured interview,
- Non-standardized / unstructured interview
- Semi-standard / semi-structured interview

All questions in the structured interviews are already considered in detail. In this method, questions are set in advance and the same questions are asked to everyone. It is a form of interview in which the interview plan is applied exactly and it specifies which questions are to be asked and which data are to be collected in the most detailed way (Karasar 2005).

There are some open-ended questions in the type of semi-structured interview. The interviewer can get more in-depth information by focusing on these questions. This type of interview is more flexible than the type of structured interview.

Unstructured interviews are type of interviews that are flexible and that provides the interviewer with the freedom of movement and judgement, which allows the interviewer to get to the bottom of the personal opinions and judgements. The questions are free in the unstructured interview. The desired issue can be examined thoroughly. The given answers are guiding. These interviews are most useful when identifying important variables associated with the problem at the initial stages of the research.

The standardized interview technique facilitates the compilation of the results and analysis stage. On the other hand, new and important information can also be reached through the non-standardized interview technique (Tångeberg and Moqvist 2011). The semi-structured interview technique, which can be placed between these two techniques, includes a set of applications for predetermined questions and/or specific topics.

Semi-structured interviews are frequently preferred by researchers because of their certain level of standardization and flexibility, as well as the removal of limitations in the questionnaires such as writing and filling up tests, and facilitating to collect in-depth information on a specific topic (Yıldırım and Şimşek, 2004). The semi-structured interview technique provides a more enriched and comprehensive data collection opportunities (Yin 2011). It also allows participants to add additional information. In this study, a semi-structured interview technique has been used because of the flexibility and depth that it contributed to the research.

#### **4.2.4 Limitations of The Study**

The research has the following limitations:

- Due to the qualitative nature of the study and the small size of the sample, the results of the study cannot be generalized

It is possible that different answers may be received if the same questions are asked to the same participants at different times.

## **4.3 ANALYSIS**

### **4.3.1 Study Population and Sample Used**

The aim in qualitative research is to try to understand the subject in depth rather than to measure the fact or phenomenon to be studied for making a generalization. For this reason, it is more useful to study with a small sample group suitable for the purpose of the research instead of a large sample. Therefore, the purposeful sampling method is frequently used in qualitative researches. The reason and strength of the purposeful sampling in in-depth studies are that it provides a wide range of sampling to obtain information (Karata 2015).

Because it has been considered to represent the population better, "Purposeful Sampling Method" has been used in this study. In this method, the sample is selected according to the wishes, thoughts and experiences of the researcher. The aim is that the researcher determines certain criteria and selects participants in accordance with these criteria.

The process of determining the sample started with the identification of the companies to be interviewed at first. The company's size, being publicly traded and having foreign partnership have been considered in this selection. Considering the time-cost issues, the study has been constrained by the companies in Istanbul. Since the Beyond Budgeting approach involves a radical administrative change, the companies involved in the research have been selected from the companies that use budget and other management tools. At first, we focused on holdings and contacted with senior managers. In the second stage, we tried to access the senior managers of the foreign companies operating in Turkey. The sectoral difference of the companies has not been considered in the selection process.

### **4.3.2 Data Collection**

Face-to-face interviews were held with 24 distinguished persons who are professionally involved in business life. Negotiations were held between June 2016 and January 2017.

Semi-structured interviews were conducted using an interview guide. The interview guide was prepared by the researcher and it aims to reveal the participants' budget processes with all aspects.

Prior to the interviews, the participants were informed about the content of the interview and its confidentiality was guaranteed. The interviews lasted approximately 45 minutes. Interviews were recorded by a voice recorder, except for the cases when the participants did not agree. Also, notes were taken during the interviews when necessary. In order to maintain the confidentiality of the interviewees, the identifiers were used such as Responder 1, and Responder 2 in the study. Responders 1, 2, 11, 14, and 22 are female, and the others are male.

The profiles of the respondents are presented in Table 4.1:

**Table 4.1: Interviewee profiles**

| <b>Interviewee</b> | <b>Position</b>                       | <b>Sector</b>     |
|--------------------|---------------------------------------|-------------------|
| Respondent 1       | CFO                                   | Telecommunication |
| Respondent 2       | CFO                                   | Textile           |
| Respondent 3       | CFO                                   | Manufacturing     |
| Respondent 4       | CFO                                   | Holding           |
| Respondent 5       | CFO                                   | Food sector       |
| Respondent 6       | Budget Director                       | Automotive        |
| Respondent 7       | CFO                                   | Holding           |
| Respondent 8       | Budget Director                       | Holding           |
| Respondent 9       | CFO                                   | Holding           |
| Respondent 10      | CFO                                   | Textile           |
| Respondent 11      | CFO                                   | Holding           |
| Respondent 12      | CFO                                   | Medical           |
| Respondent 13      | CFO                                   | Holding           |
| Respondent 14      | Budget Director                       | Food sector       |
| Respondent 15      | CFO                                   | Manufacturing     |
| Respondent 16      | CFO                                   | Textile           |
| Respondent 17      | Budget Director                       | Holding           |
| Respondent 18      | CFO                                   | Manufacturing     |
| Respondent 19      | Chairman of the Board                 | Medical           |
| Respondent 20      | Vice-President of the Executive Board | Holding           |
| Respondent 21      | Chairman of the Board                 | Manufacturing     |
| Respondent 22      | CFO                                   | Tourism           |
| Respondent 23      | General Manager                       | Foreign trade     |
| Respondent 24      | CFO                                   | Technology        |

First of all, closed-ended questions were included in order to avoid orientation by applying the semi-standard interview method. After the general opinions on the topic were taken, the reasons underlying the opinions were analyzed and the subject was elaborated. During the interviews, Respondents were encouraged to express their views on the issue in depth and freely, and complementary questions were asked at the time of the interview beforehand in order to extract as much valuable information as possible.

The purpose of the interviews is to be able to take the views of the participants on the analysis of existing budget processes and the feasibility of the BB approach. The interview guide prepared in this context is presented in the following table.

**Table 4.2: Interview Guide**

---

**Analysis of Current Budget Structure**

- Could you tell us about the structure of your budget system?
  - Who is preparing the budget?
  - What is your role in the budget process?
  - How long does budget preparation take?
  - How many people are involved in the budget process?
  - Could you tell us about the rules, regulations, laws that affect your budget processes?
  - How much of your competitors' situation is being considered while the budget is being prepared?
  - What is the main purpose of budget preparation?
  - Could you tell us about your budget approval process?
  - How is the approved budget tracked? Do you have a control mechanism for budget deviations?
  - Do you revise your budget on possible changes in the market? Do your budgets have this flexibility?
  - Do your budgets reflect your company's strategies?
  - Could you tell us about your performance appraisal process? Are budgets used for this purpose?
  - Do you use budget supporting tools such as BSC, RF, KPI?
  - Have any changes been made to your budget practices during the process? Is there a change for the future?

**Introduction of BB Approach**

- Sharing criticisms of the budget.
  - Questioning the degree of participation in these criticisms.
  - Explanation of the emergence of BB approach.
  - Describing the principles of the approach.
  - Questioning how such a change of management can be met in the organization.
  - Questioning whether this approach is feasible for our country.
-



In the interviews, at the end of each interview with the reason of time constraints, a mini question form was filled in order to understand the participants' attitudes to the criticism brought to the budget, and the organization's approach to the principles of the BB approach. The questions about "Company Attitude Analysis Toward Beyond Budgeting Approach" were inspired by the work called "Is your organisation ready for beyond budgeting?" by André A. de Waal (2005).

### **4.3.3 Data Analysis**

Two methods can be suggested for the analysis of data obtained in qualitative research. The first is descriptive and the second is content analysis. Descriptive analysis was carried out in this study. Descriptive analysis can be defined as summarizing and interpreting data according to predetermined criteria. In this analysis, the aim is to present the findings to the reader in an organized and interpreted way. The data obtained for this purpose are first described logically, then these descriptions are interpreted, the causations are analyzed and some results are reached (Yıldırım and Simsek 2004).

In describing, the researcher must exclude his / her own opinions and interpretations and present the dataset to the reader without comment. After the findings are described in detail, the researcher can provide comments and explanations on these findings. The researcher's comments are of great importance to the reader if supported by descriptive findings. For this reason, the researcher should make some comments on the results and help the reader better understand the findings of the research problem.

## **4.4 RESULTS AND DISCUSSION**

The results of the research are presented under three headings. The first one gives the results of interviews intended for the analysis of current budget structures. The second one includes the views about budget criticisms. Finally, results of the applicability of BB approach are shared. When sharing the results, similar views are presented together whereas different views are given in details.

#### 4.4.1 Analysis of Current Budget Structures

Each respondent was asked the questions given in the interview manual (Table 4.2) and current budget structures were presented under 9 main titles.

##### a) Budget preparation process

As a result of the discussions on the budget preparation process, the following findings were reached:

Budgets are prepared by the budget department in 10 companies and by the financial affairs department in 14 companies. Many companies (14 companies) stated that, they prepared their budgets within the framework of the budget assumptions provided by the senior management by taking the competitor and market information into consideration, as well. Three of the Respondents (R.12, 19 and 22) stated that, they failed to access to sound data about the competitors and market in their sector. Budgets are prepared as a mixture of top-to-bottom and bottom-to-top budgeting approaches. Respondents emphasized that, whereas the process progressed in parallel with the assumptions provided by the senior management, it had a mixed structure with the inclusion of different departments in the process. On the other hand; Respondent 15 claimed, although the structure seemed to be mixed, it was self-contradictory, indeed and said *“With the inclusion of different departments in the process, the budgets in our company might have been shaped through a bottom-to-top approach. But, they also include several inputs prepared in parallel with the guidance of the senior management. The departments only design the process within the framework of the guidance of the senior management. So, in my opinion, though the budgets may appear to be based on a bottom-to-top approach, they are actually prepared through a top-to-bottom approach.”* (R.15)

In all companies interviewed, the studies start by making use of the budget preparation guides involving economic indicators, which are prepared by senior managements. Currency rate, interest rate, wage rise expectations, several tax-related indicators, company and market information are involved in the guide. Regarding the preparation of

the guide, Respondent 17 said: *“Budget guide is prepared in consideration of the market data announced by authorities such as the Central Bank. Wage rise expectations are determined together with the HR department as a result of the market research performed by our consulting company.”*

Budget preparation process starts in September in participant companies and it takes two months in average. Respondent 23, who is the CFO of Turkish branch of one of the leader technology companies in the world, stated that, they started the process in January as they had a special accounting period and completed that in March. With a critical point of view regarding the budget preparation process R. 23 said: *“The budget prepared almost becomes outdated as time passes for budget preparation.”* This view is in parallel with the criticisms found in literature regarding budgets.

Sales, production, marketing and sales departments are involved in the budgeting process in all participant companies. Each department is responsible for the preparation of its own data. In this parallel, the budget guide is shared with all relevant departments. Preparation of actual data is under the responsibility of the Financial Affairs department. The information including the current 9-month-actual-data and the 12-month-actual-data of the previous year, prepared by the Financial Affairs department, are shared with other departments. Each department prepares its own budget. Sales departments estimate next year’s sales and accompanying marketing expenditures. Production departments coordinate annual projections in parallel with sales projections and estimate the amount of stock needed for the fulfillment of purchase orders. Other cost and supporting departments (Research and Development, Information Technologies (IT) and accounting) estimate the costs of the following year. If accessible, departments also consider market and competitor data, the indicators mentioned in budget guide, expectations and actual results of previous periods when preparing their budgets.

There are Human Resources (HR) departments in participant companies and the budgets of personnel expenditures are prepared by these departments.

Respondents stated that, the budgeting process, which seemed to be carried out by teams of 2-3 set within budget and financial affairs departments of their company, turned out to be a team of 20 due to the responsibility of other departments to prepare their own budgets. Respondent 1 stated the following about this issue:

*“Budgeting requires a study which involves the whole company. Therefore; each department shall be involved in this process for the preparation of a wholesome budget. In this way, the budget assumed for each department involved in the process would be based on more applicable data.”*

An opposing view came from Respondent 18:

*“Though the involvement of each department in the budgeting process may seem to be good for the process, it also means that, the employees involved in this process need to make a sacrifice from their primary duties. This causes the budgeting process to be regarded as a tedious task, indeed and it may have negative impact on their performance.”*

Respondent 5 had a complementary view:

*“Budgeting requires a certain level of knowledge. It is not always realistic to expect employees working in different departments to possess the level of knowledge required by this process. Therefore; assigning each department the task of preparing their own budget might lead to some problems and displeasure among the staff.”*

Within the framework of the above-given summary of the remarks on budget preparation teams; whereas the respondents accept the budgeting process to be a teamwork, they also think that, inclusion of too many employees in the process causes certain problems. In this sense, the literature criticism claiming that budgets are “time consuming”, is confirmed by the respondents, too.

Shim and Siegel (2008) define general budget as a main budget covering the budget income sheet, cash budget and finally as budgeted balanced sheet. In the companies surveyed, the budgets are based on a classical income sheet, cash flow and balance sheet preparation in parallel with this definition. Accordingly, in the companies surveyed, data coming from different departments are gathered together at budget preparation departments, these departments add other data such as general management expenditures and other ordinary/extraordinary income and expenditures included in the income sheet and a wholesome set is prepared.

The budget sets including annual income/expenditure and balance sheet expectations also include growth targets, investments, company KPI. For example; the Respondent CFO of a company serving in the Construction industry stated that, besides the general budget of 4 companies, they prepared project-based budget for each project. Similarly; many respondents said “*Our final budget includes more than the monetary values.*” Targets are determined within the framework of the budget study and actions that would enable the departments to reach at those targets are defined, as well.

In summary; budget preparation is a process which starts with the instructions of the senior management and lasts for 2 months in average. Different departments of the organization participate in this process where the actions required for the achievement of the targets are defined as well the budget income sheet, cash budget and finally, the budgeted balance sheet.

#### **b) Budget approval process**

Respondents stated that; the draft budgets prepared by the Budget/Financial Affairs department were reviewed by the CFO and GM first; then they were submitted to the management board. Respondent 15 said the following about the budget confirmation process: “*The budget finalized by the financial affairs department is reviewed by me at first. During this, I primarily check whether the budget estimations of departments are conforming to the estimations we have announced.*”(R.15)

In participant companies, the management board meetings are presented by the company's GM or CFO based on the budget sets prepared. At those meetings, competitor and market information are presented first, then details are given regarding the planned sales, production and costs of the following year. Investment plans, source needs, personnel information and additional requests are shared with the management board. It can be understood from the below-given remarks of respondents that, management board budget presentations witness serious discussions in some companies.

