

Beyond Budgeting and Performance Management

A multiple case study of how performance is managed drawing on the Beyond Budgeting principles.

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Preface

The following master thesis is written as a final part of the master's program in Business Administration at the University of Agder. Writing the thesis has been educationally and personally enriching, and we would like to thank all the people who have supported us and made it possible.

We would like to express our gratitude to all the participants at Posten, Equinor and Miles. As this is a multiple case study, the thesis would not be as extensive without their valuable insight and data. We appreciate the contribution from every single participant for taking the time to talk to us and make this thesis feasible. We are especially thankful to Bjarte Bogsnes at Equinor for facilitating the thesis in the early stages.

We would like to thank our supervisor Rafael Heinzmann. This project has been challenging yet rewarding. Without his guidance and helpful advice, we would not have had the same enjoyable experience in writing this thesis.

Finally, we would like to thank our families and friends for their continuous love and support.

Abstract

This study aims at contributing to the Beyond Budgeting literature by investigating how performance is managed in companies that have implemented management control systems based on the Beyond Budgeting model. The aim of the thesis is to answer the following research question through a qualitative study:

“How is performance managed drawing on the Beyond Budgeting principles?”

To answer this question, a multiple case study was performed analyzing three Norwegian companies; Equinor, a large energy company, Posten, a large postal services company, and Miles, a relatively small IT-company. A total of 10 respondents were interviewed for the purpose of the study. The cases focus on performance management divided into targets, measurement and incentives in the context of the Beyond Budgeting model.

Our findings indicate that the implementation of a performance management system based on the Beyond Budgeting model varies. Not all aspects of performance management are in complete coherence with the Beyond Budgeting model, and the implementation of some of the principles are perceived as challenging and not quite practical. Our research suggests that one of the challenges concerns the use of targets. Relative targets were in use but were mainly centered around financial figures. The companies studied utilizes performance measurement generally in line with the model and evaluated performance holistically with peer feedback. Also, the incentive systems in use were not following the principles of Beyond Budgeting as group incentives were to some extent in use, but shared success against competition was not rewarded.

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1 Introduction

1.1 Background

Budgeting is described as pivotal to management accounting systems (Merchant & Van der Stede, 2017). However, some consultants and practitioners have in recent years proposed the abandonment of the traditional annual budget, opting for a more adaptive and radically decentralized management model known as Beyond Budgeting (Sandalgaard & Bukh, 2014). Common criticisms against the traditional budget include that it does not work as intended, has weak links to strategy, is too costly, stimulates unethical behaviors, and that it often prevents the right things from being done (Bogsnes, 2016; Hope & Fraser, 2003a).

Several companies from different industries have already implemented the mindset and are on a continuous journey of implementing the Beyond Budgeting model (Bogsnes, 2016). Beyond Budgeting has enjoyed academia's attention for some time and is regarded as one of the most innovative management accounting instruments, however it is not implemented widely in practice (Nguyen et.al, 2018). The model has also been of interest for researchers, with a specific focus on the implementation of the model in companies (Bogsnes, 2016). The Beyond Budgeting model is based on twelve principles subdivided in to leadership and management principles (Hope and Fraser, 2003a). The latter focuses on how processes can allow performance management to adapt better to highly competitive environments (ibid.).

The literature leaves many questions unanswered, such as why budgets are still widely used and only a few organizations have implemented the Beyond Budgeting model (Nguyen et.al, 2018). Libby and Lindsay (2010) also point out that traditional budgeting plays an important role in many companies, where they prefer to improve the budgeting processes rather than abandon them. The cause of the model not being widespread in organizations may be due to the scarce amount of academic studies, as well as insufficient empirical evidence of the concept's implementation in practice (Hansen et al., 2003; Rickards, 2006).

This study is set in the context of three companies that have implemented management models based on the Beyond Budgeting model. The three companies are Equinor, a large energy company, Posten, a large postal and logistics group, and Miles, a relatively small IT-company. The companies studied operate in industries where there is a lot of uncertainty. To become more adaptive the companies have opted to move away from the traditional budget.

1.2 Relevance and Purpose

The Beyond Budgeting model and performance management have both been of central interest to researchers (Bogsnes, 2016; Lebas, 1995; Otley, 1999). Despite the increasing interest in the Beyond Budgeting model, the literature leaves a gap regarding the models use in practice (Hansen et al., 2003; Nguyen et.al, 2018; Rickards, 2006). The performance management framework in organizations within the context of the Beyond Budgeting model, should be integrated focusing on the enablement of performance and adaptiveness (Bogsnes, 2016). How the model helps to drive the performance of an organization has not been widely studied.

