

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

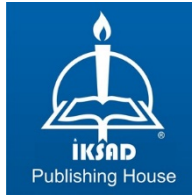
Dr. Öğr. Üyesi GÜLÇİN YILDIRIM



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**Dr. Öğr. Üyesi GÜLÇİN YILDIRIM**



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## **ABBREVIATIONS**

<b>ABB</b>	<b>: Activity Based Budgeting</b>
<b>ABC</b>	<b>: Activity Based Costing</b>
<b>BB</b>	<b>: Beyond Budgeting</b>
<b>BBES</b>	<b>: Beyond-Budgeting Entry Scan</b>
<b>BBRT</b>	<b>: Beyond Budgeting Round Table</b>
<b>BSC</b>	<b>: Balanced Scorecard</b>
<b>CAM-I</b>	<b>: Consortium for Advanced Manufacturing International</b>
<b>CMA</b>	<b>: Certified Management Accountant</b>
<b>KPI</b>	<b>: Key Performance Indicators</b>
<b>RF</b>	<b>: Rolling forecast</b>
<b>UK</b>	<b>: United Kingdom</b>
<b>USA</b>	<b>: United States of America</b>
<b>ZBB</b>	<b>: Zero-Based Budgeting</b>





## 1. INTRODUCTION

Economic and technological developments have led to large and complex business structures. Decisions taken with the growth of enterprises are having a bigger impact. This requires managers to be more careful in their decision-making processes.

Success in today's businesses is also hidden in "planning", "organization" and "control", which are the main functions of managers. Managers should first consider planning from these elements. The main factor in planning is the budget. Budgets can also be seen as the part of the plan that the executive prepares according to the expectations and projects of the upper management about the future and reflected to the group of the implementation stage. Therefore, the budget is a monetary form of plans as a means of communication between planners and practitioners. For this reason, the budget is very important both in terms of planning, application control, and success evaluation.

Sevgener ve Hacırüstemoğlu (1993, p. 306) define a business budget as "a sequence of reports or reports describing the policy to be followed by an operator in a future period in monetary and numerical terms to reach a previously stated objective".

Budgeting also plays an important role as a control tool for management. Studies show that budgets are still one of the most important and widely used planning and control tools for organizations. However, there are also ongoing debates about whether the budget is providing enough utility for businesses under today's rapidly changing and intense market conditions. We can summarize the criticisms on traditional budget as follows:

Traditional budgeting;

- a) is time consuming
- b) can not adapt to rapidly changing market conditions
- c) is far from operating strategy
- d) is back to the past
- e) focuses on sales targets rather than customer satisfaction
- f) sometimes allows unethical behavior

Budgeting systems often lead to non-value-added behavior and spend a large part of the management time for budgeting purposes. It also removes flexibility and adaptability from organizations in today's rapidly changing market environment. It is far from company strategy and insufficient to meet the requirements of competitive environment.

As a result of these criticisms directed towards the traditional budget, two alternatives have emerged; Improve the budget system or remove the budget altogether.

Advocates of beyond budget established the “Beyond Budgeting Round Table (BBRT)” in 1998 in order to lift the budgets completely.

The Beyond Budgeting approach generally aims to create a single integrated process that connects the current strategic management process and the current budget process by examining these two processes. The process also requires an application that adapts quickly to change and a transfer of authority. These two features are the main features that distinguish the Beyond Budgeting (BB) approach from the traditional budget approach.

The delegation developed twelve principles for successful implementation of the BB approach in enterprises. Six of these principles relate to the development of the flexible management process and the other six relate to leadership processes.

The BB approach seems to be superior to traditional budgeting in many respects, according to the advocates. However, a group of executives with the acceptance of criticism of the budget argue that traditional budget practices can not be completely abandoned. According to them, the current budget practice should be improved and the incomplete aspects should be completed and continued.

## **2. BUDGETING**

### **2.1 DEFINITION, PURPOSE AND FEATURES**

The concept of the budget first appeared in western countries. Latin word "Bulga"; In French, "Bouge", "Bougette" started to be used as "Budget" in English since the seventeenth century and passed from French to Turkish. As a word, the budget can be expressed as a table showing the incomes to be earned in the next period and planned expenditures to be made (Özen 2008, p. 5).

The budget is a process that determines the projected costs and resources for the activities to be carried out in a certain period of time. Budget can be prepared for business units, departments, products, teams, or organization. Another definition for budgets is a financial plan. However, budgets can also refer to non-monetary resources such as employees or time. While budgeting helps controlling and planning the operations of all types of organizations, it also supports managerial strategies. The budgets are also used for performance measurement.

A budget is a management tool in which actions are coordinated and quantified within the organization. However, it can cause the budget, which is mostly prepared by the finance departments and contains numerical values, to be perceived as a financial instrument.

When we look at the literature, more than one definition of the concept of budget is seen. Bhimani et al. (2008) defines budget as a quantitative future plan to help executives to implement their plans.

The budget is the official and numerical expression 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 organizations expressed by the 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.”

The operating budget is a management tool that provides estimates of the income and expense of the operations and thus provides guidance and control, detailing the allocation of resources required to achieve one year of plan objectives (Eren 2005, p. 416).

According to another definition, budget is a series of reports and reports describing the policies that the business will follow in the future, in order to reach the goals and objectives set in advance and the activities to be carried out monetarily and numerically (Yükçü 1999).

Looking at all the definitions, it turns out that budgets are an important control and planning tool. Budget is defined as the detailed determination of the objectives of the business for the future, while budgeting is a process that provides the planning,



coordination and control of the activities in order to achieve these objectives.

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

Budgets are a tool that helps almost all of the functions of management. Basic functions of business management are planning, execution, coordination and control.

Budgeting fulfills numerous functions in the organizations such as (Şen 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 summarized as follows;

**Table 2.1: Classification of business budgets**

Classification Basis	Budget Type
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.

We can summarize the benefits that budgeting will provide to businesses as (Aras 2014, pp. 18-19):

- a) Budgets consolidate organization around common objectives; as a road map, helps the business to walk in a conscious and willing manner towards the future.
- b) Provide cooperation and communication between the units. Avoid conflicts of interest between the units, bring them on a common ground
- c) The targets identified in the budget are a challenge to the staff. This challenge creates a positive and determined temperament, a commitment to meet with high motivation.
- d) If there is no prepared plan, it means there is not a reference point for the control activities, no criteria. Indeed, budgets are a reference point for control.
- e) A performance appraisal area is created at the same time by comparing budget application to the results. From time to time, early warning signs are taken from these comparisons. In this

way, it is possible to see in which areas the correction and improvement efforts will be directed.

We can summarize the weaknesses of the budget structures as follows:

- a) It's based on forecasts.
- b) Despite the dynamic nature of business life, budget can not easily respond to changes due to rigid structures
- c) Budget awareness and education among employees are required for budget applications

Details of the weaknesses of budget practices are addressed in Chapter 3. Despite their problems and incomplete aspects, the use of traditional budgeting is almost universal. While the shortcomings of traditional budgeting are being discussed, according to some views, budgeting has to continue as an important part of the management system. Two important points need to be achieved in order for traditional budgeting to be able to respond appropriately. The first is the restructuring of the budgeting process in businesses, and the second is the rethinking of how to use the budget (Türk 2000, p. 43).

## **2.2 APPROACHES TO BUDGETING**

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

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

Budget approaches from top to bottom and from bottom to top are two different budget approaches. The Top Down approach is more strategic than the Bottom up approach (Handerson 1997).

### **2.2.1.1 Top down budgeting**

Top-down budgeting is a budget system in which final budget users are not included in the budget preparation process.

In the top down approach, the group with the task of preparing the budget receives the targeted figures from senior managers. The opinions of the lower management cadre in the position of budget practitioner are not asked in this approach. The top down approach is based on the centrality of the company, with the participation of a limited number of employees (Bozeman and and Straussman 1982). The top-down approach is a long-term goal-setting approach, and this approach is an appropriate choice because coordination between business units is important (Tångeberg and Moqvist 2011).

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

Advantages;

a) Since decision-makers on budget targets and figures are at high levels, they can look at the issues from a broad perspective, leaving only a narrow view of valuation.

b) They can better evaluate the issues as they carry wider information about internal and external conditions.

Disadvantages;

a) Persons to be audited by the budget channel may not be able to take a positive approach to the budget they are not involved in forming. There is a danger that the budget will not be accepted as a means of cooperation for these persons but as a frighteningly prepared audit tool. In this case, failure in budget control becomes inevitable.

b) Supervisors at higher levels may not have sufficient technical knowledge about the following problems and possibilities.

### **2.2.1.2 Bottom up budgeting**

Bottom up budgeting defines a system in which budget practitioners' own budgets are included in the preparation process. This approach is also called participatory budget.

Bottom-up budgeting starts at the bottom of the organization. The budgets prepared by the lower level managers are presented by the upper management. The upper management may approve the budget submitted for approval or return it for changes.