*“Budget meetings often witness tough negotiations Expectations of the senior management sometimes do not match the realities of us, as the performers.” (R.19)*

*“Whereas the performers define their targets exclusively based on the instructions they have received, the senior management interprets the issue at macro-level taking the country's and the world's conjuncture into consideration. At this point, discussions inevitably arise at meetings.” (R. 20)*

Some other respondents stated that, specialty areas of the members of the management board influenced the meeting process and the budget content and they made remarks, an example of which is given below:

*“If there are financial affairs or supervisory persons in the management board, the things go into details. Even relatively less important items such as the stationary costs are discussed. If the management board members are more production oriented with sales and/or marketing base, budget meetings then take a different form.” (R.6)*

Respondents stated that; at the end of the meetings which pass with tough discussions, the management board either confirmed the draft budgets or offered some modifications. Respondents also pointed out that; budget drafts could be rejected due to lower cost projections and/or due to more assertive sales projections and then, departments would revise their draft budgets again to find the ways to reduce their cost estimations and to increase their sales projections. The budget draft goes forward and backward until an agreement is reached between the two parties. The budget director of one of the leader

textile brands in our country (R.10) claimed that; other than sales and cost revisions, the management mostly demanded revisions regarding investments. R.8, the budget director of one of the leader market chains, also made a remark about the issue. The responded said: *“The management often finds the profit of the period insufficient and demands revisions on sales amounts and prices instead of cost control.”* This criticism is in parallel with the literature criticisms claiming that the budgets are mostly cost-based.

Budgets not confirmed by the management are subjected to modifications based on the issues pointed out by the management and then, final confirmation is received. Respondent 11 made a remark about this tough process and said: *“ Even after the modifications demanded by the management board are made, there remains the risk that your budget is not accepted with a sudden change and it is subjected to a second and even a third modification.”* Such remarks reveal out the fact that, budget makers face challenges in the confirmation process as well as the preparation process.

Another issue about budget confirmation process is evident in foreign-partnered companies. 12 of the companies surveyed have foreign partnerships. 5 of these participants (R.1, 12, 16, 18 and 23) stated that; due to foreign partnerships, budgets found shape based on foreign expectations and they were finalized upon mutual agreement. Respondent 16 remarked on the issue as the following: *“This brings along some problems. Foreign expectations and our own realities may sometimes conflict with each other. This could harm the consistency of budgets.”*

Ultimately, with the final confirmation received at the end of the whole process, one-year-targets of companies are determined.

### **c) Purpose of budget usage**

Researches reveal out several purposes and reasons for preparing budget in an organization (Hansen, Otley & Van der Stede 2003). Within this framework; planning, coordination, communication, motivation, control and performance evaluation are included among the significant intended uses of budget (Mintzberg, 1994; Drury, 2000).

Budgets can be defined as one-year statistical plan used by the management for resource allocation, target definition, performance evaluation, planning and control.

Respondents were asked to state the intended uses of budget and to rank the 7 basic uses given in Table 4.3 based on their significance. Table 4.3 indicates the result of the ranking.

**Table 4.3: Budget usage purposes**

| Purposes                     | Order of Importance |    |    |    |    |    |    |
|------------------------------|---------------------|----|----|----|----|----|----|
|                              | 7                   | 6  | 5  | 4  | 3  | 2  | 1  |
| Planning                     | 15                  | 9  | 0  | 0  | 0  | 0  | 0  |
| Resource Allocation          | 0                   | 5  | 5  | 4  | 4  | 4  | 2  |
| Coordination                 | 0                   | 0  | 4  | 3  | 8  | 7  | 2  |
| Control                      | 9                   | 7  | 3  | 5  | 0  | 0  | 0  |
| Performance Evaluation       | 0                   | 3  | 10 | 8  | 2  | 0  | 1  |
| Internal Communication       | 0                   | 0  | 2  | 4  | 3  | 5  | 10 |
| Implementation od Strategies | 0                   | 0  | 0  | 0  | 7  | 8  | 9  |
| Total of Respondents         | 24                  | 24 | 24 | 24 | 24 | 24 | 24 |

Planning mean the long-term or short-term planning made in an organization. Moreover; implementation of plans are carried out at management control level. All respondents stated that; budgets provided a one-year plan for them and the budgets were the means for sharing these future-period plans with the senior management and with lower-level staff. As is seen in Table 4.3, budgets are primarily used for planning. Respondents remarked on the planning function as the following:

*“Planning is one of the most significant functions of the management. Budgets are important tools for the performance of this function.” (R.18)*

*“The prepared budget is a projection of the following year of the company. Our estimations for the following period become material through budgets.” (R.14)*

*“Confirmed budgets are communicated to sub-departments. Thanks to budgets, each department of the company gains an idea about one-year plans.” (R.13)*



*“Efficiency of budgeting processes depends on the intended uses of budgets. A budget structure intended exclusively for the preparation of financial sheets would bring no benefit to organizations. The budget shall also reflect a plan. Budgets which are primarily intended for planning and supervision could be useful for everybody based on their interest area. Senior management uses those as the means for supervision whereas the production manager uses such as the means for planning.” (R.7)*

In parallel with the above-mentioned remark, Table 4.3 indicates that, the second use of budgets is, control. A responded stated the following regarding the control activity:

*“As organizations grow, it becomes more difficult for the management to carry out its control activity. Budgets are the most significant means we could use to carry out our control function.” (R.15)*

Resource allocation comes after planning and control activities according to the order of importance. While the use of budget is a significant tool in resource allocation, it is not the only tool. CFO of one of the leader telecommunication companies made the following remark about resource allocation:

*“Although budgets are used in resource allocation, they are not the only tools. In the period when our company makes expenditures, the resources to be used are necessarily reviewed.” (R.1)*

Budgets are not primarily used for the implementation of strategies and for in-company communication.

These results regarding the intended uses of budgets are in parallel with the research results of Johansson (2014).

#### d) Budget Monitoring process

Budget monitoring is significant for the detection and correction of any fallacies in budget estimations (Shim and Siegel 2008). Monthly reports, mid-term reports and particularly annual reports are the basic tools used for budget monitoring.

In the structure studied, budget monitoring is carefully carried out by senior managements. In 23 of the organizations, analysis about the levels of budget realizations or deviations are performed by senior management on previous year's actual - current term's actual- current term's budget- remaining months estimation basis. Respondent 4 stated that; they were restructuring their budgeting process in the company and they weren't making any revisions at the moment.

Monitoring process is announced with the reporting schedule issued at the beginning of the year. At this time, actual, budget and estimated data are prepared as shown in Table 4.1. In the participant companies, reporting is carried out through SAP BPC and Oracle Hyperion software. Respondents pointed out that; the two ERP software facilitated the budgeting and reporting processes. For example Respondent 6 said: *"A powerful software support could considerably facilitate your work in budgeting process, accelerate the process and minimize the risk of any faults."*

**Table 4.4: Budget data periods**

| Budget Income Table | Year   |        |          |        |
|---------------------|--------|--------|----------|--------|
|                     | 2015   | 2016   | 2016     | 2017   |
| TL                  | Actual | Budget | Forecast | Budget |

Monthly reports prepared within the framework of budget monitoring are submitted to the management. These reports involve KPI for the company and deviation analyses. Though this presentation is not in the form of a general budget meeting, it is formed by the sets of reports prepared by budgeting departments as booklets. Through these reports the management is able to analyze the deviations between actual and budget figures. Inquiry about the deviations is performed by management boards based on their levels of

significance. If deemed as necessary, actions required to be taken for the remaining months are communicated to the GM and CFO of the company.

A summary of the remarks of respondents about budget monitoring process is given below:

*“Until the last few years, monitoring was not based on monthly reports. We had a positive feedback after the launch of this practice. Before the use of monthly reports, the senior management reviewed June only in July and the remaining months in October within the framework of budget studies and this significantly delayed the correction of the problems encountered.”* (R.17)

*“Monthly monitoring ensures early detection of any problems and thus, short-term plans of the company can be improved to help the company reach its long-term targets.”* (R. 18)

#### **e) Budget Revisions**

Budgets may be revised for several reasons. Though revisions are mainly carried out at the beginning of the year based on the actual data of the previous year, budgets can also be revised in other times due to requirements arising from the changes in currency and interest rates or due to regulations. All respondents stated that; particularly with technological advancements, it is now easier to make budget revisions and reporting software has brought flexibility to budgets. When remarking on the structure of their budget, Respondent 6 said: *“As the budgets prepared are based on certain mathematical calculations, i.e. recipes, updating data is sufficient for getting the most recent results.”* (R.6)

#### **f) Strategic Plans**

Respondents 1, 9, 11, 15, 18, 23 stated that; they were preparing five-year strategic plans. The first of these plans involved the one-year budget prepared. Respondents 11 and 18

stated that; whereas they were preparing a strategic plan, the importance of this concept wasn't understood well in companies in our country. There was an ambiguity regarding its meaning and there were concerns about what strategic plans really served for. They claimed that; as the budgeting process was already tiresome and stressful, individuals were reluctant to prepare strategic plans which required a more visionary perspective and particular level of knowledge.

According to another respondent: *“Budgets are targets, not elements that are needed to be finalized; and strategic plans shall necessarily be available.”* (R. 17)

#### **g) Performance evaluation**

According to Drury (2012), a budget can also be used as a tool for the performance assessment of the employees. On the other hand; budgeting for the purposes of performance assessment and planning has been criticized by many, as it is a time-consuming process leading to tricky behaviors (Hansen et al., 2003; Hofstede, 1967; Wallander, 1999; Merchant et al., 2006). Today, the majority of companies use budget targets for the assessment of performance, though they could cause undesirable behaviors due to fixed targets (Libby & Lindsay 2007).

Defenders of BB approach claim that; utilization of budgets for performance assessment purpose would lead to fixed performance contracts between the employer and employee. Libby and Lindsay (2003) stated that; fixed performance contracts would lead to budget tricks.

When employees are worried about meeting the short-term targets, organizations focus on cost reduction instead of value creation (Hope and Fraser 2003). When budgets are used for performance assessment, identification of accessible targets would require organizations to be working in more stable market conditions. When the market conditions are dynamic and fluctuating, it would be more difficult to prepare a valid budget (Wallander, 1999). When performance is assessed with fixed budgets in dynamic and fluctuating market conditions, employees shall not be considered to be responsible

for the results arising from force majeure. Therefore; Libby and Lindsay (2003) suggested the differentiation of events that are under and out-of-the control of employees.

Discussion of the conformance of the budget-based performance assessment systems to the changing market conditions revealed out new techniques. Just like budgets, performance assessment methods could also be classified as; traditional or modern techniques. According to BB approach, targets are defined in parallel with constant growth and the awarding system is based on relative performances instead of fixed annual targets (Bunce, 2004).

Inquiry of the performance assessment process of the participants within the scope of the research revealed out that; different methods, particularly the traditional budget-based performance assessment methods were used. Respondent 3 stated that; *“modern assessment approaches were created as solutions for the insufficiency of traditional practices, but traditional (budget-based) approaches could still generate sufficient solutions in their company.”* According to Respondent 20, the basic reason for this is that; *“modern performance assessment methods offered better results in sizable companies with a developed organizational structure, high number of employees and high profitability.”*

Awarding systems in 23 of the companies surveyed were basically based on budget. Companies created their own award system depending on the level budget targets have been realized. As the budget includes more than just the financial variables, there are companies where other factors such as customer satisfaction are assessed, as well. Besides budget targets, opinions of a senior manager, colleagues and in 2 of the participant companies, opinions of the suppliers are also taken into consideration. Respondent 24 criticized the budget-based performance assessment approach and said: *“Although such budget-based premium systems may be sufficient for sales departments, they are not sufficient for performance assessment of administrative departments such as financial affairs. This causes dissatisfaction among the employees of the company.”*

Respondent 11 stated that; among the modern techniques, they were using the 360-degree method, which offered a more righteous awarding mechanism where the superior could assess the subordinate and vice versa.

In conclusion; none of the participant companies were fully satisfied with their performance assessment systems. Though most of them were using budgets, they accepted the insufficiency of the budget system in performance assessment. They also stated that; new tools to substitute budget could bring additional load and besides, there was no technique which proved to be completely suitable for the conditions of our country.

#### **h) Utilization of budget-supporting tools**

Kaplan (1994) states that; several new techniques have been developed in management accounting field in the last ten years. The author believes that; the development of management tools is a reaction to the previous cost and performance assessment systems (Kaplan, 1994). Traditional budgets are not sufficient for the fulfillment of sizable and complex structures. Due to market conditions that are hard to predict, it has become difficult to plan the future and thus, developments are needed in management control systems. Hope and Fraser (2003) claim that; if applied properly, different management tools bring benefits to companies. According to Axe and Bjørnenak (2007), the BB approach is a management accounting innovation gathering various management accounting tools such as BSC, RF and Benchmarking together. BSC, RF, KPI and Benchmarking are new management tools prioritized by the BB approach.

At this point, respondents were asked whether they were using BSC, RF, KPI and Benchmarking tools to support their budget as suggested by the BB approach. Table 4.5, which was prepared according to the responses to this question, is given below.

**Tablo 4.5: Budget supporting tools**

| Modern budget tools | Respondents |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
|---------------------|-------------|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
|                     | 1           | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| <b>KPI</b>          | *           | * | * | * | * | * | * | * | * | *  | *  | *  | *  | *  | *  | *  | *  | *  | *  | *  | *  | *  | *  | *  |
| <b>RF</b>           | *           |   |   |   |   | * |   | * |   |    |    | *  |    | *  |    |    |    |    |    |    |    |    | *  |    |
| <b>BSC</b>          |             | * |   |   |   | * |   |   |   |    |    |    |    |    | *  |    |    | *  |    |    |    |    |    |    |
| <b>Benchmarking</b> |             | * | * | * | * |   |   | * | * |    |    |    |    |    |    | *  |    |    |    |    |    |    |    |    |

KPIs enable the assessment of efficiency in companies. KPIs can be defined as financial or non-financial indicators and they could be used as substitutes for the control function of budgets. They are frequently used in companies in the assessment of operations (Hope and Fraser 2003). According to the BB approach, KPIs are useful tools for resource allocation and performance assessment (Bogsnes, 2009).

Inquiries about this issue showed that; company KPIs were being used and prioritized by all participant companies. The following remark of one of the respondents reveals out the importance attached to the utilization of KPIs:

“Market conditions are constantly changing. Management control shall be completed with financial and non-financial KPIs in order to obtain the right effect and the right behavior.” (R.8)

Some respondents stated that; they completed their fixed budget with KPIs in order to provide better information to senior managers and other external stakeholders.