This study is particularly motivated by calls in the literature for contributing to the need for more empirical studies on the subject (Nguyen et al., 2018; Sandelgaard & Bukh, 2014). By applying a multiple case study, we aim to contribute to fill the gap in the literature by examining the interrelationship between targets, performance measurement and incentives in the context of the Beyond Budgeting model, and how it drives performance.

1.3 Research Question

Based on the background, relevance and purpose, this thesis will attempt to answer the following research question:

How is performance managed drawing on the Beyond Budgeting principles?

The following sub-questions have been developed:

1. Are relative targets, holistic performance measurement and group incentives widely implemented in “Beyond Budgeting” companies?
2. What challenges do “Beyond Budgeting” companies face when managing performance?
3. Are companies that have implemented the Beyond Budgeting principles still dependent on budgets?

The sub-questions will help clarify the main research question as well as define the approach of the thesis.

1.4 Shortcomings and Limitations

It is essential to highlight the shortcomings and limitations of the thesis, as the results must be cautiously interpreted. This study is based on three corporations, and one limitation is the restricted number of interview objects, especially in two of the cases. We have also limited our choice of respondents to people in leadership positions. Different interview objects may have given different answers to the questions proposed. There might also be underlying aspects influencing the answers obtained in the study, therefore the views may not be fully representative.

The time perspective of the thesis must also be considered. The findings might have been different if the interviews were done when the companies were in the earlier stages of implementing the Beyond Budgeting model, or several years from now. Because performance management is a continuous process, conducting the study in a different time aspect would probably also yield other answers.

As student researchers we are relatively inexperienced in gathering empirical data and conducting interviews. This may have involuntarily affected the answers we have gotten from our respondents. To mitigate this, an interview guide was used. The guide was tested against fellow students to make sure the questions were understandable. The guide was also sent to our supervisor who was able to give recommendations, which we utilised.

Finally, one of the main limitations of this thesis concerns the lack of theoretical framework and empirical data. Even though the Beyond Budgeting model is institutionalized by the Beyond Budgeting Roundtable, it is still very industry driven. Therefore, there is no clear framework for analyzing performance management in the context of the model. The Beyond Budgeting literature is accordingly mostly based on work by industry professional Bogsnes and consultants Hope and Fraser.

1.5 Outline

The thesis is separated into eight chapters, including the introductory chapter. In the second chapter we introduce the theoretical framework which the study is built upon. The third chapter describes the methodology used in the thesis, whereas the fourth chapter describes our chosen research design.

In chapter five, we introduce the three companies studied and how they have adopted principles of the Beyond Budgeting model. This context is important for the next chapter, which is the analysis. The sixth chapter analyzes target setting, performance measurement and incentive systems in the three companies studied, in addition to discussing the findings in the light of the theoretical framework.

In chapter seven the main findings from the analysis are presented by answering the research questions. The final and eighth chapter summarizes the main results of the thesis and gives some concluding remarks, including suggestions for future research.

2 Theoretical framework

This chapter will present the theoretical framework for this thesis, which will through definitions and theory form the basis for the empirical analysis. The first part of the chapter introduces the traditional budgeting processes in management accounting, as well as related criticism. Thereafter comes a presentation of the Beyond Budgeting model, followed by performance management decomposed into three parts. The three parts, with a focus on the interrelationship between them, are introduced and further incorporated in the context of the Beyond Budgeting model.

2.1 Traditional Budgeting

Budgets are considered as a central part of management control systems, which are the formalized procedures and systems that use information to maintain or alter patterns in organizational activity (Simons, 1990). Budgets can be conveyed as a quantitative expression of a proposed plan of action by management for a future time period and as an aid to the coordination and implementation of the plan (Bhimani, Datar, Foster & Horngren, 2008). The majority of large firms have annual budgets as surveys show an almost universal use of budgets by medium or large companies in many parts of the world (ibid.).

Budgeting can also be defined as a part of a planning process. According to Merchant and Van der Stede (2017), budgeting serves four purposes; planning, coordination, top management oversight, and motivation. Budgets can be perceived as a way for the leadership of an organization to communicate the way forward to the rest of the organization. Abernethy and Brownell (1999) advocate that budgets are used by management to coordinate and communicate strategic priorities and are in conjunction with incentive systems used to facilitate lower-level managers' commitment to priorities. Supporting the management in successfully implementing the organization's strategies is one of the primary purposes of the budgets, the other being planning and controlling of the organization's operational measure (Richards, 2006).