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 is therefore time consuming (Kim and Park 2006). The most important handicap for this approach is that operational managers should focus more on the success of their departments than on the overall organization (Shim and Siegel 2009).

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

- Benefits

- Decentralized and Participative
- Greater Employee Motivation
- Suits Large Organizations
- Accurate
- Better Coordination and Communication

- Drawbacks

- Time Required
- Misrepresenting Budget Figures



- Lack of Expertise
- Lack of Context

### **2.2.2 Incremental Budgeting**

In the case of Incremental Budgeting, from taking the previous year's budget as an initial, the previous year's budget is added in increasing amounts to meet the new conditions that may arise. The Incremental Budgeting focuses on the existing programs and departments, focusing on the increase and decrease in financial resource allocation. The historical costs of the organization are the starting point of this method. In this method, the focal point of the budget process is the expected changes in the budget figures of the past year. The increases in prices and costs, the cost of additional activities and the reductions caused by deferrals in budgeted activities in the previous year are taken into account in the budget process, which increases as adjustment figures (CMI 2015).

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

### Advantages of incremental budgeting;

- a) It is understandable. It makes marginal changes and maintains agreements reached through negotiations
- b) Easy to prepare from an administrative standpoint
- c) It helps to the rule makers to focus on key areas. Managers do not have to spend most of their time on detailed budget documents
- d) Useful for situations where output is hard to identify
- e) It's fixed, so changes slowly occur

### Disadvantages of incremental budgeting;

- a) It is retroactive. It focuses on the past year's budget rather than future plans
- b) Does not allow comprehensive performance appraisal
- c) It does not help managers to realize budget loosening
- d) It feeds data that is primarily inconsistent or no longer relevant
- e) It causes systematic inertia within the organization
- f) It tends to be reactive instead of proactive
- g) It assumes current budget lines are relevant and satisfactory

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

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

In the Zero-Based Budgeting method, the budget is prepared from the beginning as if it was prepared for the first time. In other budgeting conventions, the newly prepared budget is usually a continuation of the previous budget, while the basic data of the previous budget remains the same.

In a zero-based budgeting system, no expenditure is automatically placed on the budget. Budget items are assessed among themselves, and the calculated expenditure items are placed on the budget. This is because, in this system, there is zero essentiality. In the budgeting process, each activity is prepared as a package of decisions, the priority ones are systematically ordered. Zero-based budgeting is a new budgeting system developed for the public budget. In this system, budgetary realizations are neglected each year and old

politics is not given importance or there is very little connection between them (Çataloluk 2006, p.229-242).

In zero-based budget understanding, the functions to be loaded in the new year are taken into consideration by breaking the connection with the old one. A budgeting is carried out aiming at realizing these functions at minimum cost. In practice, this work is done by creating decision packages at all levels (Yılmaz 2001).

This method is suitable for the following fields;

- a) Distribution of resources in areas where spending is voluntary. For example, in the preparation of research and development, advertising and training budgets.
- b) Organizations operating in the public sector, such as local governments

There are four different stages of implementing ZBB:

- i) Administrators should identify separately assessable activities for their respective centers of responsibility.
- ii) Each of the activities is then defined in a package of decisions. The decision package shall specify the costs and

revenues related to the given activity. The decision package can be evaluated and should be prepared in a sort against other packages.

iii) Each decision package is ranked and evaluated by cost / benefit analysis.

iv) Sources are distributed according to different packages.

The plus and minus directions of the method can be summarized as follows (ACCA 2013);

Benefits of ZBB;

a) Since ZBB does not consider resources distributed in the previous year, all activities of the organization are reassessed on an annual basis in zero terms. In this way, inefficient and ineffective activities are discontinued, and wasted expenditures are avoided.

b) It supports a bottom-up budgeting approach in order to make the method practical in practice.

c) It is against the status quo and encourages an inquisitive attitude among the managers

d) It responds to changes in business environment from one 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 amount of documents generated by the ZBB may be unmanageable due to the size of the number of activities.

c) It may be difficult to put packages in order because many activities can not be compared on a full numerical basis. Qualitative factors must be accounted for, but this is not as easy as you might think. Top management may not have enough time and knowledge to rank thousands of packages.

d) Identification of decision packages and determination of their purpose is time consuming and costly. A solution to this problem is to use the increasing budgeting technique every year, while the ZBB is used every three or five years or when significant

changes occur. This means that an organization can benefit from some of the advantages of ZBB without annual periods and cost practices.

e) As decisions are taken during the budget period, managers may feel that they will not react in the face of changes that may occur during the year. If action can not be taken in the face of urgent opportunities and threats, it is inevitable that this situation has negative consequences for the enterprise.

f) The organization's information system may be insufficient to derive the essential information to prepare the ZBB.

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

According to this approach, budgets should be continuously updated by adding the next accounting period when the current accounting period ends. The use of this method is particularly beneficial in areas where future costs and / or activities can not be fully predicted (Ross 2008).

Rolling Budget is updated continuously every three or four months (Barrett and Fraser 1977). This approach ensures that the budgets used for evaluation are constantly updated, and the

unpredictable changes in the next period are added to the account (Mejzini and Seidel 2015). When a term ends, senior management can compare actual results with budgeted goals and objectives.

A typical roll budget should be prepared as follows;  
([www.kfknowledgebank.kaplan.co.uk](http://www.kfknowledgebank.kaplan.co.uk))

- i) Budget to be prepared for the following year (eg January-December) should be appropriately segmented. Example; Quarter-turn, on the basis of control periods, etc.
- ii) At the end of the first control period (March 31), the results of this period are compared with the budget figures. The result from this analysis is used to update the remaining control periods and add the next quarterly budget. Thus the company will have a budget prepared for the next one-year period.
- iii) The planned process is repeated at the end of each quarterly control period.



Rolling forecast (RF) is used to address the weaknesses of traditional budgets. This approach allows companies top-level financial and operational management to focus on value-adding activities and speed in decision-making processes (Cardoş 2014). Roll estimates should be strategically focused to be productive. They should not be as detailed as a budget and contain significant profit and loss and balance sheet items. In addition, in order to analyze, understand trends, and provide information about logical areas statistical applications should be used. Estimates should be integrated into the budget. Estimates provide up-to-date information for building budgets (Golyagina and Valuckas 2012). Rolling estimates encourage flexible resource allocation and planning, make accurate estimates of capital expenditures, demonstrate trends in performance indicators, assist decision-making and cash management, and promote the application of strategies (Hope and Fraser 2003).

Roll estimates include a number of disadvantages as well as benefits. The preparation process is costly and time consuming; and estimates may become a rather complex process for practitioners who do not have enough training because they are regularly updated and reviewed (Cardoş 2014, p.486).

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

Activity-based budgeting (ABB) is an approach to budgeting and is closely linked to activity-based costing (ABC). Activity-based budgeting is an important component of future-oriented plans in businesses where an activity-based costing system is used.

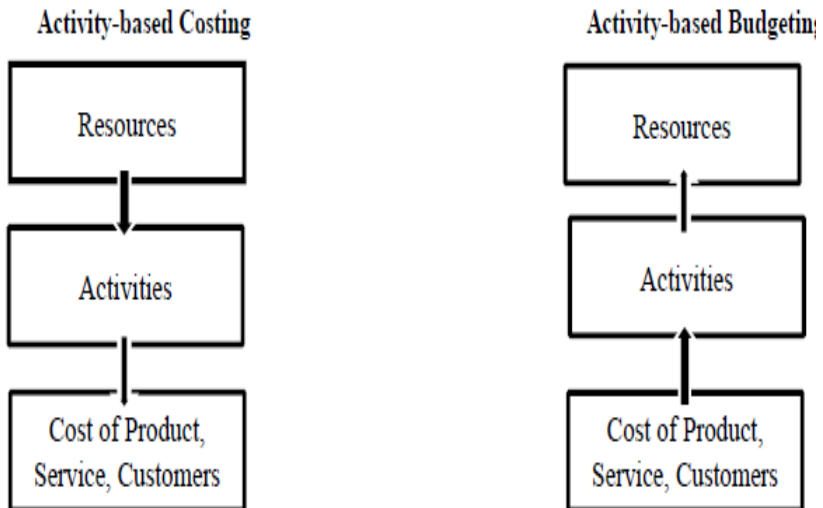
The concept of ABB was first developed in 1990 by Robin Cooper and Lybrand Deloitte. The first theoretical framework on ABB was presented by Brimson and Fraser, and the second theoretical framework was presented by Kaplan and Cooper. These two studies are the basic models related to Activity Based Budgeting and the following model studies are explanatory of these basic 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 resource needs of business segments in the upcoming period (Öker 2003, p. 80, Horngren et al. 2003, p. 190).

ABB is an important budgeting technique designed to reduce the disadvantages of the traditional budgeting process. The purpose of the ABB is to determine the resource needs to meet the demand for future products and services. Thus, it may be possible to obtain resources more efficiently (Cooper and Slagmulder 2000, p. 85).