Gross sales profitability, Ebit, Ebitda and turnover rates also come to the forefront as the primary KPIs of all companies. On the other hand; some of the participant companies were observed to be lacking the belief that such tools added value to their company, despite the fact that they were using these tools already. For example, a respondent said: *“We formed the KPI structure in the group I previously worked for. We requested monthly KPI results from all sub-companies. But believe me; nobody cares about the KPI reports. This is because the senior managers, who need to come to some conclusions based on*

*these reports, have not yet understood the use of KPIs. Even if KPI, BSC and other similar techniques are applied, the benefit obtained shall be studied on company basis.” (R.6)*

On the other hand, Rolling forecasts and comparison techniques are not widely used. One of the main reasons behind this is that; participants do not have sufficient knowledge about these two techniques. During the interviews, the respondents were observed not to have heard of Rolling Forecasts concept before or even if they have heard, they didn't know anything about it.

Another management tool, BSC, was created by Kaplan and Norton in 1992 based on the requirement to see beyond the financial data. Respondents 2, 6, 15 and 18 stated that; utilization of Balanced Scorecard as a supporting control tool enabled the realization of targets at all levels. During the interviews made about the issue, the respondents stated that; such modern techniques and particularly BSC brought additional costs to companies. Respondents 2, 11 and 22 said: *“Particularly for the implementation of BSC, one or more of the following are necessary; training of personnel, cooperating with consulting firm and employment of experienced personnel and this would bring additional load to companies.”*

Other similar opinions are given below:

*“BSC is a difficult technique to implement. The first implementation period was rather challenging in our company. Employees can resist to such techniques at the first implementation period.” (R.2)*

*“Even if KPI, BSC or all other similar techniques are implemented, the benefit obtained shall be questioned on company basis.” (R.6)*

In conclusion, it was found that; the companies surveyed were using KPI technique but not the other techniques as they were regarded to be difficult and costly to implement and that, they were not intended to be used in near-future, either.



### **i) Changes to budget practices**

In the companies interviewed, budgeting processes were subjected to modifications in time. The basic reasons for this are the demands of senior management and replacement of the individuals preparing and implementing the budgets. Another reason is the changes happening in activity areas. Respondents stated the following about budget modifications:

*“When I started my job, there was a static budget structure in this company. As the number of branches increased and new competitors entered into the market, I started to give efforts to make our budgets more dynamic. Now we have a comprehensive budget structure which is highly satisfying for the senior management.” (R.8)*

*“Our company didn’t use to prepare detailed budgets until this year. As our group is mainly focused on the construction sector, the company used to prioritize projects and make project-based income/expense estimations. As of 2016, we have launched a budget structure which involves not only the projects but all activities of the company.” (R.4)*

Three of the respondents were planning to modify their budget structure. 12 respondents were not planning any modification. Other respondents stated that, they were planning modifications in certain areas. Other remarks about the issue are given below:

*“Our budgets were subjected to modifications in time. Today, particularly with the support of the KPIs we have defined, we have a budget structure which meets the expectations of the management.” (R.12)*

*“Our budget set is actually based on the draft we prepared 10 years ago. KPIs have been included in the process in time. For the last few years, the management board is mostly inquiring the details about the investments and personnel expenditures. So we design our budget sets in such a way that they are able give answers to their questions.” (R.12)*

*“As we become more aware of the significance of strategic plans, we improve our budget structure to serve these plans. We are now negotiating about making certain modifications in future periods, as well.” (R.18)*

The general budget structure is summarized in Table 4.6 based on the information given by the respondents;

**Table 4.6: Structure of Budgets**

|                                     |  |
|-------------------------------------|--|
| <b>Budget Type</b>                  | Top down, bottom up or both  |
| <b>Budget Guide</b>                 | Includes targets and indicators set by upper management                        |
| <b>Preparatories</b>                | Budget and finance units   |
| <b>Time Period</b>                  | Approximately 2 months   |
| <b>Budget Committee</b>             | Owners, directors, general manager, controller, senior manager                 |
| <b>Review</b>                       | Monthly, quarterly, annually   |
| <b>Purposes</b>                     | Planning, Control and Resource Allocation                                      |
| <b>Informations for Preparation</b> | Prior-year financials, Market analysis, local and national economic indicators |

As is seen in the companies surveyed, budget preparation in companies requires time, efforts and knowledge and it is among the processes that are highly prioritized by senior management. Though the budget preparation process brings along several problems in different phases, it is still considered to be significant by the individuals preparing that.

As the structure set in the company of Respondent 1 is different from the above mentioned, it is specifically discussed below. Respondent 1, who is the CFO of the company active in the telecommunication sector, stated the following about their budgeting process;

*“Traditional financing involves static budgets. The budget is prepared at the beginning of the year and is revised from time to time. The budget always stayed somewhere at the top. Just like a sword on top of the company, it was used as a tool to question whether you are lower or above the budget. Technology is changing, so is economy. The environment is quite flexible, variable and dynamic. Traditionally, the budget remained static and we tried to keep the budget low as much as possible. In order to change this culture, our company adopted a different structure. We went through a transformational*

*leadership process covering the whole company starting from the senior management. Actually, what you call as budget is; looking at the past to project the future. This imposes restrictions on us. When you look at the past, you can foresee things which could only pass little beyond that. On the other hand; an innovative idea requires forgetting about the past and starting to dream about what you would like to be in the future. But the budgeting process sometimes hinders this dreaming part of the job. In order to overcome this, at the beginning of the process, we dream about where we would like to reach at the end of the following five years. It can be an utopic dream. Then we detect the things that are missing at the moment to reach at that dream. We define the measures to be taken and the resources needed. That is, we come back to define the base for our budget. So the process doesn't progress from past to future, but from future to the present time. In this way, some risks of the process are eliminated. We begin the process with a dream that could carry the company a few steps further. When you establish such culture in the company, several restrictions on the budget are eliminated. All employees participate in this dreaming process and thus, contribute to strategic plan and annual budget preparation processes.” (R.1)*

#### **4.4.2 Analysis of the Degree of Agreement with the Criticisms on Traditional Budgets**

Since the beginning of the 20th century, budgets have been used to ensure that the management can fulfill its duties. Many researchers (Hansen, Otley, & Van der Stede, 2003; Hope & Fraser 2003) discuss about the appropriateness of traditional budgets for the modern business world which is hard to predict. As is presented in the literature part of the research; the budgets are mostly criticized for being non-flexible, non-adaptable and time-consuming with so many details and red tape (Johansson 2014).

Within this framework, the positive and negative criticisms about budget systems were shared with the respondents and their feedbacks were received. Due to time restriction, the feedbacks on criticisms were also collected through the short question form filled in by the respondents at the end of the interview. The distribution n of the criticisms shared with the respondents and their responses are presented in Table 4.7.

**Table 4.7: Attendance Ratings of Criticisms**

| No | Criticisms  | Degrees of Agreement |   |    |    |    | Total Number of Persons |
|----|---|----------------------|---|----|----|----|-------------------------|
|    |   | 1                    | 2 | 3  | 4  | 5  |                         |
| 1  | Mostly prepared for a calendar year.                                | 0                    | 1 | 1  | 5  | 17 | 24                      |
| 2  | Facilitates inter-department communication.                         | 0                    | 2 | 10 | 9  | 3  | 24                      |
| 3  | Enables coordination in the company.                                | 0                    | 2 | 8  | 11 | 3  | 24                      |
| 4  | Enables identification of future targets.                           | 0                    | 0 | 0  | 10 | 14 | 24                      |
| 5  | Is necessary for financial control.                                 | 0                    | 1 | 1  | 7  | 15 | 24                      |
| 6  | Is time-consuming   | 0                    | 3 | 8  | 10 | 3  | 24                      |
| 7  | Involves too many details.  | 0                    | 5 | 8  | 10 | 1  | 24                      |
| 8  | An annual routine. It is done only as a tradition.                  | 8                    | 9 | 2  | 5  | 0  | 24                      |
| 9  | Leads to politics in the company.                                   | 7                    | 8 | 6  | 3  | 0  | 24                      |
| 10 | Is too centralist.  | 4                    | 6 | 6  | 8  | 0  | 24                      |
| 11 | Doesn't reflect the changes in the market.                          | 4                    | 7 | 7  | 5  | 1  | 24                      |
| 12 | Focuses on the predetermined budget targets instead of the clients. | 4                    | 7 | 6  | 6  | 1  | 24                      |
| 13 | Focuses on maintaining the current level instead of reducing costs. | 5                    | 9 | 5  | 5  | 0  | 24                      |
| 14 | Increases company value.  | 0                    | 1 | 6  | 13 | 4  | 24                      |
| 15 | Enhances company culture.   | 0                    | 3 | 5  | 11 | 5  | 24                      |
| 16 | Serves as a good management tool.                                   | 0                    | 0 | 2  | 16 | 6  | 24                      |
| 17 | Restricts the managers in using their own initiative.               | 4                    | 9 | 5  | 5  | 1  | 24                      |

1- Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly agree

Looking at the degree of agreement with negative criticisms, the number of respondents who “agree or strongly agree” with the items that budgets are “time-consuming” and “too detailed” are 13 and 11. Whereas 8 respondents “agreed” about the “centralist structure” of budgets, none of the respondents “strongly agreed” with that statement. Agreement with the remaining other negative criticisms is rather low.

On the other hand; agreement with positive criticisms is higher. For example; 10 respondents “agreed” and 14 respondents “strongly agreed” with the statement “Enable identification of future targets.”. 7 respondents “agreed” and 15 respondents “strongly agreed” with the statement “Is necessary for financial control.”

As can be seen in Table 4.7, all respondents had a positive view about budgets in general. During the interviews the majority of the respondents stated that; budgets were the main

tools for the identification of future targets. The negative criticisms they agreed with the most were that; budgets were time-consuming and too detailed. The responses and remarks show that; regardless of the use of supporting tools, the respondents had positive views about budgets in general. The basic reasons for satisfaction about budgets are that; the budgeting process has long been accepted in companies and it has deep roots in the company culture. Another reason is that; it is considered to be an efficient tool for cost control.

On the other hand; annual budget is not constantly used as the companies mostly think that, budgets have benefits more than imperfections and they believe budgets cannot be substituted. According to Libby and Lindsay (2010); it would be difficult to accept that companies would continue using the budgeting process for management control purposes if they believed the budgeting process to be basically imperfect. Authors state that; in literature, there are examples of successful companies which use the budget as a planning and control mechanism and they wonder how these companies could become so much successful if the budget had significant imperfections.

Below are the remarks of the respondents about this issue:

Respondent 4 remarked on the issue in a manner supporting the traditional budgets and said: *“Budgets are measures in determining how operations should be handled in short-term. Without budgets, employees wouldn’t know where to head to.”*

Respondent 24 stated the following about the budgets *“They are coherent and easy to understand. Certainly traditional budgets have some weaknesses, but also have clear benefits. Though some of the criticisms you have mentioned are true, having a budget is better than not having one.”* Another similar remark came from Respondent 19: *“Budgets are obviously time-consuming and they have many details. But, you need a map and a budget has the features to guide you in the short-term.”*

Respondent 12 stated that; preparing budgets as one-year did not create any problems and said: *“In Turkey, it is difficult to predict about the market conditions. Therefore; at least*

*for the pharmaceutical industry, long-term plans are not functional, indeed. I think it is wrong to criticize that the budgets are being prepared for one-year period.”*

Regarding the claim that budgets caused politics in companies, Respondent 8 said: *“Budgets are the most significant tools we have to manage the companies. I don’t believe they cause such politics in companies. Maybe this could be due to the fact that, budgets are used in performance assessment. At this point, it might be better to use different tools for performance assessment rather than criticize budgets this much.”*

Respondent 2 criticized the claim that budgets were an annual routine: *“You cannot rule companies according to your habits. The budgeting process is completed with the time and efforts of more one person. The claim that these people prepare budgets as a habit doesn’t seem like a professional approach to me.”* Likewise, Respondent 3 said: *“I believe this criticism came from those who haven’t been practically involved in budget preparation process. The way budgets are prepared in sizable companies is beyond a routine.”*

Regarding the criticism that budgets did not reflect market changes, Respondent 7 said: *“If the budget of the following year, which you started preparing in October and spent two months, is not subjected to any revision within the following year, certainly it won’t reflect market changes. In our group, we expect our affiliated companies to revise their figures according to the changes in their predictions for the following months within the framework of our monthly reports. In this way, the budget is revised every month and is modified based on any actual or potential changes in internal and external conditions.”* Likewise, Respondent 17 said: *“For example, the actual figures of January become clear in the middle of February. According to the budget practices of the group, when reporting on the actual figures of January and estimated figures of February, the estimated figures of the remaining 10 months are submitted, as well. When the figures of the remaining 10 months are exactly the same as the initial figures of the budget, this is questioned. It is an efficient way to reflect market changes on budgets.”*

Respondent 15 criticized centralization and said: *“Central control underlies the troubles about traditional budgets, indeed. Traditional budgets make central control permanent. As companies grow, central structure loses its function.”*

Respondent 20 remarked on the claim that budgets increased company value: *“Budgets serve companies for particular objectives. On the other hand; I have doubts regarding their role in increasing the company value. I do not totally agree with this idea. If budgets are handled as a sub-section of a long-term strategic plan, only then it could contribute to the company value, though non-directly.”*

Analyses of the traditional budget structures of the participant companies revealed out the following results:

- Participants regard budgets to be sufficient, coherent and useful systems and they would never think running the company without a budget.
- The number of persons who regard the budgets to have some imperfect and dysfunctional is relatively low. Wholesome benefits of budgets are deemed to surpass their imperfections.
- The views about annual budgets are mostly positive and a certain degree of central control is deemed as necessary.
- A fixed annual plan doesn't conform to the fast changing context today. on the other hand; conditions of the county make it difficult to create long-term plans.

#### **4.4.3 Analysis of the Participants' Views about the Beyond Budgeting Approach**

Several researches have been made to analyze the implementation rate of the BB approach and the hindrances it encounters in different countries (Aksom 2015). In this research, made within this framework, Beyond Budgeting concept attracted the interest of all respondents. All respondents are senior managers in leader companies of Turkey and they play an active role in management and particularly in budgeting processes of their company.

How the business world evolved to the Beyond Budgeting approach with the criticisms about the aforementioned budget systems, was shared with the respondents and BB was thoroughly defined. Principles of BB were explained one by one and the respondents were asked whether it would be possible for their company and for our country to set up a management model within the framework of these principles. Remarks of the respondents on BB approach were classified under 10 main titles depending on their frequency. Main titles and remarks are presented in details below:

#### **4.4.3.1 Delegation of authority**

The basic characteristic of the BB management model is that; it requires a decentralized management. BB Leadership principles suggest creation of responsible teams and a widespread delegation of authority among the these teams in order to achieve client satisfaction. Decentralization is the most significant step in implementation process. This is because the BB model cannot be completely implemented in a company without a proper and reliable distribution of authority (Gullmark 2014).

In the interviews, delegation of authority came out as a step which the respondents did not regard possible to be implemented in its full sense. For example, a respondent, who is the group CFO of a leader holding company in our country, told that; they were trying to break the centralized structure in the company and that, using several techniques, measures could be taken against the troubles caused by budgets:

*“Teams are delegated a certain degree of authority and lower level staff are delegated authority to act independently of the budget. If you delegate all authority to one person, first of all, the value created would be limited to the time spared by that person only. Second; everything would remain stuck there. And third; this could be self-depreciating for lower level staff and lead to loss of personal motivation as they would think, ‘we prepare, we draft, then one gives a decision without asking anything to us’. As a holding, we try to be a guard for the investments, to shake hands with company managements and give management some freedom. We expect the management to carry out operations in a successful manner. As the number of persons contributing to the company increases, so*



*does the amount of value created, still, the company targets a single ultimate path. Everybody shall be in parallel with this path. Just like the theory of force in physics; if you collect all forces together in the same direction, you will achieve more benefits. When someone pulls one way and another one pulls the other way, even if the amount of force is little, the resultant force could be zero, despite the fact that each of them is skillful and is able to create much value. It is really hard to organize this.” (R.9)*

Likewise; the CFO of a holding manufacturing machines for agricultural production stated that; delegation of authority as required by the BB model would not be possible. Below is the remark of the respondent about the issue:

*“Can we speak of a management system that will be good for everything? I have doubts. For example, if you are manufacturing nuclear reactors, how much initiative could you give to employees? There is no single approach that would fit any company. Every company has its own Dynamics. While some needs to be centralist, some others may need to be the opposite. Let’s say, you are selling cars. Here, the sales person shall have initiative. On the other hand; particularly the routine tasks are handled by machined today. Not only production, but also some routine tasks are handled by machines. There is a demand either for highly qualified or highly unqualified works. You could set up several plans as the investor, but the variables are too many in the modern business world and it is hard to predict them all. There may be situations when the field person has to give decisions immediately. This could only be possible by the delegation of authority. It is a fact that; managements where the persons could take initiatives are more successful. But when I think of my own company, there are two generations in senior management. If the father is more controlled, the son can give initiative more. I believe it won’t be possible to implement BB-based approaches unless these problems are eliminated.” (R.13)*

Similarly; Respondent 16 said: *“Particularly the delegation of authority could face much resistance in our country.”*

Remarks of another respondent are as the following;

*“In real sector, differences in manager qualifications make it difficult to delegate authority, which is the basic characteristic of the BB approach. In order to implement this approach, we need a sound company culture, human resources, good communication from top to bottom and sufficiently qualified managers to implement such policy. It is significant to act with the right team.” (R. 24)*

The following could be stated according to the above-mentioned remarks and academic researches: BB approach intends to delegate strategic planning authority, even a medium-level one, to operational departments. Certainly, operational teams are supported with all resources when necessary. On the other hand; there is no sufficient amount of multinational companies with sizable capitals in Turkey. Instead, most of them are medium-scaled companies, still managed by their original founder only. It is not an easy task to change the centralist structure of management in such companies. But sooner or later, every company will come to a point where a structure in which authority is delegated to lower levels will be the only way to move forward. The interviews made within the framework of the research show; some senior managements are well aware of the fact that it would be impossible for them to create values by determining strategies from top of the company pyramid. Ideas can be created at the top, but in order for these ideas to add value to companies, operational staff must necessarily contribute to the process. Despite this awareness, particularly due to the attitudes of the persons holding current authority at hand, the delegation of authority as suggested by the BB approach seems possible within certain limits only.

#### **4.4.3.2 The “Myth” that companies cannot be managed without a budget**

The idea of completely abandoning budgets doesn't seem possible by the respondents. Many respondents think that; it was possible to use BB tools and techniques such as Rolling forecasts, BSC, Benchmarking but, annual budgets had to be maintained, as well.

Respondent 1 said: *“Whether call it a budget or not, a company needs a tool to handle its short-term works. Budgets must be improved, but I don’t find it right to abandon them all.”*

Respondent 20 said: *“There should be no world without a budget.”* and stated that; *“it wasn’t possible to abandon budgets, which formed the base for the BB approach, a tool was needed to manage the company and budgets were serving for this function.”* Just like many others, the respondent also stated that, budgets ensured discipline in a company.

Another remark on the issue was the following: *“Actually, it is hard to implement the BB approach in our country in near future. Even when many companies adopt the principles of BB in a wide perspective, they will still resist abandonment of budgets as long as they can.”* (R.22)

Respondents’ opinion about the impossibility of managing companies without budgets is in parallel with the results of several researches (Goode and Malik 2011, Dugdale & Lyne 2006, Libby & Lindsay 2007).

#### **4.4.3.3 The effect of culture and geographical location**

An important obstruction for the spreading of a new and different management model is the fact that every region has different cultural properties (Hammer 2010). Similarly; some claim that; the BB approach is dependent on the country’s culture at implementation level. In current situation, the approach has only gained popularity in Scandinavian countries. Several researchers have made researches to explain the Scandinavian culture and values related to the BB model and the cultural dimensions where such cultural properties were significantly different (Aksom 2015).

In his study on the cultural properties of a region and the implementation rate of the BB approach, Hammer (2010) says: *“The implication is that Beyond Budgeting can be applied practically anywhere in the world. However, the cultural dimensions should not*

*be overlooked as there is a good indication that they can affect the speed of implementation and the efficiency of Beyond Budgeting "(Hammer 2010, p.64).*

During the interviews, some of the respondents mentioned of the effect of culture on the new management models. The CFO of one of the leader holdings in our country said the following about the issue:

*"Considering the Eastern culture, Turkey and its conditions, we can see more male-dominated and hierarchical models in our case. Somehow, not all Western theories work well in Turkey." (R. 9)*

Another remark on the culture of country is as the following: *"The success of this approach significantly depends on the country's culture. In my opinion, every company must choose a model that would fit its own culture. I don't think that such flexible approaches could be successful." (R.14)*

Respondent 20 said: *"Turkey is in the heart of the world. In our country, it would be hard to talk about a particular system that would be good for company management. Our geopolitical problems affect the economic system. It is natural to seek for new systems in the new world order. But due to its cultural structure and human values, our country imposes certain restrictions for the applicability of this approach."*

At this point, the majority of the new management models come from abroad and these are techniques which we cannot disregard. These techniques are introduced in our country and are adapted to the sectors. Therefore; some Technologies "imported" from the Western world are used in a manner that is different from their original versions. Suitability of modern techniques such as BSC, ABC, RF and Benchmarking is one of the obstructions which prevent the spreading of these techniques.

#### 4.4.3.4 Size of companies and the condition of the sector

Several management accounting researches have shown that; the use of new management accounting tools is related with the financial, sectorial and organizational characteristics of the companies. Particularly the companies implementing BB possess certain financial, environmental or organizational characteristics which enable them to clearly feel the balance between the positive and negative aspects of budgets. Thus; these companies could completely abandon budgets in order to eliminate the negative aspects of budgets (Milova 2011).

Pilkington & Crowther (2007) claim that; BB is generally adopted by big-scaled companies with more than 1000 employees. Small-scaled companies tend to impose strict budgets. The main reason for that is the dimension, management style and the necessity to train the staff about the new techniques.

Respondent 4 said: *“The big size of a company makes such approaches applicable as it is not possible for the boss to reach everywhere. As the companies in our country are not big enough, these methods would not fit them. As companies grow, the boss loses control and needs professional staff. In conclusion, sectorial and geographical conditions, as well as the size of the company, are significant for the implementation of the BB approach.”* (R.4)

Respondent 10 emphasized the sector and the size of the company for this approach.

*“This approach emphasizes the importance of the organization’s size and the industry in which it is based. Budgets are significant for production and industry sector. Thus; it is difficult for them to set up a world without budget. But, as the final user is significant in retail sector, it could be easier to implement this approach in the retail sector.”* (R.10)

Respondent 12 stated that; it would be impossible to be without any budget, the risk was high in the pharmaceutical sector and thus, budget were necessary for order and monitoring.

#### 4.4.3.5 The leadership issue

Another principle suggested by the BB approach is that; senior managers remain in leader position. BB necessitates managements which do not command or control the employees but which guide them. Respondents stated that; leadership/coaching role of the senior management imposed certain difficulties on the company. For example; Respondent 13 thinks that; it would not be possible for the senior management to assume leadership in our country.

Another remark is as the following;

*“I wouldn’t reject the principles of BB, but our sector has been in a challenging period in recent years due to government pressure. It is necessary to monitor the sector and the business very well. It would be easier to implement this approach in sectors which are not exposed to much regulation.” (R.12)*

Another respondent emphasized the difficulty to implement the BB approach in local companies and stated that; personal characteristics of the senior management (CEO, GM, etc.) were significant for the applicability of the approach and that; availability of visionary, strategy-oriented managers who could perform authority delegation would facilitate the implementation process. (R.23)

The Turkish CFO of a leader USA-origin pharmaceutical company remarked on the leadership issue: *“While some managers have leadership qualities some others don’t, and this would make it difficult to implement the BB approach.” (R.12)*

Another similar remark came from Respondent 24: *“The variety of managerial qualities in real sector makes it difficult to delegate leadership and authority, which is the basis for the BB approach. In order to implement this approach, we need a sound company culture, human resources a well-established top-to-bottom communication and qualified persons to implement this approach. Managers must be trained about coaching, first. If managers regard coaching as a practice underestimating their powers and authorities,*

*they could resist it, avoid authority delegation and try to maintain the traditional structures.” (R.24)*

In conclusion; within the framework of the BB approach, managers must abandon commanding policies and become leaders for a change toward guidance and support. These leaders must modify the organizational structure and establish one supporting the coaching system. Although respondents regard leadership/coaching as a policy that would be difficult to implement in the companies in our country, this difficulty could be overcome with trained and ready managers who are open to changes, improvements and innovations. Managers who mostly regard authority delegation as a loss of power will become more willing about authority delegation with the implementation of coaching policy. Coaching approach leads to an ideal manager prototype. In a research made on family-run companies with minimum 50 employees, Yıldız (2010) found that; as leadership behaviors of managers increased, so did the emotional and normative commitments of the employees (113). This policy highly supports manager-worker relationship, leading to peace at work environment, efficiency, business and performance satisfaction. So, coaching policy reveals out a different perspective that could contribute to the creation of successful companies with superior performance.

#### **4.4.3.6 BB is a complex and complicated structure requiring big-scaled modifications**

BB approach is not a management accounting tool an average company could easily implement by simply obeying certain instructions and directions without changing the management control system or the philosophy of organization (Hope and Fraser, 2003a, Bogsnes, 2009). Therefore; particularly in developing countries where a top-to-bottom management mechanism is dominant, the approach faces a strong resistance. Companies implementing BB rarely follow the twelve principles and the philosophy as a whole, but rather, only use a certain part of the tools suggested (Henttu-Aho and Järvinen, 2013). Some case studies show that; several companies which have launched BB, still continue using annual budgets (Frow, 2010; Sandalgaard and Bukh, 2014).

Most of the respondents stated that; the policy required significant modifications in the company and these modifications were difficult to implement. Below is the remark of Respondent 22 on the issue:

*“The structure you have explained requires a plain structure to be achieved at the end of complex processes. We need to make radical modifications for this. I don’t think such radical modifications could be possible in Turkish companies. Employees could find it complicated and resist it.” (R.22)*

#### **4.4.3.7 Benefits of BB have not yet been completely proven**

Though the BB approach came out in 1997, it has taken the attraction of researchers and the business world in recent years only (Hammer 2010). Thus; there aren’t many researches on the BB policy. Moreover; there aren’t any researches comparing the specific financial, environmental and organizational characteristics BBRT –member companies possess today with the characteristics they possessed before the implementation of the BB approach.

Rickards (2006) believes that; we need more researches and practices concerning the BB approach.

During the interviews, all respondents inquired whether there were any companies implementing the BB approach. Respondents started to seek for definite results proving that the BB approach was applicable and added value to companies. The reaction of respondents showed that; clarification of the benefits of new management techniques would be efficient in dissemination of the technique.

In brief, it can be concluded that; there is not sufficient amount of case studies in literature concerning the implementation and properties of the BB approach. The cases stated in the previous section actually belong to renowned companies implementing the BB approach. It must be studied further particularly with respect to its practicality, the implementation process and its outputs etc.



#### **4.4.3.8 Attitudes of senior management and employees**

Hope and Fraser (2003) and Bogsnes (2009) state that; complete support of the senior management and all departments including the financial affairs department, were required to make a perfect start for the BB practice. Company culture and employee values are the basic factors defining the effect of the implementation of Beyond Budgeting concept. After explaining the BB philosophy, the budget director of the company gathering the worldwide leader automotive brands together with Turkish users under the roof of a leader holding in our country, remarked on the issue as the following:

“In order to be able to implement the BB approach, the company culture required by BB must be available in the members of the management board. Managers must adopt this policy first to enable reshaping of budgets and company managements in parallel with the principles of BB.” (R.6)

Another similar remark came from Respondent 14:

“Whether it be BB or not, you cannot adopt a new management model without a plan and these plans must be made by senior managements. On the other hand; a management which is content with the present budgeting processes cannot be expected to seek for a new process. Therefore; it is necessary to convince the senior management that the present systems really have insufficiencies.”

At this point, the respondent emphasized the necessity to convince the senior management as also emphasized by Hope and Fraser (2003) as the basic rule for the implementation of the BB approach.

Remarks of the respondents interviewed sheds light upon the attitudes of senior management concerning authority delegation and control reduction. Although the appropriateness and efficiency of traditional commanding and controlling management is inversely correlated with the fast changing market conditions, managers in our country

regard the commanding and control mechanism as the only way to maintain the control and stability in the company.

Supporters of Beyond Budgeting strongly resist to “command and control”-based management system claiming that, the BB approach is quite easy to implement, indeed and the obstructions faced by the managers is just an issue of mentality (Wallander, 1999, Bogsnes, 2009). On the other hand; there are also some people claiming that it would be very difficult to overcome this problem (Aksom, 2015). The companies participating in the research are observed to be using the “command and control” system and all respondents noted that; this mentality issue was the greatest obstruction between the traditional management model and modern flexible policies. Thus; a budget-oriented management acting with the command & control mentality would not give a chance for the applicability of BB type approaches suggesting a wholesome mentality change and emphasizing the human aspect of companies, as stated by Bogsnes (2009). Bogsnes (2012) explains the purpose of BB approach as the following: *"The purpose is not to get rid of budgets but to create more agile and human organizations."*

Another issue emphasized by the respondents during the interviews was the claim that; BB approach would deprive the managers and employees of the comfort offered by traditional budgets. Respondent 17 said: *"Traditional budgets cause managers to reject new business opportunities for the sake of risk reduction."* This remark is in parallel with the research of Heupel and Schmitz (2015) where they explained the effect of the managerial mentality on the implementation of BB. Authors claim that; BB approach requires ambitious managers who are able to struggle against uncertainties and take risks, and thus, employees possessing the comfortable area created by traditional budgets resist to such approaches.