Activity-based budgeting has a functioning structure that is contrary to the activity-based costing system. ABC process starts with resources, and resources and activities are linked through resource drivers. Later, the products or the customers and the activities are also related by means of the activity drivers. In this process moving from top to bottom, product / customer cost is calculated. The activity-based budgeting process, on the otherhand, moves up and down, as opposed to the activity-based costing process (Kaygusuz 2003). Figure 2.1 shows the functioning of 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 each activity in each activity area
- b) Designate a request for each activity based on location products, existing products and budgets
- c) Determine the cost of implementing each activity
- d) Define budgets as the cost of implementing different activities

Dahlgren and Holmström summarize the benefits of ABB as;

- Provides new information about activities and the cost of activities. From a control point of view, this information makes indirect cost centers more transparent and increases productivity.
- Establishes an understandable relationship between strategy and operations
- Establishes an informative link between Activity Based Costing and Activity Based Budgeting.

The disadvantages mentioned in the literature regarding Activity Based Budgeting are listed below in general (Karaca 2008, p. 145);

- Managers and employees may not care enough about the results to be achieved in the Activity Based Budgeting process.
- Establishing and implementing an Activity Based Budgeting can be very difficult because Activity Based Costing System must first be established for Activity Based Budgeting application.
- Activity-based budgeting can be uncomfortable for employees as it is highly complex.

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

Balanced Scorecard (BSC) is an approach that has emerged as an alternative to the budget, that combines both financial and non-financial control measures (Ross 2008, p. 12).

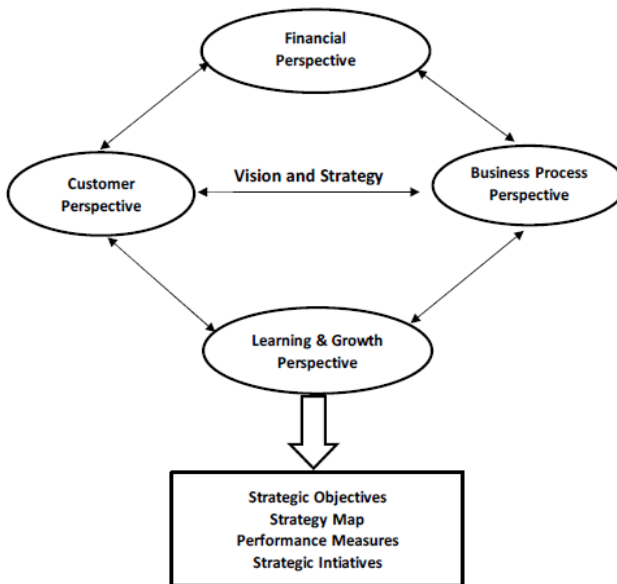
The BSC was improved by Kaplan & Norton (1992) as a new mechanism to assess the performance of organizations. The BSC offers a set of measurement tools to managers to get a wide view of the organization (Türüdüoğlu et al. 2014).

BSC provides a framework in which businesses' vision, mission and strategy are transformed into performance metrics, including non-financial criteria, in order to find solutions to the problems experienced in performance evaluation (Güner 2008). It is closely related to business strategy, since 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 has also considered the balance between strategy and implementation (Kuğu and Kırılı 2013).

BSC assesses organizations under four main perspectives. These;

- 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 the BSC application can be listed as follows (Argüden et al. 2000);

1. Allows the company strategy to be reduced from a vision to concrete steps
2. The BSC helps not only to manage the strategy but also to apply and strengthen it.
3. Transformation of long-term strategies into short-term implementations allows immediate reaction to current and future developments.
4. Team and person targets to be consistent with the strategy and to be entirely inclusive
5. Identify and prioritize competency development programs
6. Relates the strategy of performance management to reward systems
7. Develops systems of information gathering for the development of enterprise learning processes and strategy.

As a result, the BSC is a tool that enables the organization to break down the original strategy into consistent and concrete



steps, ensure communication in the organization, and improve the effectiveness of performance management with a view that can be followed regularly.

### **2.2.7 Beyond Budgeting**

Beyond budgeting is an approach that attempts to solve the limitations and weaknesses of the traditional approach to budgeting.

BB aims to remove traditional budget practices in order to improve the control mechanism of management based on how to better manage the organization (CIMA 2007).

The skeptics about the budgets found the most radical expression in Beyond Budgeting. Advocates of the approach have started the "Beyond Budgeting Round Table" Project in 1998 and are trying to help businesses understand and adopt this approach.

The solution provided by BBRT is a radical solution and argues that budgets must be abolished entirely to overcome deficiencies in the budget process (CIMA 2007).

Details of the approach will be given in the following section, and the main differences between the traditional budget model and Beyond Budgeting model summarized by Jeremy Hope are on the Table 2.2:

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

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

Advantages of Beyond Budgeting model (Sardjoe 2009);

- One of the biggest benefit of the BB approach is that it uses present management techniques used in the past such as BSC. Applying the BB model to an organization that implements modern management techniques is not hard because people are already familiar with these techniques. Another benefit of the

BB model is that it is less costly than the traditional budgeting system. Creating the traditional budgeting process is time consuming and costly.

- In the BB system, the flow of information within the organization is fast. This ensures that the decision-making process is faster and more proper. Managers have the ability to reach new information and make better judgement.

Since the BB model is a relatively new approach, much research has been done on it. However, the disadvantages of this approach In general, the negativity can be summarized as follows.

- The adoption of decentralization culture which is a prerequisite for a successful BB implementation, may be very difficult or not practical.

- Employees must be motivated to achieve BB model success. The transition process exposes a number of risks when managers use the traditional budgeting system for a long time.

### **3. BEYOND BUDGETING**

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

Although budgets are the most major control tool for many structures today, many managers are not satisfied with their effective budget practices and are in need of change (Hansen 2011, p. 289).

Recently, academicians and practitioners are paying attention to the function of traditional budgets and the role of budgetary in the management of institutions. It is argued that certain deficiencies of budgets and budgeting systems exist, and therefore the use of budgeting in general is particularly criticized in organizations operating in dynamic and rapidly changing environments. The criticism is that budgets are inadequate in designing the managerial control system and in efficient distribution of resources (Wallander 1999), and there is lack of alignment between budgets and corporate strategy (Hansen et al. 2003, Østergren and Stensaker 2011).

As a result of a study by the Cranfield School of Management and Accenture in 2001, 12 major criticisms of traditional budget approaches are as follows:

- 1- Budget is time-consuming and costly
- 2- Budget is far from flexible and fast responding, and often creates an obstacle to change
- 3- Budget is rarely strategy-oriented and often involves contradictions
- 4- The value added to the operation is rather low compared to the time spent preparing the budget
- 5- Budget is focused on reducing costs rather than creating value
- 6- Budgeting strengthens perpendicular command and control
- 7- Budget does not project advanced network system accepted by organizations
- 8- Budget causes fraudulent and erratic behavior
- 9- Budget is rarely updated, developing and updating is often done annually
- 10- The budgets are based on unsupported predictions and forecasting studies

11- Budget builds obstacle rather than strengthening information sharing among departments

12- The budget causes the feeling that they are worthless in people

The traditional budget approach was developed in the 1920s to control costs. As organizations grew and became more complex, senior management began to need more budget processes to control different product lines, the complexity of new technologies, and motivate managers to reach specific goals. Today's budgeting process is a process, especially in large organizations, involving thousands of people and involving tremendous amounts of time and resources (Atkinson et al. 2012).

According to critics, the traditional budgeting process has progressed uncontrollably for too long. The traditional model is useful in a structure where market conditions are stable, competition and innovation are not as intense as today, and customers are not demanding. It is argued that the traditional budgeting process is an outmoded ritual, a process that prevents

organizations and managers from responding to ever-changing market conditions. Traditional budgeting structures reflect a downward-moving approach. It also focuses largely on management control functions, such as helping organizations achieve their strategic goals (such as the target budget).

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

As a result of the criticism towards traditional budgeting above, two alternatives emerged;

- improve the budget system or
- to completely remove the budget

Some critics have stressed that improving budget systems is not a resolution of budget deficiencies in today's conditions and that an alternative management model should be developed by removing budget processes altogether. As an alternative to traditional budget systems, prominent critics such as Jeremy Hope and Robin Fraser have introduced the Beyond Budgeting approach, which advocates the abandonment of budgets as a new

management model. According to Hope and Fraser (2001), the budget is a system from the past, where people in the central office take decisions and communicate to lower-level employees about what they should do within the framework of decisions taken. But such a remote control mechanism is no longer functional in a competitive age.

Hope and Fraser who developed the concept of BB at the beginning of the twenty-first century, formulated the concept according to the conclusions of the business world. According to the conceptual framework they have established, the new management model includes 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 from the standpoint of how to better manage the organization and to improve the control mechanism of management in this way.