In brief, successful implementation of BB requires wide support of the management and employees.

#### 4.4.3.9 “Y” generation

BB model requires radical changes particularly in the attitudes of management toward the employees. In other words; this concept forces the change of the management style which is based on the assumption that individually must necessarily be controlled.

In order to change the management style as required by the BB approach, senior managers of the company must be convinced that, the majority of the employees could be stated to be conforming to the definition of “Theory Y”. In his book, Bogsnes (2009) claims that; employees of the traditional budget-based model belong to “X Theory”, but the individuals must actually be classified according to “Theory Y” as already mentioned in the previous chapters of the Beyond Budgeting model.

Attitudes of the participants about the Y generation of BB were shared during the interviews. The CFO of the group under which the powerful media organs in our country serve, remarked on the issue and said:

*“Although it may not be possible to implement the policy in its full sense, companies need changes to adapt to the requirements of the age and become successful. If you will proceed with a new generation, you have to prefer management models that would fit them.” (R.7)*

The CEO of a company serving in the foreign trade market drew attention to two important obstructions for the implementation of the BB approach in our country. One of these obstructions is the Family Company factor and the other one is Generation Y. The respondent remarked on the issue as the following in brief:

*“Generation Y has high self-esteem, yet insufficient knowledge. That’s why it poses a risk for companies which do not take necessary precautions. Young people entering into the business world must be subjected to training by companies. Banks, which started to become institutionalized 100-150 years before the real sector companies, could be a model in this sense.” (R.24)*

Another respondent said: *“I believe, promotion of this management style in our country would particularly take the attention of the new generation. Young people consider the world and the business world through a different perspective. With such policies, you could raise the chance to host qualified individuals in your company.”* (R.14)

Finally; the CFO of a leader textile company in our country stated that; *“as their sector, foreign partnerships and customer portfolio mainly involved individual from Generation Y, their company adopted customer-oriented, relative targets, component-based thinking and staff-oriented management policies.”* (R.16)

#### **4.4.3.10 Institutionalization**

During the interviews, almost all respondents emphasized institutionalization and family company issues. Respondents stated that; approaches such as the BB could only be applicable to fully institutionalized structures managed by a professional management. For example, the CFO of a leader food brands in our country told that; 98% of the Turkish companies were family companies and that was a system which could be implemented on fully institutionalized companies constituting the remaining 2%. (R.5)

Other remarks on the issue are as the following;

*“When I think of my the company I work in, there are two generations in senior management. If the father is more controlled, the son can give initiative more. Many companies in our country are face to face with this conflict of generations due to their family company structure. I believe it won’t be possible to implement BB-based approaches unless these problems are eliminated.”* (R.13)

*“The success of this approach is closely related with the rate of institutionalization in the country.”* (R.14)

*“Unless the boss concept is replaced by professionals in companies, it would be rather difficult to implement approaches like BB in our country.”* (R.16)

Another respondent stated that; although their holding was a family company, it was managed by professionals: *“Everybody has a long way for the BB approach. You should believe and trust and start off with professionals. This should be done for the sustainability of companies. For the future of Turkey, the private sector should get familiar with such kind of management models as soon as possible.”* (R.15)

Respondents 20 and 21 particularly focused on the Family Company concept and claimed that; approaches such as BB couldn't be implemented unless family companies got institutionalized. Respondent 20 stated the following:

*“In our country, earner companies are family companies. Therefore; the financier, i.e. the boss with the money must be familiar with what's going on in the company. Otherwise; you could see things just like the Wall street case. Leaving company management to the hands of professionals brings some problems. It would be difficult for a CEO to view the company through the eyes of a financier. This is the main reason for the fact that, the real boss is still influential on the management. These kinds of approaches don't seem to be applicable unless family companies get fully institutionalized. As I have just mentioned, it would take long years of efforts for the family companies in our country to get institutionalized.”* (R.20)

In the light of the interviews we can say that; problems of family companies generating around 90% of the national income in Turkish economy, particularly arising from non-institutionalized structure make it difficult to implement modern management techniques. It seems rather difficult for the family members possessing full authority to adopt the mission of leadership within the framework of BB principles and to delegate authorities.

#### **4.4.4 Analysis of Respondents' Views on the Applicability of the Beyond Budgeting Approach in Turkey**

At the end of the remarks explained in the previous chapter, the respondents were asked whether the BB approach was applicable in our country. As shown in Table 4.8, six respondents had concerns about the applicability of the BB approach in our country. Only

four respondents found it to be applicable. Other respondents stated that; it would require a rather long time for Turkish companies to get familiar with this approach and noted that the rate of implementation would be rather low compared to western countries.

**Table 4.8: Respondent’s opinion about applicability of BB in Turkey**

|                           | <b>Respondent’s Number</b>            |
|---------------------------|---------------------------------------|
| <b>Positive</b>           | 8-15-16-18                            |
| <b>Partial Acceptance</b> | 1-5-6-9-10-11-13-14-19-20-21-22-23-24 |
| <b>Hesitative</b>         | 2-3-4-7-12-17                         |

All respondents agreed that, “abandonment of budgets”, underlying the BB approach, would be the hardest step to implement. But other than 6 respondents who had concerns about the issue, the respondents stated that it would be possible to overcome this problem.

Here is one of the remarks on the issue:

*“It wouldn’t be possible to implement the BB approach in our country in near future. Even if many companies adopt the principles of BB widely, they will resist to complete abandonment of budgets as long as they can. It would be possible to implement other requirements such as authority delegation, Rolling forecasts and comparison and several companies in our country have already been using some of these tools.” (R.14)*

A respondent, who had a positive view about the issue, stated the following:

*“This approach is both necessary and applicable. We need to lower company vision down to the bottom. Actually, if you don’t lower company vision down to the lower levels, budgets won’t make any sense, either. It is necessary to use KPIs and to give up centralism. I believe, promotion of this management style in our country would particularly take the attention of the new generation. Young people consider the world and the business world through a different perspective. With such policies, you could raise the chance to host qualified individuals in your company.” (R.8)*

Respondent 19 was among the ones who believed BB could be implemented under certain conditions: *“BB approach should be launched if the company has a long and successful experience in traditional budgeting.”* Another respondent said: *“Companies carrying out a proper budget planning process currently could try a management style like BB.”* (R.14)

Another respondent in this group stated as an ex-bank employee that; this approach would be suitable particularly for the banking sector: *“Considering the dynamic and fluctuating environment of the banking sector we can say that; Turkish banks are in need of new, dynamic and adaptable management models, including the BB model. The Handelsbanken case you have mentioned can be inspiring for our managers.”* (R.24)

Respondent 17 had concerns about the BB model and said: *“BB is a rather radical and complicated system for the companies in our country. As far as I understand, it requires participation of all employees at all levels. Not all companies can adopt such a system. It requires great efforts. I believe, there are simpler models that could fit better to the companies in our country.”* (R.17)

#### **4.4.5 Analysis of the Views on the Principles of Beyond Budgeting**

Views of respondents on the principle of BB are summarized in Table 4.9. The respondents explicitly pointed out that, they perceived the concept as a human-based model; management tools and techniques had the second priority. While all respondents accepted the significance and the basic meaning of the principles of BB, they also mentioned of their concerns about leadership and management processes. The respondents had positive views on customer-orientation, improvement of awarding systems and allocation of resources, but concerns particularly about the principles of transparency and authority delegation.

**Table 4.9: Views on the Principles of Beyond Budgeting**

| Interviewee | Leadership Principles |            |          | Management Processes |            |          |
|-------------|-----------------------|------------|----------|----------------------|------------|----------|
|             | Positive              | Compromise | Doubtful | Positive             | Compromise | Doubtful |
| 1           | *                     |            |          |                      | *          |          |
| 2           |                       |            | *        |                      |            | *        |
| 3           |                       |            | *        |                      |            | *        |
| 4           |                       |            | *        |                      |            | *        |
| 5           |                       | *          |          |                      | *          |          |
| 6           |                       | *          |          |                      | *          |          |
| 7           |                       | *          |          |                      | *          |          |
| 8           |                       |            | *        |                      | *          |          |
| 9           |                       | *          |          |                      | *          |          |
| 10          | *                     |            |          | *                    |            |          |
| 11          |                       | *          |          |                      | *          |          |
| 12          |                       |            | *        |                      |            | *        |
| 13          |                       |            | *        |                      |            | *        |
| 14          |                       | *          |          |                      | *          |          |
| 15          | *                     |            |          | *                    |            |          |
| 16          | *                     |            |          | *                    |            |          |
| 17          |                       |            | *        |                      |            | *        |
| 18          | *                     |            |          | *                    |            |          |
| 19          |                       | *          |          |                      | *          |          |
| 20          |                       |            | *        |                      | *          |          |
| 21          |                       | *          |          |                      | *          |          |
| 22          | *                     |            |          | *                    |            |          |
| 23          |                       | *          |          |                      | *          |          |
| 24          |                       | *          |          |                      | *          |          |

#### **4.4.6 Analysis of Closeness to the Beyond Budgeting Approach**

Since 1998, the Beyond Budgeting Round Table has tried to develop an alternative to budgeting processes. After carrying out researches in several companies, the BBRT developed a basic model based on 12 principles. Ideal Beyond-Budgeting companies implement all these 12 principles in their full sense. BB model suggests the companies to focus on empowerment from bottom-to-top rather than commanding from top-to-bottom, to use Rolling Forecast in order to respond to fast changing marketing conditions, to enable constantly updating information flow, to establish decentralized management units for higher market and customer-orientation, to assess performance based on relative targets, to take investment decisions and delegate authority throughout the year in parallel with the company strategies and plans that could add value to the company.



BBRT defines the first rule of the BB approach as; checking whether there is a need to make any changes in the company or not. If there is no such need, then the practice won't be successful. Thus; BBRT launched the Beyond-Budgeting Entry Scan (BBES) process in order to assess the closeness of companies to the BB management model. BBES aims to perform a feasibility analysis of the applicability of the BB model through a catalyzer quick scan rather than an overly detailed analysis (Waal 2005).

In the final phase of the research; under the light of the feasibility analysis carried out by BBES, it was aimed to assess whether the participant companies were in need of a new management model and whether it would be possible for them to implement the basic changes required by the BB model. The respondents were asked to fill in a mini survey form at the end of the interview.

The mini survey form the respondents were made to fill in in order to understand their closeness to BB process and the findings are given below;

The respondents were asked to answer the following questions:

**1. How much are you content with your current budgeting processes?**

A probable practice of the BB model would start with the identification of the need to modify the budgeting processes. First of all, if the company has no problem about its current budgeting process, the model would bring no benefit. Within this framework, the respondents were asked whether they were content with their current budgeting processes.

15 respondents stated that they were content with their current budgeting processes, 2 of them stated that they were not and the remaining others stated that they were quite content.

## **2. Does your company intend to modify its budget practices?**

At the second phase, the respondents were asked whether they were in need of a change in their budget systems. 12 respondents said 'no', 3 respondents said 'yes' and the others stated they were planning a certain degree of change.

## **3. Is your company affiliated to a big-scaled group or holding? If yes, does your company have the authority to change its budgeting processes independently?**

If a company has the right to decide freely, it can decide whether it needs the BB system or not. On the other hand; if a company is a member of a bigger-scaled organization, then it may not be possible for it to decide freely about any change in its budgeting processes. Thus; the respondents were asked whether they were affiliated to a big-scaled group or holding, and if they did, whether they had the authority to change their budgeting processes. 12 respondents stated that they were affiliated to a group and 8 of these stated that they didn't have the right to change their budgeting processes while the remaining 4 had this authority. The remaining respondents pointed out that they could change their budgeting processes in all conditions.

## **4. Would your group be open to potential changes in budgeting and managements processes?**

The respondents who said 'yes' to the question: "Is your company affiliated to a big-scaled group or holding?" were asked whether their group would be open to potential changes in budgeting and management processes. 4 respondents said 'yes', 1 respondent said 'no' and the others said 'to a certain degree'.

BBES suggests the analysis of the closeness of the companies' current systems to the principles of BB in order to find out how much the company currently fits the 12 principles of the BB approach. Within this scope; the questions given in Table 4.10 were asked under the light of the 12 principles in order to assess the closeness of the companies'

current systems to the principles of the BB approach. The respondents were instructed to answer the questions as “Yes-To a certain degree-No”. Table 4.10 showing the distribution of the questions and answers is given below:

**Table 4.10: Question form Section 2**

| Question Number | Questions   | Yes | Certain Level | No | Total |
|-----------------|---|-----|---------------|----|-------|
| 1               | Are authorities and responsibilities distributed at your company? (p1a)   | 7   | 13            | 4  | 24    |
| 2               | Is a wider-scaled distribution of authorities and duties possible? (p1b)  | 9   | 11            | 4  | 24    |
| 3               | Do your lower-level managers have freedom to take decisions independently? (p2a)  | 7   | 13            | 4  | 24    |
| 4               | Do your lower-level managers have the competency to take decisions independently? (p2a)   | 9   | 13            | 2  | 24    |
| 5               | Would it be possible to extend the current authority areas of your employees? (p2b)   | 9   | 14            | 1  | 24    |
| 6               | Are your senior managers ready to delegate their powers? (p2c)  | 9   | 14            | 1  | 24    |
| 7               | Are your company targets dynamic? (Can the targets be modified depending on the changing conditions?) (p3a)   | 7   | 14            | 3  | 24    |
| 8               | Is it possible to update your company targets in a fast manner? (p3b)   | 14  | 8             | 2  | 24    |
| 9               | Is your company customer-oriented? (p4a)  | 18  | 5             | 1  | 24    |
| 10              | Would it be possible to establish a customer-oriented system? (p4b)   | 21  | 2             | 1  | 24    |
| 11              | Can the current management system of your company be defined as Coaching and/or Guiding? (The senior management does not directly instruct the lower-level managers but guides, instead.) (p6a) | 2   | 10            | 12 | 24    |
| 12              | Would it be possible to implement a “Coaching/Guiding” based management model in your company? (p6b)  | 4   | 9             | 11 | 24    |
| 13              | Does your company define its targets by taking the competitors into consideration? (p7a)  | 13  | 8             | 3  | 24    |
| 14              | Is it possible in your company to define relative targets taking competitors into consideration? (p7b)  | 13  | 8             | 3  | 24    |
| 15              | Is it possible to model your company’s strategy formulation process in a bottom-to-top and continuous manner? (p8b)   | 6   | 12            | 6  | 24    |
| 16              | Is Rolling forecast method (cycling 12 months forecast method) used in your budgeting studies? (p9a)  | 6   | 3             | 15 | 24    |
| 17              | Would it be possible to implement the Rolling forecast method in your company? (p9b)  | 9   | 13            | 2  | 24    |
| 18              | Would it be possible in your company to implement a more flexible resource allocation process based on business plans? (p10b)   | 8   | 16            | 0  | 24    |
| 19              | Does your company possess efficient and effective information exchange processes covering both financial and non-financial data? (p11a)   | 10  | 12            | 2  | 24    |
| 20              | Would it be possible to improve your information exchange processes? (p11b)   | 11  | 13            | 0  | 24    |
| 21              | Does your company have an awarding (Premium) system based on both personal and group performance results? (p12a)  | 8   | 9             | 7  | 24    |
| 22              | Would it be possible to develop an awarding system based on personal and group performance results? (p12b)  | 10  | 8             | 6  | 24    |
| 23              | Would it be possible to develop an awarding system which takes the competitors into consideration? (p12b)   | 10  | 8             | 6  | 24    |
| 24              | Are the employees in your company ready for a change in the awarding system? (p12c)   | 10  | 13            | 1  | 24    |

According to the results of the Table, authorities and duties in participant companies are delegated to a certain degree. Widening the scope of authority and duty delegation is also possible within certain limits only. In participant companies who answered the 1st question as 'to a certain degree', improving the freedom of lower-level managers to take decisions independently and widening the area of this freedom can also be realized to a certain degree only.

In the majority of participant companies, targets are dynamic and updates can be done in a fast manner.

The 9th question about customer-orientation, which is particularly emphasized by the BB approach, was answered as 'yes' by 18 respondents and the question inquiring about the possibility to develop such structure was answered as 'yes' by 21 respondents. These answers are in parallel with the views of the respondents on the principles of BB.

Regarding the leadership role of the senior management, 10 respondents stated that their senior managers had this characteristic to a certain degree. There were four companies where the leadership role was possible in its full sense.

20th and 21st questions, which are about setting targets by taking the competitors into consideration, were answered as 'yes' by 13 respondents and as 'to a certain degree' by 8 companies.

Whereas it would be possible to model a top-to-bottom strategy formulation process in 6 companies, it would be possible to a certain degree in 12 companies and it wouldn't ever be possible in 6 companies.

While 6 companies were using the Rolling forecasts currently, 9 of the respondents deemed their implementation possible.

Flexibility about resource planning is to a certain degree. We could say that; efficient information exchange process covering both the financial and non-financial data exists in

participant companies. It seems possible to establish awarding systems both on personal and on group basis. Component considerations and the view of employees on potential changes in the awarding system are also positive.

In summary, the first rule to implement the BB model is the presence of a dissatisfaction of companies regarding their current budgeting processes. In this research, only 2 of the companies stated their dissatisfaction. The data obtained in previous chapters revealed out that; the participants were mostly content with their budgeting processes. This shows that; let alone implementation, it would take a long time for an approach like BB even to get the attention of the companies in our country. The survey form which was prepared in order to understand the closeness of the current systems of participant companies to the principles of BB shows us that; practices particularly emphasized by the BB model, such as the assuming the leadership role, authority delegation, using Rolling forecasts and flexible allocation of resources could find little place in the companies of our country. On the other hand; customer-orientation, revision of performance assessment and information exchange processes are observed to be easier to implement.

## 5. CONCLUSION

Budgeting is a managing system that sets objectives, strategies, plans and controls activities in organizations, making it a topic of interest for researchers and practitioners.

Numerous studies have been conducted debating on whether the traditional or the alternative methods are better and measuring the effects on enterprises. Numerous studies have been conducted debating on whether the traditional or the alternative methods is the better than each other and measuring the effects on enterprises. Most researchers state that traditional, static annual budgets are not an accurate method of budgeting in the changing world. Although traditional budgeting is not seen as a suitable method for the business world today, it is still very widespread amongst organizations.

Budgets have been used for a long time in Turkey, which raises the question of how and to what extent it has been used. This thesis answers these critical questions by providing a broad understanding of how budgets are prepared, the way they are placed in management control systems and compares the existing budget practices with the BB alternative. It provides a conceptual framework to guide future applications by addressing all aspects of the BB concept, and measures the applicability on a large scale of companies in Turkey. Interviews made within the study shows organizations have a strong reason to continue using budgets as tools of management and control.

In general, budgets are used for planning, controlling, resource allocation, coordination, performance measurement and communication. However, the priority given to the budgeting of a particular management tool within an organization may differ. Managers who participated in this study, tended to object to the notions that budgets caused dysfunctional behaviour, or are seen as rituals. Respondents agree with two main criticisms of budgets; budgets are very time consuming and too detailed.

According to this research, corporations in Turkey mainly use traditional budgeting because it has been embedded into the organizational culture and it is an important tool for planning and controlling purposes.

The role of budgeting in Turkey is to plan, carry out and control activities in an organization. In this research, participants have touched on the main reasons of how budgeting adds value to institutions. Budgeting provides a planned and controlled framework. Large companies may have difficulty planning, coordinating and controlling their businesses without a budgetary framework. For this reason budgets are vital for large businesses.

Budgeting isn't a system detached from the main work description in an institution- it is greatly embedded in it. It may not be possible for organizations to easily move away from such a fundamental management method. A budget is a centrally coordinated activity in an enterprise, and is often the only activity that brings together all aspects of the company.

The basic research question is whether the BB model can be implemented in Turkey or not. Respondents' approaches showed that the application of BB in Turkey is not fully possible due to; unsuccessful institutionalization, ongoing leadership problems, restrictions on distribution of authority and effects of cultural differences. Participants indicated that some principles of the BB are applicable to performances such as the; evaluation systems, resource allocation and strategic planning.

It is obvious that the traditional budgeting system contains some defects and organizations seek alternatives to eliminate such deficiencies. However, choosing between traditional and alternative management methods is not a simple choice. Senior managements may find it difficult to completely abandon budgeting as it is placed in the business culture. When looking at the situation in Turkey, the advantages of using budgets as a means of management and control, outweighs its disadvantages. In Turkey, traditional budgeting methods are likely to be exposed to criticism in the near future. Therefore, it is foreseeable that the full implementation of the BB approach in the world and in Turkey will be achieved. Organizations such as Borealis, Coloplast, and Sparebank are examples of

successful implementations of the BB approach. The number of organizations implementing this approach is increasing. However, the BB method is still in its early stages of implementation and practice. It is not a management model that can be easily applied to different cultural structures. This concept requires further research, development and application.

As mentioned above, it does not seem possible by participants to see Turkish companies completely abandon budgeting. For this reason, it may be helpful to incorporate some of the features of the first stages of the BB approach to the already existing traditional budgeting system. At this point it is important to emphasize that the BB system allows companies to continue to use budgets for short-term planning purposes, but asks to abandon the budget-based performance management. This is so that a management model suitable for today's rapidly changing market conditions is created. It is advisable for Turkish companies not to completely abandon budgeting and most importantly, not to manage companies solely through budgeting. That means budgets should be used for short term planning and management should find different tools in order to wholly encapsulate the functions for its businesses.

BB proposes extensive modern techniques to fulfil other functions of management. For example, BB recommends relative performance assessment methods to avoid inappropriate behaviours caused by fixed performance contracts between employees and employers. Relative performance evaluation requires the use of benchmarking. In addition, BB also recommends evaluating the company's overall performance, using a variety of non-financial instruments, in line with strategic objectives. It uses the BSC technique for this purpose. An implementation of the BB approach greatly emphasizes on the fundamental change in the management model and to instil a decentralized management system.

The BB approach is a model that can be taken as an example for resource distribution and customer orientation. In particular, the application of a rolling forecast is an effective way to deal with the changes that can occur in the market. In addition, a leadership/ coaching style of management will connect Y type to the company.



The institutionalization of companies is the most important of the features stated above. For family companies to gain an identity in the already advancing corporate world, it is vital that they acquire qualified professionals to enhance their performance. The successful implementation of effective management techniques in institutionalized companies will enable to have quality employees, quality products, quality customers and profitable and sustainable success.

As a result, this research topic is one of the most important developments in management accounting in recent years. The BB approach provides a new perspective on organizations' budgeting processes, planning processes and organizational structures. Even if each organization does not completely switch to this practice, they can benefit immensely by applying to one or more of BB's principles. By means of the benefits provided by the BB approach organizations will be able to increase their success both in Turkey and international market. This study revealed that companies already have moderate proximity for many of the issues under the BB principles. In order to make this method known throughout Turkey, the interest of the high level managers need to be attained through researches on Beyond Budgeting. It is also vital that discussions on new management approaches are conducted to change the management approaches of companies to suit the culture of the respected countries. Further researches can be conducted to determine the extent of managerial changes in company culture in developed and also the developing countries.

## REFERENCES

### *Books*

- Acıluo lu, . (2015). 'te Y Ku a ı. Ankara: Elma Yayınevi
- Argüden, Y. & Sa dıç, E. 2000. Balanced Scorecard, ARGE Danı manlık Yayınları No: 01, 1st Edition
- Arnold J., Turley S., 1996. Accounting for management decisions. London: Prentice Hall.
- Atkinson, A.A., Kaplan, R.S., Matsumura, E.M. & Young S.M., 2012. Management accounting: Information for decision-making and strategy execution. 6th Edition. Pearson.
- Ax, C., & Bjørnenak, T. 2007. Management accounting innovations: origins and diffusion. In T. Hopper, D. Northcott & R.W. Scapens (Eds.), Issues in management accounting. Hertfordshire: Prentice-Hall. pp. 357–376.
- Berg, B.L., 2001. Qualitative research methods for the social sciences. 4 th ed. Pearson Education. pp. 69-70
- Bhimani, A., Horngren, C.T., Datar, S.M. & Foster, G..2008. Management and cost accounting. 4th edition. N.J.: Prentice Hall
- Bogsnes, B.. 2009. Implementing Beyond Budgeting – Unlocking the Performance Potential. NJ: John Wiley & Sons.
- Bryman, A. & Bell, E.. 2011. Business Research Methods. Third Edition. Oxford: University Press,
- Büyükmirza, K. 2007. Maliyet ve Yönetim Muhasebesi. 11.baskı. Ankara: Gazi Kitabevi.
- Drury, Colin. 2012. Management & cost accounting. 8. ed., Cengage Learning EMEA. p.361
- Eren, E.. 2005. Stratejik Yönetim ve İletme Politikası. stanbul: Beta. p. 416
- Easterby-Smith, M., Thorpe, R., & Jackson, P. R. 2012. Management research. 4th edition Sage.
- Haftacı, V. 2005. İletme Bütçeleri. 4.baskı. stanbul: Beta Basım. p. 1
- Hilton, R.W., Maher, M.W. & Selto, F.H.. 2000. Cost management: Strategies for

- business decisions. New York: McGraw-Hill International,
- Hofstede, G.H.. 1967. The game of budget control: "How to live with budgetary standards and yet be motivated by them". Assen: Van Gorcum & Comp..
- Hope, J., & Fraser, R.. 2003. Beyond budgeting – how managers can break free from the annual performance trap. Boston: Harvard Business School Press.
- Horngren, C.T., Datar, S.M. & Foster, G.. 2003. Cost accounting: a managerial emphasis. N.J.: Pearson Education International, Prentice Hall.
- Horngren, C. T., Foster, G., Datar, S. M., Rajan, M., Ittner, C., & Baldwin, A. A.. 2015. Cost accounting: A managerial emphasis. 15.edition. NY: Pearson.
- Karasar, N. 2005. Bilimsel araştırma yöntemi. Ankara: Nobel Yayın Dağıtım.
- Morlidge, S. & Player, S.. 2010. Future ready: How to master business forecasting. Chichester.: John Wiley & Sons,
- Öker, F.. 2003. Faaliyet tabanlı maliyetleme; üretim ve hizmet işletmelerinde uygulamalar. İstanbul: Literatür Yayınları. p. 80
- Özen, A.. 2008. Performans Esaslı Bütçeleme Sistemi ve Türkiye’de Uygulanabilirliği. Ankara: T.C. Maliye Bakanlığı Strateji Geliştirme Daire Başkanlığı. p. 5
- Player, S., Fraser, R., & Hope, J. (2012). Moving Beyond Budgeting: Integrating Continuous Planning and Adaptive Control. Handbook of Budgeting, Sixth Edition, 145-159.
- Sevgener, A.S. & Hacırüstemoğlu, R.. 1993. Yönetim Muhasebesi. 3.baskı İstanbul: M.Ü.Nihat Sayar Eğitim Vakfı Yayını. p. 306
- Shah, A., 2007. Public Sector Governance and Accountability Series: Participatory Budgeting. Washington: The International Bank for Reconstruction and Development/ The World Bank.
- Shim, Jae K. & Siegel, Joel G.. 2009. Budgeting basics and beyond. 3. Ed. Hoboken, NJ.: John Wiley and Sons.
- Yıldırım, A. & Şimşek, H.. 2004.. Sosyal bilimlerde nitel araştırma yöntemleri. 4. Baskı. Ankara: Seçkin Yayıncılık.
- Yin, R. K.. 2011. Qualitative research from start to finish. New York: Guilford Press.
- Yükçü, S.. 1999. Yönetim açısından maliyet muhasebesi. İzmir: Cem Ofset.