BB is presented as a solution to the problems of the traditional management model based on the budgeting process. Some researchers view BB as a revolutionary philosophy and recognize that the approach is a set of principles prepared for the



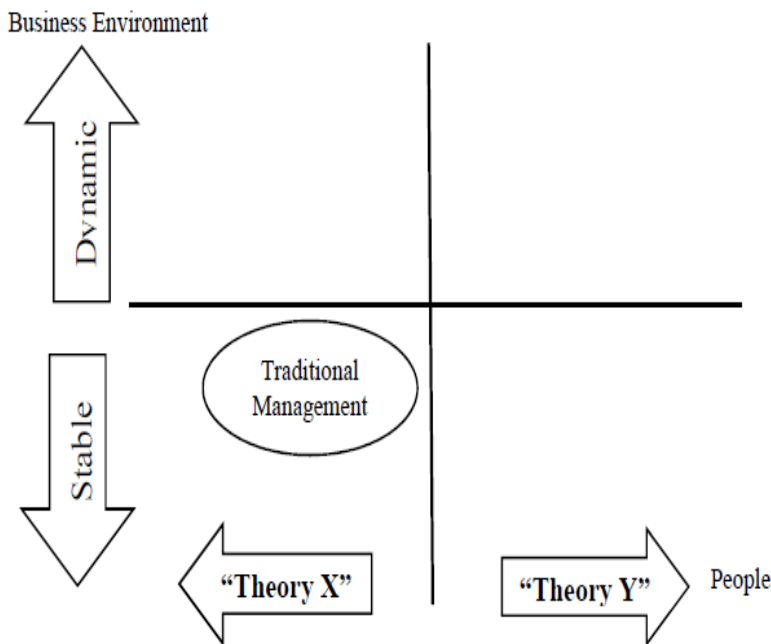
challenges of organizations' rapidly changing business environment and market uncertainties.

BB is an alternative approach to traditional command and control systems. It is a positive «governance and control» method that triggers the development of the entire management model by abandoning current budget practices. Charles Horngren emphasizes that the BB approach is not a negative idea in the forefront of the book, *Beyond Budgeting*, which was issued by Hope and Fraser in 2003, on the contrary, abandoning the budget systems that are the core of the concept is a positive approach that will trigger the development of all administrative control processes.

BB aims to resolve the weaknesses and constraints of traditional approaches to budgeting. The approach lies mainly in the traditional management models that rely on the budget to be inadequate in managing today's organizations. Parallel to the change in the world, it emphasizes the necessity of changing our management processes. The approach argues that organizations must be managed from a different point of view so that the budget- based management model can not meet the expectations of employees and customers, especially in organizations where

the Y-type human model will take place. Figure 3.1 positions the traditional management model from the perspective of BB advocates.

**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)

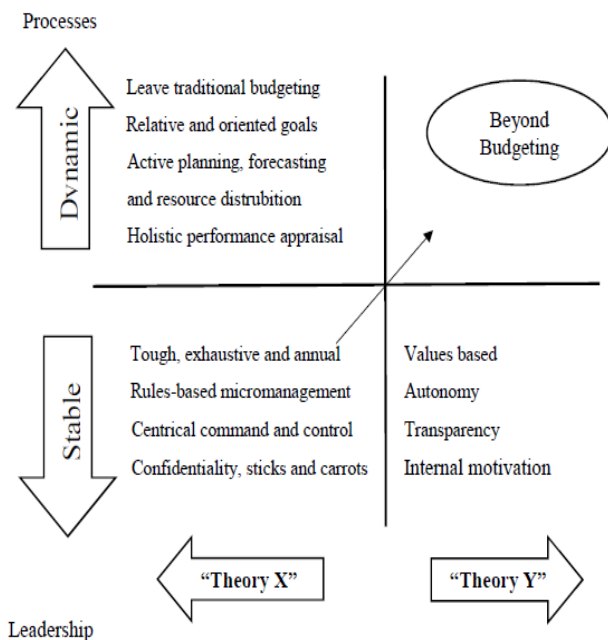
Traditional management covers more stable market conditions involving the X-type human model.

Bogsnes (2009) states that the traditional model based on annual budgets is based on the assumption that the most of people belong to "Theory X", while the BB approach classifies people according to the "Y" theory. Figure 3.2 provides a BB-based management model.

Theory X and Theory Y developed by D. McGregor in 1960. McGregor published the book *Human Side of Enterprise* in 1960. He has discussed and compared two different types of people, X and Y, in his book. "Theory X" Type people are usually the ones who get away from work as much as possible and do not like taking responsibility and liking to work. Such people should be closely monitored and controlled. "Theory Y" defines challenging, highly creative, talented employees who want to take responsibility (Aktan 1999).

McGregor's theories of X and Y essentially emphasize the importance of human relationships in the organization. According to McGregor, in order to increase organizational performance, it is necessary to adopt the Y theory, which attaches importance to communication, motivation and rewarding, delegation of authority 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)

Y generation is different from the previous generations who are more interested in the work that they are doing to be a worker, more difficult to demand the opportunity of their work, and more focused on not losing their jobs than competition. They are less loyal to the companies they work with and do not tend to be patient when they do not match their executives. Recognizing, motivating and keeping them at work is a necessity in order to maintain their future assets for companies (Acilioğlu 2015).

Beyond Budgeting represents an effective and valuable tool in the implementation of the strategies of organizations. This tool should encourage beneficial managerial planning, resource planning and controlling (Hillestad and Espedal 2011).

BB leads to thinking about how managers manage their organizations in the post- industrial world where sustainable competitive advantage exists only through innovative management models. It also involves saving employees from the dangers of bureaucracy and boring control systems, giving them time to think, equipping them with information, sharing, learning and empowering them.

In the BB management approach, the concept of budget is not used in narrowly manner only as planning and control. The budget definition of the BBRT is extensive and is used to describe all management processes. It generally refers to the management and control model that is the main center of the annual budgets. In this context, budget defines management culture and performance management system.

Hope and Fraser (2001) define the concept of BB as a model that allows companies to relieve their employees from the "top-down performance contract." The new model provides employees with freedom of movement, the ability to use personal judgments in decision-making and to provide information resources to their customers and to work profitably and to work against competitors while doing all these things.

In addition, Hope and Fraser (2001) emphasize that employees are the most important and valuable assets for every organization and that using their skills and experience is indispensable for a company's future growth. The authors argue that employees in the annual budgeting process use their energy and creativity to conduct classical budgetary processes rather than creating value

for stakeholders, especially for customers and shareholders.

Hope and Fraser (2001) view the BB model as an effective way of addressing the problems of the traditional management model mentioned earlier and establishing a flexible and adaptable organizational structure. BB is based on the complete abandonment of the annual budgeting process. However, it is not enough to combat the development of the performance of the organizations of the annual budget alone and the tough 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 basic elements that distinguish the BB approach from the traditional budget system. First, traditional budgets are based on predetermined fixed annual plans linking managers. But in the BB approach, goals are developed according to competitors and important global criteria. These targets are reviewed and revised when deemed necessary. Managers are

more motivated to achieve these goals, as their objectives are directly linked to competition in the marketplace from internal artificial goals. Secondly, the BB model is a management model in which the authorities are more distributed. Unlike traditional hierarchical and centralized management, the responsibilities of managers and their working groups are much greater. This structure allows employees to act with direct sense of responsibility and is more motivating. Because the BB approach requires radical intellectual and operational changes throughout the organization, its implementation is difficult for many structures.

The basic difference between the traditional and the beyond budgeting system is the management focus and the way the establishment is managed.

Instead of planning and controlling the management in BB approach uses words like process, customer, learning, worth, adherence and confidence. Management focuses on the market and competition. To achieve this, the BB model states that an information system from the bottom up is required in organizations. It suggests a structure in which



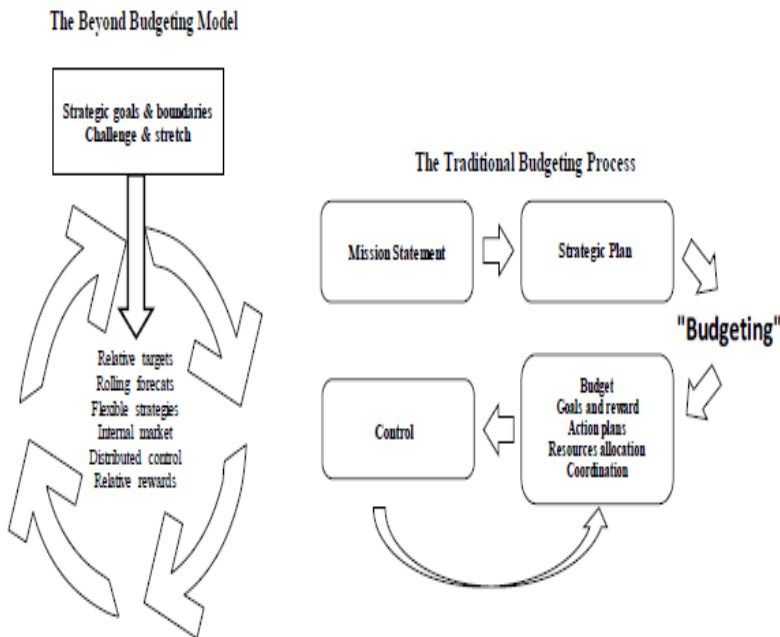
authority and responsibilities are distributed rather than the centralized structure of the traditional budget system. Greater freedom and confidence is provided for managers to generate extraordinary ideas and participate in reformer projects.