## *Articles*

- Ahmad, N N M, Sulaiman, M, and Alwi, N M (2003) Are budgets useful? A survey of Malaysian companies. *Managerial Auditing Journal*, 18(9).
- Armstrong, P., Marginson, P., Edwards & P., Purcell, J. 1996. Budgetary control and the labour force: findings from a survey of large British companies. *Management Accounting Research*. 7(1), pp. 1-23.
- Barrett, M.E. & Fraser, L.B.I.. 1977. Conflicting roles in budgeting for operations. *Harvard Business Review*. 55 (4), pp.137–146.
- Bartram, P. 2006. Forecasting the end for budgets. *Director*. 60 (1), p.30.
- Blumentritt T.. 2006. Integrating Strategic Management and Budgeting. *Journal of Business Strategy*. 27(6), pp. 73–79.
- Bourmistrov, Anatoli, Kaarbøe, Katarina: “From comfort to stretch zones: A field study of two multinational companies applying ‘beyond budgeting’ ideas”. *Management Accounting Research*, 2013, Vol.24, Issue 3, pp. 196-211.
- Bozeman, B.& Straussman, J.D.. 1982. Shrinking Budgets and the Shrinkage of Budget Theory. *Public Administration Review*, 42(6). pp.509-515.
- Bunce, P., Fraser, R. and Woodcock, L. (1995) ‘Advanced budgeting: a journey to advanced management systems’, *Management accounting research*, vol.6, iss.3, September, pp. 253-265
- Cardo , I. R., 2014. New Trends In Budgeting – A Literature Review. *SEA - Practical Application of Science*. 2(2/4), pp.486.
- Clarke, P. & Toal, A.. 1999. Performance measurement in small firms in Ireland. *Irish Accounting Review*. 6(1), pp. 1-22.
- Cooper, R. & Slagmulder, R.. 2000. Activity Based Budgeting-Part I. *Strategic Finance*. 82(3), p.85.
- Çataloluk, C.. 2006. Sıfır Tabanlı Bütçeleme Sistemi ve Türkiye’ de Uygulanabilirliği. *Selçuk Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*. (16), pp. 229-242.
- Daum, J.. 2002. Beyond Budgeting: A Model for Performance Management and Controlling in the 21st Century? *Controlling and Finance*. pp.1-3.
- De With, A. & Dijkman, A.. 2008. Budgeting Practices of Listed Companies in the Netherlands. *Management Accounting Quarterly* Fall 10(1), pp. 26–36.

- Dugdale, D. & Lyne, S.. 2006. Budgeting. CIMA Financial Management. pp. 32-35.
- Ekholm B.& Walling J.. 2000. Is the annual budget really dead? *The European Accounting Review*. 9(4), pp. 519–539.
- Frow, N., Marginson, D. and Ogden, S. 2010. Continuous budgeting: reconciling budget flexibility with budgetary control. *Accounting, Organizations and Society*, 35( 4), pp. 444-461.
- Goode, M. & Malik, A.. 2011. Beyond budgeting: the way forward. *Pakistan Journal of Social Sciences*. 31(2), pp. 207-214.
- Gurton, A. 1999. Bye-bye budget - the annual budget is dead. *Accountancy*, pp.60-70.
- Güner, M. F.. 2008. Bir Stratejik Yönetim Modeli Olarak Balanced Scorecard. *ktisadi ve dari Bilimler Fakültesi Dergisi*. 10(1), pp. 1-19.
- Hansen, S.C., Otley, D.T.& Van der Stede W.A.. 2003. Practice Developments in Budgeting: An Overview and Research Perspective. *Journal of Management Accounting Research*. 15, pp.95-116.
- Hansen, S.C.. 2011. A Theoretical Analysis of the Impact of Adopting Rolling Budgets, Activity-Based Budgeting and Beyond Budgeting. *European Accounting Review*, 20 (2), pp. 289–319.
- Henderson, I. 1997. Does budgeting have to be troublesome? *Management Accounting: Magazine for Chartered Management Accountants*. 75(9), p.28.
- Heupel, T. & Schmitz, S.. 2015. Beyond Budgeting-A High-hanging Fruit The Impact of Managers' Mindset on the Advantages of Beyond Budgeting. *Procedia Economics and Finance*. 26, pp. 729-736.
- Hope, J. & Fraser, R., 1999. Beyond Budgeting: Building aNew Management Model For The Information Age. *Management accounting*. – London. 77 (1), pp. 16-21
- Hope, J. & Fraser, R.. 2003. Who needs Budgets? *Harvard Business Review*, 81 (2), pp. 108–115.
- Jensen, M.. 2003. Paying People to Lie: the Truth about the Budgeting Process. *European Financial Management*. 9(3), pp. 379-406.
- Johansson, T., & Siverbo, S. 2014. The appropriateness of tight budget control in public sector organizations facing budget turbulence. *Management Accounting Research*, 25(4), pp.271-283.
- Jones, T.A., 2008. Improving hotel budgetary practice—a positive theory model.

- International Journal of Hospitality Management. 27(4), pp. 529–540.
- Joshi, P.L. & Com, M.. 1997. Budgetary practices in the banking sector in Bahrain: empirical research findings. *Journal of Financial Management & Analysis*. 10(2), pp. 44–51.
- Joshi, P.L.. 2001. The international diffusion of new management accounting practices: the case of India. *Journal of International Accounting, Auditing & Taxation*. 10(1), pp. 85-109
- Joshi, P. L., Al-Mudhaki, J. and Bremser, W. G. (2003). Corporate Budget Planning, Control and Performance Evaluation in Bahrain. *Managerial Auditing Journal*. 18(9): 737-750.
- Kaplan, R.S. & Norton, D.. 1992. The balanced scorecard-measures that drive performance. *Harvard Business Review*. pp. 71-79
- Kaplan, N., 1994. Devising a balanced scorecard matched to business strategy. *Planning Review*, pp.15-19.
- Kaplan, R.S. & Norton, D.. 1996. Using the Balanced Scorecard as a Strategic Management System. *Harvard Business Review*, p.76.
- Kaplan, R. S., & Norton, D.. 2001. Transforming the balanced scorecard from performance measurement to strategic management: Part I. *Accounting horizons*, 15(1), pp.87-104.
- Karata , Z. 2015. Sosyal Bilimlerde Nitel Ara tırma Yöntemleri. *Manevi Temelli Sosyal Hizmet Ara tırmaları Dergisi*. 1(1), pp. 62-80.
- Kaygusuz, S.. 2003. İ letmelerde Faaliyet Tabanlı Bütçeleme. *Balıkesir Üniversitesi İ ktisadi ve İ dari Bilimler Fakültesi - Akademik Fener*. 1(1), pp. 93-127.
- Kim, J.M. & Park C.- K.. 2006. Top-down budgeting as a Tool for Central Resource Management. *OECD Journal on Budgeting*. 6(1). pp. 88-125.
- Ku u, T. D. & Kırılı, M.. 2013. İ letme Performansının De erlendirilmesinde Bir Yenilikçi Yönetim Muhasebesi Aracı Olarak Balanced Scorecard Uygulaması. *Süleyman Demirel Üniversitesi İ ktisadi ve İ dari Bilimler Fakültesi Dergisi*, 18(2), pp. 301-318.
- Libby, T. & Lindsay, R.M.. 2007. Beyond budgeting or better budgeting?, *Strategic Finance*, 89 (2), pp.46–51.
- Libby, T. & Murray, L. R.. 2010. Beyond budgeting and budgeting reconsidered? A

- survey of North-American budgeting practices, *Management Accounting Research*, 21(1), pp.56-75.
- Lorain, M. A., Domonte, A.G. & Peláez, F. S.. 2015. Traditional Budgeting during Financial Crisis. *Cuadernos de Gestión*. 15(2), pp. 65-90.
- McNally, R.. 2002. The annual budgeting process. *Accountancy Ireland*, 34(1), pp.10-12.
- Merchant K.A & Van der Stede W.A. 2006. Field-based research in accounting: accomplishments and prospects. *Behavioural Research in Accounting*. 18 (1), pp. 117–34.
- Neely, A., Bourne, M. & Adams, C.. 2003. Better budgeting or beyond budgeting?. *Measuring Business Excellence*. 7(3), pp.22-28.
- Oak, S.& Schmidgall, R.S.. 2009. Have budgetary controls in the US club industry changed from the mid-1980s to the twenty-first century? *International Journal of Contemporary Hospitality Management*. 21(4), pp. 411–421.
- Østergren, K. & Stensaker, I.. 2011. Management control without budgets: A field study of beyond budgeting in practice. *European Accounting Review*. 20(1), pp.149-181.
- Pierce, B. & O’Dea, T.. 1998. An empirical study of management accounting practices in Ireland. *Irish Accounting Review*. 5(2), pp.35-66
- Pietrzak, Z.. 2013. Traditional versus activity-based budgeting in non-manufacturing Companies. *Social Sciences*. 82(4), pp. 26-37.
- Pilkington, M. & Crowther, D.. 2007. Budgeting and control. *Financial Management*. pp. 29-30.
- Prendergast, P (2000) Budgets hit back. *Management Accounting*, January. pp.14-16
- Raghunandan, M. , Narena R. & Koshina, R.-M.. 2012. Examining the behavioural aspects of budgeting with particular emphasis on public sector/service budgets. *International Journal of Business and Social Science*. 3(14), pp. 110-117.
- Rickards, R.C.. 2006. Beyond budgeting: boon or boondoggle? *Investment Management and Financial Innovations*. 3(2), pp. 62-76.
- Sandalgaard, N. & Bukh,P.N.. 2014. Beyond Budgeting and change: a case study. *Journal of Accounting & Organizational Change*. 10(3), pp. 409-423.
- Shields, M. D. and S. M. Young. 1993. Antecedents and consequences of participative budgeting: Evidence on the effects of asymmetrical information. *Journal of*

- Management Accounting Research (5). Pp. 265-280.
- Siverbo, S.. 2014. Strategic alignment in decentralized organizations - the case of Svenska Handelsbanken. *Scandinavian Journal of Management*. 30(2), pp. 149-162.
- Stewart, T. A. 1990. Why budgets are bad for business. *Fortune*, 4, pp.181-190.
- Tandung, H., Gong, G. & Nguyen, A.. 2013. Integrating activity-based costing with economic value added. *International Journal of Economics, Finance and Management Sciences*. 1(4), pp. 181-187
- Türk, Z.. 2000. Modern bütçeleme teknikleri: faaliyet esaslarına dayalı bütçeleme. *MÖDAV Muhasebe Bilim ve Dünya Dergisi*. 2(4), pp. 37-50.
- Türüdüo lu, F., Suner, N., & Yıldırım, G.. 2014. Determination of goals under four perspectives of balanced scorecards and linkages between the perspectives: a survey on luxury summer hotels in Turkey. *Procedia-Social and Behavioral Sciences*. 164, pp. 372-377.
- Waal, A.A.de.. 2005. Is your organization ready for beyond budgeting? *Measuring Business Excellence*. 9(2), pp. 56-67.
- Wallander, J.. 1999. Budgeting- an unnecessary evil. *Scandinavian Journal of Management*. 15(4), pp. 405- 421.
- Webb, R.A.. 2002. The impact of reputation and variance investigations on the creation of budget slack. *Accounting, Organizations and Society*, 27(4/5), pp. 361-378.
- Wijewardena, H. & Zoysa, A.D.. 1999. A comparative analysis of management accounting practices in Australia and Japan: An empirical investigation. *The International Journal of Accounting*. 34(1), pp. 49-70.
- Williams, K.. 2008. What are your budget headaches? *Strategic Finance*. 89 (7), p. 19.
- Yılmaz, F.. 2001. İletmelerde Bütçeleme. *SMMMO Mali Çözüm Dergisi*. (55), pp. 72-83.



### *Other Publications*

ACCA Paper F5 Examining Team. Comparing Budgeting Techniques

<http://www.chinaacc.com/upload/html/2013/06/26/lixingcun13eeca8b50794e1fa2662d1261b92717.pdf> [accessed 29.07.2016]

Aksom, H. 2015. What is Beyond Budgeting in Ukraine: idea, fashion or innovation?

University of Nordland. Master Thesis. p.27

<https://core.ac.uk/download/pdf/30912700.pdf>

Aktan, C. 1999. 2000'li Yıllarda Yeni Yönetim Teknikleri (4): İnsan Mühendisliği,

İstanbul. TÜG AD Yayınları <http://www.canaktan.org/yonetim/insan-yonetim/neo-klasik.htm> [accessed 29.01.2017]

Anders Olesen, 2013. Handelsbanken: Consistency at its Best. Beyond Budgeting

Institute, [www.bbrt.org](http://www.bbrt.org)

Aras, F.. (2014). İşletme bütçe sistemleri, üretim işletmesinde uygulama örneği. Yüksek

Lisans Tezi. İstanbul: Okan Üniversitesi SBE.

Banovic, D., 2005. Evolution and critical evaluation of current budgeting practices.

Thesis for the M.A. Degree. Ljubljana: University of Ljubljana Faculty Of Economics.

Becker, S., Messner, M. and Schaffer, U. 2009. The Evolution of a Management

Accounting Idea: The Case of Beyond Budgeting. Working paper

[http://www.hec.unil.ch/hec/hec\\_en\\_bref/evenements/BeyondBudgeting\\_Lausanne\\_Oct2010.pdf](http://www.hec.unil.ch/hec/hec_en_bref/evenements/BeyondBudgeting_Lausanne_Oct2010.pdf) [accessed 19.02.2017]

Berg, A. & Karlsson, F.. (2014). Why the annual budget is not dead: Contingencies

affecting the relevance of the budget critique. Thesis for the M.A. Degree.

Uppsala: Uppsala University Department Of Business Studies.

Beyond Budgeting: A Paradigm Shift in the Management Model Reinventing

Management Conference, Johannesburg, 20th May 2010

Bogsnes, B., Larsson, D. Olesen, A. Player, S. & Rösli, F.. 2016. Update of the beyond

budgeting principles. Beyond Budgeting Institute White Paper.

Bolojan, Florin. 2011. Bottom-up/Top-down budgeting. The 6th International Scientific

Conference "Defense Resources Management In The 21st Century" Broşav. December 02-03 Bucharest, Romania: Joint Logistics Command, p.160

- Bunce, P. 2004. The beyond budgeting journey towards adaptive management. A report on the better budgeting forum from CIMA and ICAEW.  
[http://www.cimaglobal.com/Documents/ImportedDocuments/betterbudgeting\\_techrpt\\_2004.pdf](http://www.cimaglobal.com/Documents/ImportedDocuments/betterbudgeting_techrpt_2004.pdf) [Accessed:25.07.2016]
- CIMA (2007). Beyond Budgeting. [Online] Available at:  
[http://www.cimaglobal.com/documents/importeddocuments/cid\\_tg\\_beyond\\_budgeting\\_oct07.pdf](http://www.cimaglobal.com/documents/importeddocuments/cid_tg_beyond_budgeting_oct07.pdf) [Accessed: 28/11/16]
- CMI 2015, Incremental Budgeting. <http://www.cmbd.org.uk/CMI%20L7%20resources/Handouts%207003/Incremental%20budgeting.pdf>,  
 [Accessed:29.07.2016]
- Cranfield University School of Management, 2001. Driving Value Through Strategic Planning and Budgeting. <http://www.som.cranfield.ac.uk/som/dinamic-content/media/CBP/Areas%20of%20Expertise/Neely%20A%20Sutcliffe%20MR%20Heyns%20HR%20-202001%20Driving%20Value%20Through%20Strategic%20Planning%20and%20Budgeting.pdf>  
 [Accessed:12.09.2016]
- Doğan, S., 2016. Faaliyet Tabanlı Bütçeleme ve Bir Tekstil Firmasında Uygulaması. Doktora Tezi. İstanbul: Marmara Üniversitesi SBE
- Eker, M.. (2004). Faaliyet Tabanlı Bütçeleme Tekniği ve Bir Uygulama. Doktora Tezi. Bursa: Uludağ Üniversitesi SBE.
- Robin Fraser and André de Waal, 2001. CAM-I Beyond Budgeting Round Table, “Beyond budgeting” research. BBRT, Benchmarking Project  
<http://www.balanced-scorecard.de/docs/Beyondbudgeting4.pdf>  
 [Accessed: 08/10/16]
- Golyagina, A. & Valuckas, D., 2012. Reviewing literature on rolling forecasts, benchmarking and customer profitability. Thesis for the M.A. Degree. Bergen: Norges Handelshøyskole.
- Guillaume P. & Bullinger, D. 2013. Moving Beyond Budgeting How to build an empowered and adaptive organization. 12th annual Beyond Budgeting Conference. June 2013:
- Gullmark, P. 2014. "Cultur-based" vs. "Administrative" model: A study of Beyond Budgeting MCS in Miles AS and Posten AS. Master Thesis.