Another distinction is the use of Rolling Forecast. Setting estimates on a monthly or quarterly basis allows managers to work with more realistic estimates. Managers evaluate the actual performance of the competition conditions, the economic condition and the outcomes of their opponents. The proponents of the BB model point out that this method is the best way to adapt to a dynamic and volatile market atmosphere.

As you can see on Figure 3.3, the traditional method starts with defining tasks. Then the strategic plan and budget process is passed. The budget process includes objectives, awards, activity plans, resource allocation and coordination. This process is followed by the control process. The BB model is a process in which strategic plans are determined and risks are revealed. Relative targets and prizes, Rolling forecast, flexible strategies are defined. This structure is a process that is constantly cyclical.

The path to reach the target is constantly updated in the process.

**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**

Advocates of the need to move to an unbudgeted management model by completely removing budgets have set up a "Beyond Budgeting Round Table" in 1998 in United Kingdom (UK) for this purpose. BBRT has come up with a Beyond Budgeting approach, with believing that abandoning budgeting altogether is the only way to overcome deficiencies in the budgeting process.

BBRT was established in answer to increasing displeasure and disappointment with traditional budgeting. BBRT has established a strong global membership program that includes a large network of leading organizations, bussiness experts, thought leaders and academics. BBRT encourages its member organizations to share their knowledge and experience on the best BB implementation practices around the world, in order to get rid of organizational command-control structures.

BBRT currently has two active communities in Western Europe and North America.

### **3.5 THE BEYOND BUDGETING PRINCIPLES**

The Beyond Budgeting Round Table (BBRT) of the Consortium for Advanced Manufacturing International (CAM-I) founded in London in 1998, investigated 13 companies that were wholly or almost managed without a budget. In the end of their research, The BBRT founders Jeremy Hope, Robin Fraser and Peter Bunce published the first set of Beyond Budgeting Principles in the BBRT white paper since June 2002. However, these first principles were presented in the form of question and answer. The year after, Hope and Fraser (2003) published their first books on BB. They uncovered 12 Beyond Budgeting principles supporting Beyond Budgeting approach. Six of these principles relate to the creation of a flexible organizational structure in which the authority can be transferred to employees and the other six concern the design of adaptive management processes necessary for the creation of a flexible organizational structure.

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

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

Principles of adaptive processes	Principles of radical decentralization
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://bbbt.org/the-beyond-budgeting-principles/>

A company seeking to implement the BB approach must follow these twelve principles to successfully implement this model.

These twelve principles constitute a holistic model. Principles are integral parts of the whole and support each other (Bogsnes 2009). The monitoring of the principles is intended to contribute to the improvement of the performance of the organizations.

BBRT updated the principles it has set in parallel with the work it has done in the process. By 2011, the principles were divided into two groups as Leadership and Processes. Leadership principles are principles for the development of business culture. Process principles are principles that will enable the organization to operate more effectively.

The leadership principles of the BB approach are as follows (Doğan 2016):

1. Values: Do not combine the people around a central plan, but around a common goal.
2. Governance: Not in line with detailed rules and regulations, but common value and a sense of management in the direction of understanding is adopted.
3. Transparency: Ensures that information is clear and transparent; It does not control it.
4. Teams: Not organized around the central functions; but

around responsible team nets.

5. Trust: Creates a trusting environment to manage teams and improve their performances, not to interfere extensively.

6. Accountability: Gives responsibility emotion based on unity and cohesion, not hierarchical.

The principles related to the processes are as follows (Doğan 2016):

1. Goals: It does not aim short-term fixed goals; but to improve Medium-term goals.

2. Rewards: Not based on fixed targets, but rewarding system based on performance system.

3. Planning: It requires continuous and comprehensive planning instead of from top to bottom and annual planning

4. Coordination: Coordination based on mutual interaction and dynamic planning and budgeting rather than annual planning and budgeting

5. Resources: Sources are not based on annual budget allocation, but on the basis of needs.

6. Control: Budget controls are not based on deviation analyzes,

but based on quick and frequent feedback.

By 2016, BBRT has been revising the principles. New BB principles are presented in two groups again. It contains the most important leadership and management process principles necessary to achieve full benefits of the BB. The principles updated by BBRT on March 2016 are in the following table:



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

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

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

From 1998 onwards, BBRT has set out the principles as a result of their work with the business community and academics. The purpose of these principles is to guide organizations in the implementation phase of the BB. Bjarte Bogsnes explains BB principles as a management philosophy not a receipt. Applying these 12 beyond budgeting principles in a coherent way, not only leads to more resilient and viable organisations but also stronger performance as a result. Details of the updated BB principles are given below;

1. Purpose - Engage and inspire people around bold and noble causes; not around short- term financial targets: The objectives of the organization should be shared with all employees. This sharing creates high motivation and enthusiasm among employees. Enterprises with big purposes attract quality workers at the same time. This also enhances performance. For this reason, BBRT recommends that organizations identify noble and bold objectives.

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 managements 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 apply in 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 a key principle of BB because it does so much positive impact for the organizations. It is an important message that organization is operating in a proper manner. Another feature of transparency is providing relevant and timely information to the front line teams. Another positive feature of transparency is that it creates a great social control mechanism. BB advises not to restrict the information except when absolutely necessary. Organization will operate faster and more effectively if it is fully transparent.

4. Organisation - Cultivate a strong sense of belonging and organise around accountable teams; avoid hierarchical control and bureaucracy: Organising in a BB way means to see co-

workers in a company as responsible and social beings. In the consequence there are three fundamentals to be followed:

- a) Decision power is thoroughly decentralized.
  - b) People are allowed and supported to interact freely in the organization direct in one to one communication.
  - c) Teams have the freedom to initiate and coordinate activities.
- These in combination leads to a strong sense of belonging, high engagement and accountability throughout the organization, and therefore creates resilient and viable organizations.

5. Autonomy - Trust people with freedom to act; don't punish everyone if someone should abuse it: Autonomy is fundamental for employee engagement and is crucial for high performance organization. Today employees are mainly highly educated people. Providing them with responsibility and freedom to act increases accountability and organizational performance. The sense of confidence spreading from the top to the bottom within the organization increases the motivation of the employees. BBRT thinks that adding more rules and procedures when trust is abused, is typical but wrong management reaction. To maintain employee engagement, manager should handle problems like that as the exceptions they usually are. They

should not add more bureaucracy. People like to be coached and supported and they dislike macro management.

6. Customers - Connect everyone's work with customer needs; avoid conflict of interest: The purpose of any organization is to create customer. So one of BB principles is to be about serving the customer need and focus in. According to the BB approach, organizational structures, activities and processes should be designed to understand customer needs and find out how best to serve them. In performance effective organizations everyone works in connection with customer needs. In this model, everything should focus on what the customer needs.

7. Rhythm - Organize management processes dynamically around business rhythms and events; not around the calendar year only: BB makes it necessary for organizations to change their calendar year-focused perspective. It proposes to design management processes according to business and market dynamics. BB focuses on target setting, forecasting, resource allocation and performance evaluation. These processes have to be driven and organized more according to the business rhythm. This point of view does not completely reject the calendar-year-based approach. In some cases the calendar-year-based approach may be make sense. However, BB stresses that the management model of the companies should include more flexibility and agility.

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. Determining meaningful targets for employees supports the achievement of goals. BB also emphasizes that the objectives should be related to the general purpose of the company. Setting fixed targets leads to poor performance. Therefore, BB recommends setting directional, ambitious and relative goals.

9. Plans and forecasts - Make planning and forecasting lean and unbiased processes; not rigid and political exercises: As per BB model, planning and forecasting are very different from targets. Target should be ambitious whereas plans and forecasts should be realistic. In BB model, target settings and planning processes should be used instead of annual budgets. Planning and forecasting should be made lean and unbiased processes. Plans and forecasts should clearly show the way that organizations want to go.

10. Resource allocation - Foster a cost conscious mind-set and make resources available as needed; not through detailed annual budget allocations: In BB model, purpose of resource allocation

is to ensure the optimal use of scale resources. The purpose is not necessarily to keep costs at the minimum at all times. The purpose is to create cost consciousness. Costs should be allocated where they create value. Tools for costs management that can be applied depending on the specific situation of a company or industry should be developed and these lead to more autonomy, flexibility and ultimately lead to a more optimal use of 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 colleagues and managers should be taken into account in performance evaluation process. The main purpose of a performance evaluation is learning and development and not rewards.

12. Rewards - Reward shared success against competition; not against fixed performance contracts: In BB model, rewards should be based on success against relative targets. BB uses the word “share”, since profit sharing leads to better performance than individual incentives. Today, in most organisations,

cooperation and teamwork are crucial elements for success. For this reason BB recommends establishing profit sharing games and avoiding individual incentives.

When brought together, BB's leadership and performance principles provide a greater harmony between a company's strategies and operational activities. By BB implementation, adverse behavior by managers and employees is decreased, operations become more flexible and adaptable, lower cost is achieved and, consequently, economic and shareholder value are increased.

The BB implementation examples will be given in the following sections and section below summarizes how the management and leadership processes required by the BB approach will be activated.

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

Player et al. (2012) define what the organization does to enable the management processes. 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 determined based on financial figures and interviews between managers and subordinates prior to the start of the year. One year fixed targets represented the main component of the annual fixed performance contract. All activities during the year focused on meeting the budgeted figures.	Targets have been determined through KPIs. KPIs are determined based on medium-term targets through internal and external benchmarking. Targets are updated every year. In some cases, KPIs are determined by senior management and reduced to other levels. Their goal is to provide a framework for the strategy setting process and no fixed target is set for one year at a time. Thus, it is possible to accelerate the processes and maximize the profit potential.
<b>Rewarded People without Budget</b>	Employees were supposed to be motivated and rewarded in the event of a correct match between goals and prizes. For this reason, the awards were based on a predetermined fixed result. The benefit of this method was that they knew the current situation of the employees and the point at which they needed to be reached. It was entirely in the hands of the employees to reach the destination and prize. It was known that budgeting could lead to fraudulent behavior in this direction. Managers want to fight the system by accepting the budget targets or to reach the budget targets whatever the cost.	Many of them choose to assess and award performance according to the achieving mid-term goals as a whole. Performance appraisals are made in the light of how a unit performs according to criteria and competitors. Usefulness is obtained as a reduction in fraudulent behavior.
<b>Managed Action Planning without Budget</b>	The planning process had progressed from bottom to top, or sometimes from top to bottom, with the plans of local teams preparing and negotiating with top management and top management accepting. Moreover, many of the plans were based on the development of departments and were not in line with strategic objectives. The plans at the end of long negotiations included explanatory guidelines on what employees should do in the following year. However, these predefined plans have lost functionality in an increasingly dynamic business environment.	In order to reach medium-term targets, the medium-term outlook and the short-term outlook of each quarter are beginning to be observed every year. Observation responsibility usually belongs to operational unit teams and, in some cases, frontline employees. At this point, the role of top management is to identify strategic and medium-term objectives and to follow the level of realization by managers. For this purpose, useful tools such as Rolling Forecast, BSC and activity based accounting are used. These tools help governance to reach strategic goals, respond quickly to market changes, and meet customer needs.
<b>Managed Resources without Budget</b>	Resources were distributed over agreed figures in the budget process. At some point it was useful 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, senior executives were working as central committees that approve or disapprove investment plans based on annual budgets.	Sources were identified at a location that could be reached by frontline workers when needed. High-level teams have been created to manage resources. Operational resources are managed by considering the KPIs that can be executed by the managers. This approach overcomes the gaming associated with resource allocation. Delegating the use of resources to frontline teams makes them accountable for resource use. This leads to more ownership and less entanglement.
<b>Coordinated Actions without Budget</b>	Plans were made in relation to budgets. For example, in order for production and sales plans to be in harmony with each other, it was necessary to have the necessary resources by considering the sales plan of the marketing. Each unit plan was linked to plans that considered the whole organization. However, it is doubtful whether the unit plans are a consistent strategy for the whole company. Because department managers often focus on their own departments' plans, regardless of compliance with strategic targets.	Organizations coordinate their plans and activities throughout the process of managing customer requests, not the center. It is ensured by strong communication 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 follows a common strategy as a whole. This system encourages sharing and cooperation 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 should identify deviations and provide updated budgets and estimates. This viewpoint is an obstacle to focusing on future periods.	Organizations understand that there is no single budget to measure their performance. Unlike budget-based assessments, employees are more conscious that they have more useful tools to guide them. Measures and controls are focused on predicting the future, not on the wrongs. Rolling forecast, KPIs, performance tables are used for this purpose. To better measure performance, these instruments are associated with actual financial results, trend analyzes and previous year benchmarking studies.

### 3.5.2 Enabling Leadership Processes

Player et al. (2012) provides the following (Table 3.4) information on leadership processes.

**Table 3.4: Enabling Leadership Processes**

Leadership Processes	What they abandoned/promoted	
	Abandoned	Promoted
<b>Leaders Created a High-Performance Climate</b>	Based on the previous year's data, setting the targets for the current year has been abandoned. Performance measurement has been transformed into an internal focus rather than relying on financial data that does not provide a real control. The annual goal setting process for each unit has been transformed into an integrated value creation system.	High standards based on world standards have been set for performance appraisal. A performance culture based on relative success has been established. By defining the customers they have, the balance between internal and external competition has been improved.
<b>Leaders Built a Clear Governance Framework</b>	Command, compliance and control approach has been abandoned. The view about the giving information and responsibility of the front line employees are not correct is abandoned.	These organizations recognize that there is a need for a clearly defined management framework and guidelines to create a high-performing culture. They found that employees were challenged by extraordinary achievement, taking responsibility, openness and fairness in the distribution of rewards. For this reason, the top management turned to a management model in which the leadership was qualified and the responsibilities were dealt with inferiority. They say that this is the approach that provides continuous improvement, motivation and dedication, and emerging strategic strategies.
<b>Leaders Empowered People to Make Decisions</b>	The culture of dependence, which the middle and lower managers had experienced before they made any decision, was abandoned. Security comes first approach about the strategies that led to low expectations, was abandoned. The view that only top management is competent in strategy determination and forecasting is abandoned.	Expectations and standards have been kept high in order to improve work desire and performance. Anyone who could contribute to the strategy creation process was included in the process. Emphasis has been placed on employees' determination of creative strategies and their contribution to the successful implementation of these strategies.
<b>Leaders Given People the Capability to Act</b>	The top management's decision to accept or reject a plan based on short-term figures has been abandoned. Managers have simply abandoned the approach of focusing on the development of their units and ignoring other units. Most importantly, they are giving up on spending just because it is on the budget.	Companies have turned the role of top management into an entrepreneur who supports an exciting or new investment idea. Local units were given the freedom to manage their own resources and retrospective responsibility. An internal market was created in which the central units supported operational processes. Local units have thus gained the ability to respond more quickly to threats and emerging opportunities.
<b>Leaders Focused People on Customer Outcomes</b>	In order to save costs, the establishment of functional hierarchy and the creation of large business units have been abandoned. The fixed-price sales targets approach has been abandoned. The assumption that customers could be persuaded to buy everything that the company sold was abandoned.	A decentralized management model was adopted. The culture of 'Can do and No blame' was widespread. Managers do what they need to do and correct things that need to be corrected. They know there are supporters if the things do not work well. They have also created teams that serve customer needs and focus on customer satisfaction. The result came out as more satisfied, more profitable customers and highly responsible employees.
<b>Leaders Supported Open and Ethical Information Systems</b>	Because of the technological developments, the idea that information can be controlled had been left. It was abandoned to think that information was only needed for employees in the center.	The flow of information has been upgraded to clarity and transparency. Front line employees and other managers can access the strategic, competitive and market-based information that top executives could access before. And they understood that every information in the organization had to be transparent. Thus, all employees rely on identified figures and support the decision-making process. The result is more clear and trustworthy information and ethic reporting.

### 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 adaptable and reinforced structures with benefits that are sorted out as follows:

BB modeled organizations;

- **Responds quickly to threats and opportunities.** Adapted organizations provide managers with the ability to act immediately and regularly within the organization's values and strategic plans, adding speed and simplicity in their areas of action. This is achieved by making the strategy an open, continuous and adaptable process. Organizations can thus respond quickly to potential risks and opportunities and are not limited to a fixed and outdated plan.
- **It attracts and retains successful employees.** Organizations such as Handelsbanken who implement the BB approach are regularly on the list of the "best companies to work" list. Talented employees want to work in companies where they can improve themselves. They expect to have the authority to make decisions, to produce new ideas and to have a sincere working environment.

On the other hand, employers want to work with people who have harmonious, extraordinary ideas and can add value to the business. They are looking for teammates with leadership skills. At this point, the BB offers a work environment that matches both expectations.

- **Activates and encourages continuous innovation.** Actions need to be taken in accordance with company strategies, business model and processes so that an innovative environment can be achieved. In adaptive organizations, employees work in an open and self-confident environment. Open management principles create the right atmosphere within the organization and provide the confidence needed for information sharing. Also, adaptive organizations encourage a rewarding system based on business unit or group performance by abandoning budget-based individual performance appraisal.