- Hammer, C.. 2010. Is Beyond Budgeting peculiarly Scandinavian, and if so what does it entail for its applicability across the world? Thesis for the M.A. Degree. Bergen: Institute For Research n Economics And Business Administration.
- Hendricks, KB., Menor. LL., Wiedman, CI. 2004. BSC: To Adopt Or Not To Adopt? Rich. Ive. Sch. Bus. Cas. Col. London: Jan 11  
<http://iveybusinessjournal.com/publication/the-balanced-scorecard-to-adopt-or-not-to-adopt/>[Accessed: 28/08/16]
- Henttu-Aho, T., & Järvinen, J. 2013. A Field Study of the Emerging Practice of Beyond Budgeting in Industrial Companies: An Institutional Perspective. European Accounting Review.
- Hope, J & Fraser, R. 2001. Beyond Budgeting, Questions and Answers. CAM-I Beyond Budgeting Round Table. <https://pdfs.semanticscholar.org/8c10/9c1b1609e685f1c63821a1ab9aea8af24745.pdf>
- Ilchikabir, S.. 2013. On The Complementary Role of Budget and Rolling Forecast. Thesis for the M.A. Degree. Göteborg: University of Gothenburg, School of Business, Economics and Law.
- Johansson, X.. 2014. Budget Management, The perception and use of budgets within publicly traded companies in Sweden. , Jönköping: Jönköping International Business School.
- Karaca, N.. (2008). Faaliyet Tabanlı Bütçeleme Modellemesi ve Bir Üretim İletmesi uygulaması. Doktora Tezi. Sakarya: Sakarya SBE.
- Lohan, G., Conboy, K. & Lang, M. (2010)"Beyond Budgeting: A Performance Management Model for Software Development Teams" in: proceedings of the LESS conference 2010 <http://hdl.handle.net/10379/1471>
- Louise Ross and Technical Information Service. CIMA Budgeting Topic Gateway Series No. 27, Revised March 2008,p.12  
[http://www.cimaglobal.com/Documents/ImportedDocuments/cig\\_tg\\_budgeting\\_mar08.pdf](http://www.cimaglobal.com/Documents/ImportedDocuments/cig_tg_budgeting_mar08.pdf) [Accessed: 28/11/16]
- Mack, N., Woodsong, C., MacQueen, K. M., Guest, G., & Namey, E. 2005. Qualitative research methods: a data collectors field guide. Family Health International p.1-2
- Magnusson, J.. 2011. Budgeting for Success- A Case Study of Jönköping County

- Council. Bachelor Thesis in Management Accounting. Gothenburg: University of Gothenburg School of Business Administration.
- Mejzini, N. & Seidel, H.. 2015. Challenging the Principles of the Beyond Budgeting Model. Thesis for the M.A. Degree. Karlstad: Karlstad Business School.
- Milova, Y. 2011. Organizations' receptiveness to management accounting innovations: the Beyond Budgeting case: a study on the basic characteristics of the Beyond Budgeting Roundtable organizations.  
[https://brage.bibsys.no/xmlui/bitstream/handle/11250/165125/R07\\_11.pdf?sequence=1&isAllowed=y](https://brage.bibsys.no/xmlui/bitstream/handle/11250/165125/R07_11.pdf?sequence=1&isAllowed=y) [Accessed:19.09.2016]
- Mintzberg, Henry. 1994. Rethinking Strategic Planning Part II: New Roles for Planners. Long Range Planning, 27(3). pp. 22-30.
- Muzadzi, Monica P.. 2014. An evaluation of the effects of budgetary process on performance of manufacturing companies: case study of Eversharp. Bachelor thesis. Kuwadzana: Midlands State University, Faculty of Commerce.
- Nick, A.. 2013. A multiple case study examining the adaptive processes of beyond Business.
- Özbek Püskül, A. S.. 2010. İletme Bütçe Sistemi ve Bütçe Uygulamalarına Yönelik Bir Ara tırma. Doktora Tezi. stanbul: stanbul Üniversitesi SBE.
- Research and Library Services Northern Ireland Assembly Research Paper, 2010. Methods of Budgeting. <http://www.focusintl.com/RBM150-0610.pdf> [Accessed 29.07.2016]
- Sardjoe, S.A.D. 2009. Budgets: Is the use of budgets out of date?. Bachelor's Thesis. Vrije Universiteit Amsterdam, Faculteit der Economische Wetenschappen
- Stolt, L.. 2003. Har företagen övergett budgeten? – en studie om budgetens användning ide börsnoterade företagen [Have companies abandoned the budget? - A study on the use of the budgets in the publicly traded companies]. Bachelor thesis. Göteborg: University of Gothenburg, School of business, economics and law.
- en, K.. 2012. Budget Function in Enterprises and application samples. Thesis for the M.A. Degree. stanbul: Bahçe ehir University SBE.
- Tångeberg, J. & Moqvist, J. 2011. Budgeting for Success -A Case Study of Jönköping County Council. Bachelor Thesis. Göteborg: University of Gothenburg, School of Business, Department of Business Administration.

Tore Hillestad & Bjarne Espedal, 2011. Implementing Beyond Budgeting as a flexible management system: Supportive versus non supportive cultural conditions. 27th EGOS Colloquium Reassembling Organizations. July 6 – 9, 2011 in Gothenburg, Sweden

Yıldız, N. 2010. Liderlik ve Örgütsel Ba lılık Arasındaki İlişki: Aile İletmeleri Üzerine Bir Ara tırma. Yüksek Lisans Tezi. Mu la Üniversitesi, Sosyal Bilimler Enstitüsü.

[www.kfknowledgebank.kaplan.co.uk](http://www.kfknowledgebank.kaplan.co.uk)

[https://www.bergen-chamber.no/visageimages/Pdf\\_files/bjarte\\_bogsnes\\_bb.pdf](https://www.bergen-chamber.no/visageimages/Pdf_files/bjarte_bogsnes_bb.pdf)

<http://bbbt.org/the-beyond-budgeting-principles/>

[https://gallery.mailchimp.com/33069b15098259cee2f42cf2b/files/7\\_reasons\\_to\\_leave\\_the\\_traditional\\_command\\_control\\_management\\_thinking\\_behind1.pdf](https://gallery.mailchimp.com/33069b15098259cee2f42cf2b/files/7_reasons_to_leave_the_traditional_command_control_management_thinking_behind1.pdf)

## Appendix A.1 Interview Questionnaire

### QUESTIONNAIRE

Dear Manager,

This research is carried out on the study of Accounting and Auditing doctoral dissertation at Bahçe ehir University. The designed research will be conducted as an in-depth interview in medium and large-scale enterprises operating in Turkey. The purpose of this study is to determine the current stituation of budgeting practices, to identify the problems and inadequacies in implementation, and to present managerial opinions in different levels regarding the applicability of the Beyond Budgeting Model in Turkey.

Thank you for your support and contributions to our work.

### QUESTIONS

#### a) Demographic Factors

##### 1. Gender?

|       |  |
|-------|--|
| Man   |  |
| Woman |  |

##### 3. Your professional experience?

|                   |  |
|-------------------|--|
| 5 years and less  |  |
| 5-10 years        |  |
| 11-15 years       |  |
| 16-20 years       |  |
| 21-25 years       |  |
| 25 years and over |  |

##### 2. Your educational status?

|                  |  |
|------------------|--|
| High school      |  |
| Associate Degree |  |
| Bachelor         |  |
| Master           |  |
| Doctorate        |  |
| Other (Specify)  |  |

##### 4. Your position?

|                 |  |
|-----------------|--|
| CEO             |  |
| CFO             |  |
| General Manager |  |
| CFO             |  |
| Other (Specify) |  |

**a) General Structure of the Operator**

1. Indicate the sector your business serves: .....

2. Is there a foreign partner in our business?:  Yes  No

**b) Measuring and evaluating the business perspective of traditional budget**

1. Specify the importance level of your budget usage objectives:  
1: not important ..... 5: very important

|                              | 1                        | 2                        | 3                        | 4                        | 5                        |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Planning                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resource allocation          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Coordination                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Control                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Performance Evaluation       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Internal communication       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Implementation of strategies | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2. Which of the following budget instruments are used to support your budget implementation?

- Revised budget
- Rolling budget
- Activity-based budgeting
- BalanceScorecard
- Benchmarking
- None
- Other (specify): .....

3. Please indicate your participation in the following statements regarding classical budget practices.

1- Strongly disagree    2-Disagree    3-Neutral    4-Agree    5-Strongly agree

| No | Criticisms  | Degrees of Agreement |   |   |   |   | Total Number of Persons |
|----|---|----------------------|---|---|---|---|-------------------------|
|    |   | 1                    | 2 | 3 | 4 | 5 |                         |
| 1  | Mostly prepared for a calendar year.                                |                      |   |   |   |   |                         |
| 2  | Facilitates inter-department communication.                         |                      |   |   |   |   |                         |
| 3  | Enables coordination in the company.                                |                      |   |   |   |   |                         |
| 4  | Enables identification of future targets.                           |                      |   |   |   |   |                         |
| 5  | Is necessary for financial control.                                 |                      |   |   |   |   |                         |
| 6  | Is time-consuming   |                      |   |   |   |   |                         |
| 7  | Involves too many details.  |                      |   |   |   |   |                         |
| 8  | An annual routine. It is done only as a tradition.                  |                      |   |   |   |   |                         |
| 9  | Leads to politics in the company.                                   |                      |   |   |   |   |                         |
| 10 | Is too centralist.  |                      |   |   |   |   |                         |
| 11 | Doesn't reflect the changes in the market.                          |                      |   |   |   |   |                         |
| 12 | Focuses on the predetermined budget targets instead of the clients. |                      |   |   |   |   |                         |
| 13 | Focuses on maintaining the current level instead of reducing costs. |                      |   |   |   |   |                         |
| 14 | Increases company value.  |                      |   |   |   |   |                         |
| 15 | Enhances company culture.   |                      |   |   |   |   |                         |
| 16 | Serves as a good management tool.                                   |                      |   |   |   |   |                         |
| 17 | Restricts the managers in using their own initiative.               |                      |   |   |   |   |                         |



**c) Questions on Principles of Beyond Budgeting Management Model**

1. How much are you content with your current budgeting processes?

- Very Satisfied
- Satisfied
- Not Satisfied

2. Does your company intend to modify its budget practices?

- Yes
- Certain level
- No

3. Is your company affiliated to a big-scaled group or holding? If yes, does your company have the authority to change its budgeting processes independently?

- We are affiliated. We do not have the ability to change budget processes
- We are affiliated. We have the ability to change budget processes to a limited extent
- We are not affiliated or affiliated. We have the authority to change budget processes

4. Would your group be open to potential changes in budgeting and managements processes? **(Answer if your company is connected to a group)**

- Yes
- Certain level
- No

5. Please indicate your participation in the following statements.

| Question Number | Questions   | Yes | Certain Level | No |
|-----------------|---|-----|---------------|----|
| 1               | Are authorities and responsibilities distributed at your company? (p1a)   |     |               |    |
| 2               | Is a wider-scaled distribution of authorities and duties possible? (p1b)  |     |               |    |
| 3               | Do your lower-level managers have freedom to take decisions independently? (p2a)  |     |               |    |
| 4               | Do your lower-level managers have the competency to take decisions independently? (p2a)   |     |               |    |
| 5               | Would it be possible to extend the current authority areas of your employees? (p2b)   |     |               |    |
| 6               | Are your senior managers ready to delegate their powers? (p2c)  |     |               |    |
| 7               | Are your company targets dynamic? (Can the targets be modified depending on the changing conditions?) (p3a)   |     |               |    |
| 8               | Is it possible to update your company targets in a fast manner? (p3b)   |     |               |    |
| 9               | Is your company customer-oriented? (p4a)  |     |               |    |
| 10              | Would it be possible to establish a customer-oriented system? (p4b)   |     |               |    |
| 11              | Can the current management system of your company be defined as Coaching and/or Guiding? (The senior management does not directly instruct the lower-level managers but guides, instead.) (p6a) |     |               |    |
| 12              | Would it be possible to implement a "Coaching/Guiding" based management model in your company? (p6b)  |     |               |    |
| 13              | Does your company define its targets by taking the competitors into consideration? (p7a)  |     |               |    |
| 14              | Is it possible in your company to define relative targets taking competitors into consideration? (p7b)  |     |               |    |
| 15              | Is it possible to model your company's strategy formulation process in a bottom-to-top and continuous manner? (p8b)   |     |               |    |
| 16              | Is Rolling forecast method (cycling 12 months forecast method) used in your budgeting studies? (p9a)  |     |               |    |
| 17              | Would it be possible to implement the Rolling forecast method in your company? (p9b)  |     |               |    |
| 18              | Would it be possible in your company to implement a more flexible resource allocation process based on business plans? (p10b)   |     |               |    |
| 19              | Does your company possess efficient and effective information exchange processes covering both financial and non-financial data? (p11a)   |     |               |    |
| 20              | Would it be possible to improve your information exchange processes? (p11b)   |     |               |    |
| 21              | Does your company have an awarding (Premium) system based on both personal and group performance results? (p12a)  |     |               |    |
| 22              | Would it be possible to develop an awarding system based on personal and group performance results? (p12b)  |     |               |    |
| 23              | Would it be possible to develop an awarding system which takes the competitors into consideration? (p12b)   |     |               |    |
| 24              | Are the employees in your company ready for a change in the awarding system? (p12c)   |     |               |    |