- **It provides operational excellence.** Adapted organizations perform their activities in accordance with customer expectations and company strategies and at low cost. They merge business with customer needs as well as they align products, processes, projects and structures with strategy. Managers question the resources used. Just "Does it add value to the customer?" By asking just this question, it is often enough to get rid of unnecessary work.
- **It leads to loyal and profitable customers.** Adapted organizations know what their customers want. Low cost, value adding services and personalized solutions. With the BB-based approach, companies know how to meet customer expectations without sacrificing profitability goals.
- **Good governance and ethical behavior are supported.** Adaptive organizations are equipped with powerful values and untouchable principles. However, this structure is not a soft structure. Insufficient performance is revealed. Such a structure always challenges employees. Employees should always be prepared to show people that real performance improvements can really be accomplished and be compared to those with same problems and occasions.
-

- **Leads to value creation continuously.** In adaptive organizations, the goal of leaders is to create long-term value. Especially, 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**

Implementation of the BB approach requires fundamental changes for organizations. This change can often be challenging. While examples of BB practice in the literature can guide organizations to understand what the basic principles of BB approach are, because the organizations have different dynamics, it is difficult to form a universal framework of practice appropriate to each structure.

Hope and Fraser (2003, p. 143) have identified the basic nine steps for businesses seeking to implement the BB approach as follows;

1. Define the conditions for change and prepare a draft plan
2. Be ready to convince the board of directors
3. Move on

4. Design and implement new processes
5. Train and teach
6. Think about the role of the finance department
7. Change your behaviors according to new processes, not according to the orders of the administration
8. Evaluate the benefits
9. Combine the benefits

In addition, for a successful BB application, Hope and Fraser (2003) states that the following criteria are mandatory:

- 1- It must be clear that the benefit for change is fully demonstrated
- 2- Administrators should think carefully about the possible degree of responsibility distribution within the organization
- 3- There must be an open framework of management that defines priorities and boundaries
- 4- High performance system based on visible and relative success is required for all levels
- 5- Lower-level employees must have the freedom to make decisions about pre- determined parameters
- 6- Confidence and openness should be promoted at every level of the organization

### 3.7.1 Beyond Budgeting Cases

Integrating, introducing and accepting the above leadership and performance principles into a company's control system 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.

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:** Budgets are far from meeting the requirements of the information age, and this constitutes an obstacle to competitive success. Abandoning budgets is not as difficult as one might imagine, and alternatives offered instead of budgets give much more successful results. 50 plus executives at the above-mentioned companies do not think about returning to the budget, but they have noted that the budget has lost a lot



of time to them, missing important earnings opportunities and not responding quickly to customer expectations.

**2. Ten principles and practices:** Complete abandonment of budgets requires mandatory regulations in management principles and practices. Hope and Fraser (1999) have arranged 10 principles and implementation items for budgetless management on the basis of their interviews. The ten principles and practices are;

- 1) Target setting: Targets should be put in place to maximize long-term value and fight competition, not because of budgetary reasons.
- 2) Strategy: Do not limit the strategy to a period of one year. Make the strategy clear and open and lower it to the bottom of the organization.
- 3) Growth and improvement: Push people to act radically and challenge.
- 4) Resource management: Resources should be managed in a way that creates value throughout the investment, not on the basis of short-term budgets.
- 5) Co-ordination: Coordination of units is not budgetary, but must be achieved according to cause-effect relations between business units and responsibility centers.

- 6) Cost management: Rather than increase or decrease costs relative to the previous year, manage the costs by value.
- 7) Forecasting: The rolling forecast should be used in place of budgets that follow a continuous cycle in strategy determination and decision making processes.
- 8) Measurement and control: Use Key Performance Indicators (KPI) rather than detailed reports to track performance.
- 9) Rewards: The reward system should be organized at a company and team level and from a comparative perspective rather than personal financial targets.
- 10) Delegation: Managers should be given freedom to act and responsibility.

**3. New steering mechanisms:** In order to manage organization more effectively alternative management tools can be used. Management information and control systems can be made a system that can make better and better decisions by using efficient techniques (eg, Rolling Estimates). Above all, the new management model means abandoning budgets in order to get away from the annual preparation cycle, negotiating and maintaining management performance. While the budgeting process is based on controlling planned events, the new model

supports continuous repetition of objective strategic evaluation.

**4. Organisational levels:** When determining the management model, the requirements and structure of the business must be taken into consideration.

**5. Building the new model:** Creating a new model is a time consuming process. It is necessary to create the structure by taking into consideration the competition and structure, culture and values of the company. Delegation of authority, teams and computing systems are other considerations.

**6. Implementation:** Changing budgetary processes is a very radical decision for companies. Not everyone may be happy with these changes. For this reason, for the application must be acted carefully.

Although quite abstract, the following case studies presented by BBRT reflect ongoing work.

### **3.7.1.1 Handelsbanken**

With the unique management model of Handelsbanken that emerged in early 1970s, the bank has consistently achieved impressive results. This achievement has been achieved by recognizing first priority for customers and abandoning the

traditional 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 in 25 countries around the world. In the early 1970's the bank went through a non-decentralized structure and shaped its operations according to customer needs. The management model of the bank is stable and robust. It enables continuous adaptation in a dynamic and turbulent economic environment and creates a competitive environment.

Impressive results of the bank without the budget;

- For 41 consecutive years, the Bank has achieved its financial targets to achieve a higher shareholder return than the average of its competitors.
- Among the Scandinavian countries, bank's customer satisfaction is a number in the ratings.
- It is the most cost-effective bank of Europe
- Unlike their counterparts, Handelsbanken has not needed financial support during the financial crises
- In the last five years, the bank made a 45% positive return for the shareholders. This is about three times higher than that of the second most successful bank in Europe. In this period, the

average return of European banks was 68% negative.

The bank's unique management model is that; The bank's strategy is clear; Being the best and most profitable universal bank in their own market. For this purpose, each region and branch is free to develop 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 successfully defines the application as follows;

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

Key elements that make up the bank's unique management model can be grouped under six headings;

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

□ The objective of Handelsbank is to have a higher profitability in the market than the average of comparable banks. The aim is mainly to have lower costs than competitors and having satisfied

customers.

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

□ Strategic plans and detailed estimates based on size and scale assumptions have been liquidated. It focuses on profitability, not size and scale.

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

□ Localization is the most important element of the management model of the bank. Restoring the bank's working principles which rely on respect and trust for the individual. This approach leads to better and faster decisions to be made near the customer. Increase employee commitment. It creates opportunities for employees to do better and make an impact. This helps the bank to win more satisfied customers. The high degree of trust in employees helps people to work more willingly, to be in an effort to improve themselves, to win the spirit of struggle that can come from challenges and to realize new quests in order to achieve the company's strategy.

□ Organization and working method is based on the responsibility of the branches for individual customers. There is no centralized responsibility on product basis or market segment basis. The bank's organizational structure encourages interaction between branches, highly educated specialists and effective support functions.

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

□ The aim of the bank is to achieve profitability as having more satisfied customers than the bank's intended competitors. Service quality should be at a level that will respond to customer expectations. Bank employees do not have any variable compensation. Thus, employees do not attempt to persuade the customer that a particular service or product is better. In the short term, it is advisable to focus on what is right for the customer, not what is profitable for the bank.

### **4- Productivity in costs;**

- Having an effective cost structure is another strong element of the bank's unique culture. All branches are evaluated according to cost / income ratio.
- An effective cost awareness culture has been established in

all branches. Branches are opened at locations outside the central locations to take down costs. Branches always look for ways to provide more effective and quality service to their customers.

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

□ Increase in the number of localization increases the need for monitoring and control. As a result, the bank's business control system is central and monitors profitability and business efficiency at the branch level. Regional banks and other business segments are valued by return on equity. Branches are monitored by cost income ratio. This includes 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 managerial level and define the bank's competitive position.

□ The two main elements of the Bank about financial reporting are transparency and comparability. Transparency guarantees that branches know their activities well, benchmarking provides a meaningful comparison in performance measurement. In combination, these two elements stimulate learning and continuous improvement.



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

- Another interesting part of the successful business model of the bank is that it is a staff profit-sharing arrangement instead of bonus programs like almost all other important companies.
- There is no bonus program for any employee who receives a flat salary in the bank's board of directors, senior management or branch operations. This is valid for all employees in the group except for a group of personnel engaged in banking investment activities.
- When the bank achieves a higher yield than the average of the competitors, one-third of the exceeding amount is paid to the profit-sharing fund. The noteworthy element of the reward system is that each employee receives an equal share. This creates a strong sense of belonging.

### **3.7.1.2 Borealis**

Borealis, one of Europe's leading petrochemical producers, has stopped using the budget in 1996 as a result of a general dissatisfaction with budget practices. This dissatisfaction stems from the double role the budget plays. On the one hand, the upper limit for costs was determined, while on the other side an

effective basis or base amount was set for expenditures. Managers were generally inclined to spend the amounts that the budget was familiar to them. This is because the numbers below the budget at the end of the year were causing disruptions in the spending budget for the following year. As a result, resources were often wasted. Moreover, budgets were not able to consistently reflect changes in the business environment. On the contrary, top management had seen budgets as an annual application in which large resources were processed in a given time period (Rickards 2006).

After the corporate merger in 1996, the new top management began to meet new vehicles 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. Like the balanced scorecard, monetary and non-monetary performance indicators are used in this system. Thus, the system uses dynamic financial estimates with a 5-quarter control period. These dynamic estimates bring financial controls to a probable consolidated level. The

development of methodologies for controlling fixed costs and investments strengthens the BB tools of the organization.

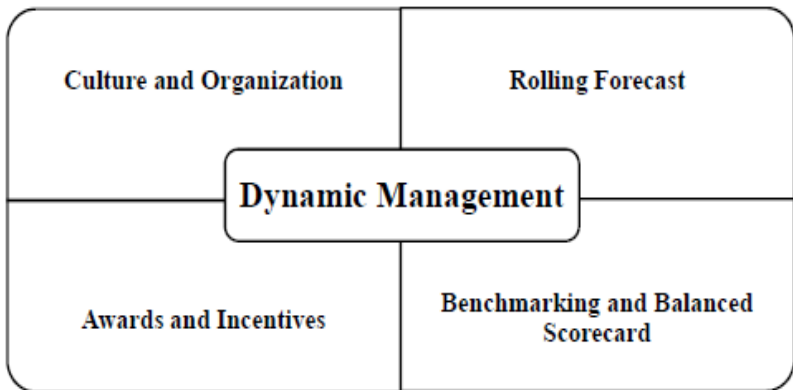
Top management has required the use of these new tools throughout the organization. As a result, the use of tools was soon established in the company, but the process of changing the company's culture in the way that spreading of authorities to the basement and empowering employees with more authority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

When a new top management team took over, Borelias met again with budget. The business is now formulating financial plans. However, the formulation of financial plans does not mean that they are turned into traditional budgets. The enterprise has not turned into a comprehensive budget preparation process based on time consuming and complex negotiations. In addition, financial plans were never made on the basis of a fixed performance contract, as was done before.

### 3.7.1.3 SpareBank

In 2007, the SpareBank group decided to establish a dynamic management model in the direction of Beyond Budgeting principles. 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 circulated for 12 months for each quarter.
- ☐ Estimates are followed at the end of the quarterly period and compared with the previous period.
- ☐ The reasons for the changes of the forecasts are questioned and the actions to be taken are determined.

### ☐ **Benchmarking and Balanced Scorecard**

- ☐ The group determined the long-term objective and the objectives to be achieved for this purpose
- ☐ The level of reaching the targets is calculated by comparing with the results of the competitors
- ☐ Balanced Scorecards sets out the parameters that need to be focused

### ☐ **Awards and Incentives**

- ☐ The group has developed a new award and incentive program. Fixed amount awarded to all employees
- ☐ Rewarding is done at group and company level
- ☐ Relative performances are taken as basis and the level of reaching the targets for the long-term goals is compared with the results of the competitors.
- ☐ Thanks to the new system, it has moved away from possible unwanted behavior to meet budgetary and budgetary discussions on short-term fixed targets.
- ☐ **Culture and Organization:** The new management policy consists of three phases;
  - ☐ Administrative Interpretation;
  - Strategic information must be transparent

- The development of skills must 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 management and other employees should be included in the decision making process
  - Employees should be at higher levels of organization
- Responsibility;
  - Responsibilities should be delegated to employees
  - Authority processes and freedom of movement should be structured on a basis of
  - Participation and responsibility will naturally occur if you have a managerial conception

#### **3.7.1.4 Coloplast**

Coloplast is an international pharmaceutical company offering personalized medical solutions. In May of 2009, the budget has been completely abolished and the project to implement the Beyond Budgeting approach has been initiated. Five workflows were identified for the new planning process;

1. Setting long-term targets instead of traditional annual targets; Targets in the new structure are set for long term. Each department in the organization identifies its goals and the actions that must be taken to achieve those goals. For stakeholder goals, the decision to work is communicated from the top management, but the responsibility for defining and achieving the objectives belongs to the departments.
2. Using Rolling Forecasts as a 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; Rather than controlling the outcome with the budget, the results based on the actual figures for the previous periods and the developments in the relevant turnover trends are evaluated.
4. The development of a tighter resource allocation mechanism; A more rigid resource allocation system has been developed that allows resources to be allocated for new business projects in a

persistent manner. In this way the headquarters are confident that new investments are based on 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 estimates and the budgets. Specific targets have been set for each section instead. As a result, ongoing plans are no longer influenced by political games or personal agendas. Coloplast is working on the continual improvement of bonus and incentive programs.



## 4. CONCLUSIONS

Budgets as the most precious traditional management tool play an important role in the management of the organizations. For this reason, budgeting and budgets have been among the most interested topics of researchers and practitioners. Budgeting is an important management tool. It supports the management about setting the objectives, the implementation of the strategies, planning and control activities.

A number of studies have been conducted in order to decide which budgeting methods (traditional or alternative) are better and to measure the effects of budgeting methods on the enterprises. Most researchers think that traditional, static annual budgets are far from meeting the requirements of changing circumstances. Although traditional budgeting is not often seen as appropriate for today's business world, it is still very popular among organizations, and in the near future this popularity is not going to go away.

Budgets have been used for a long time in Turkey. In order to understand the level of usage of budgets in Turkey, this study

provides a broad view of how budgets are prepared and used. Additionally, the existing budget practices are compared with the BB alternative. This study provides a conceptual framework to guide future applications by addressing all aspects of the BB concept.

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 reason how budgeting adds value to the institutions. Budgeting provides a general planning and control framework. Large companies may have difficulty planning, coordinating and controlling their business without a budgetary framework. For this reason, for the businesses on a certain size, budgets are an important tool.

Another main reason for being tightly bound to the budgets is that budgeting is deeply embedded in the institutions' cultures. It may not be possible for organizations to easily move away from such a basic working 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.

It is obvious that the traditional budgeting system contains some defects and that organizations seek alternatives to eliminate these deficiencies. But choosing between traditional and alternative management methods is not a simple choice. Senior management may find it difficult to completely abandon budgeting as it is placed in the business culture. When we look at the situation in Turkey, the advantages of using the budget as a means of management and control are more important than the disadvantages. In Turkey, traditional budgeting methods are likely to be exposed to criticism in the near future. In this process, it is probable that the full implementation of BB approach applications in the World and a directional structure for Turkey will be achieved. Organizations such as Borealis, Coloplast, and Sparebank are examples of successful implementation of the BB approach. The number of organizations implementing this approach is increasing. However, the BB approach is still in its early stages of development and usage. The BB approach is not a management model that can be easily applied to different geographical and cultural structures. This concept requires further research, development and practical application.

It may be helpful to incorporate some of the features of the BB approach in the first stage into the traditional budgeting system. At this point it is important to emphasize that BB recommends the company to continue to use budgets for short-term planning purposes but budget-based performance management is to be abandoned. In order to be able to create a management model suitable for the today's rapidly changing and intense market conditions, it is also advisable for our institutions not to abandon the budgets completely but to leave managing the company using only the budget. That means budgets should be used for short term planning, but management should find different tools in order to fulfill its whole functions.

BB proposes more modern techniques to fulfill other functions of management. For example, BB recommends relative performance assessment method to avoid inappropriate behaviors 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. Another

point that the BB approach strongly emphasizes is that the fundamental change is necessary in the management model of the company and a decentralized management.

BB approach is a model that can be taken as an example from directions such as resource distribution, customer orientation. In particular, the application of 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 people to the company.

Of course, the most important of these features is the institutionalization of companies. Reliance of family companies to professionals and the acquisition of a corporate identity is an indispensable condition for accessing the level of the contemporary company. Implementation of effective management techniques in institutionalized companies will be much easier. Effective management techniques will enable companies to successfully create triangle of the quality employee, quality products and quality customer and profitable and sustainable success.

As a result, research topic is one of the most important developments in management accounting in recent years. BB approach will provide a new perspective on organizations' budgeting processes, planning processes and organizational structure. Even if each organization does not completely switch to this practice, they can benefit by applying one or more BB principles. These benefits, which organizations will provide from BB, will increase the success of Turkish companies not only in Turkey but also in the international arena. 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, It is possible to attract the interest of high level managers by similar researches on Beyond Budgeting. It is also expected that discussions on new management approaches contribute to the changes of company culture of the countries. Further researches can be conducted to determine the extend of managerial changes in company culture in developed and also the developing countries.

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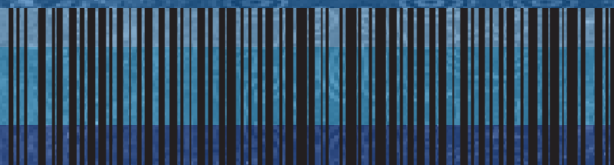
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