2.2 Critique of Traditional Budgeting

In recent years the traditional budget has come under heavy criticism from consultants and industry professionals (Bogsnes, 2016; Hope & Fraser, 2003a; Wallander, 1999). Common

criticisms are that the budgeting process leads to time wasting, unethical gaming and it makes organizations rigid and difficult to change (ibid.).

One of the first criticisms against traditional management accounting systems was proposed by Kaplan and Norton in their relevance lost debate in the late 1980s. They argued that the form of management accounting systems where the budget is a key component is not effective at giving management useful and timely information (Kaplan & Norton, 1987).

The criticism against the budget itself ramped up in the 1990s with several articles released calling for the end of traditional budgeting procedures (Schmidt, 1992; Wallander, 1999). Wallander (1999) claims that the role of the budget is unnecessary as it is based on assumptions that reach far into the future. Furthermore, Wallander claims that the budget gets the numbers roughly right, or it gets it disastrously wrong, in which case it becomes dangerous (ibid.).

Jan Wallander was a CEO of Swedish bank Handelsbanken from 1970 to 1992 (Wallander, 1999). When he started his job, he was sure that the bank should abandon the budgeting process (ibid.). Handelsbanken has been very successful and showed a higher profitability in comparison to other Swedish banks in a historical perspective (ibid.). Wallander claims that the unique management model of Handelsbanken is what has enabled this. Budgets are often based on earlier years and in doing so it has a historic perspective which many professionals have admonished, saying that this leads to complacency and that it is not a good way of preparing for the future (ibid.). Hope and Fraser (2003a) especially admonishes this part of the traditional budget. Industry professionals, such as Bogsnes (2016), have also criticized traditional budgets for being too backward-looking and not event-driven enough.

2.3 The Beyond Budgeting Model

Consultants Jeremy Hope and Ryan Fraser were one of the first proponents for a new way of accomplishing a management accounting system that sought an end to traditional budgeting procedures (Hope & Fraser, 2003a). The Beyond Budgeting model introduces an alternative management model that is more adaptive and empowered, and based on the decision-making needs of managers (BBRT, 2016; Hope & Fraser, 2003a). Many critics made suggestions to improve modifications to traditional planning and budgeting processes, but the Beyond Budgeting model implores managers to abandon the traditional budget altogether (Merchant & Van der Stede, 2017).

The model is based on Hope and Fraser's (2003a) work with case companies that had abandoned the traditional budgeting process. Hope and Fraser (2003a) cite the radical decentralization philosophy of Jan Wallander as their greatest inspiration for their model of Beyond Budgeting. Furthermore, Hope and Fraser (2003a) add that to be successful at decentralization it is important to have the ability to transfer power and authority from the centre to operating managers, giving them the authority to use their judgement and initiative to reach their goals without being constrained by budgetary limits and specific plans. The goal is to get rid of needless bureaucracy, which ultimately does not lead to any value creation (ibid.).

According to Hope and Fraser (2003a) traditional budgeting processes are out of kilter with the modern competitive environment, and no longer meets the needs of organizations. Beyond Budgeting is not only a model that releases managers of the annual performance traps, but it is also an innovative model within management practices (Bogsnes, 2016). The Beyond Budgeting model comes across as more of a management philosophy than an alternative to budgeting and planning (Merchant & Van der Stede, 2017). The aim of the model is to make organizations more adaptable and responsive to the competitive environment that surrounds them (Bogsnes, 2016; Merchant & Van der Stede, 2017).

The real purpose of Beyond budgeting is not to get rid of budgets, it is rather to create a more agile and human organization which is necessary for great performance in today's competitive environment (Bogsnes, 2016). Such a change requires radical changes in traditional management, freeing managers from the traditional budgeting mindset (ibid.).

The Beyond Budgeting model is based on twelve principles subdivided in leadership and management principles (Heinzelmann, 2019). The model has been institutionalized by the Beyond Budgeting Roundtable (BBRT, 2016). From the implementation perspective, organizations first need to change the organizational culture by the belief that employees are motivated by value creation and doing something useful (Heinzelmann, 2019). The Beyond Budgeting model addresses big and important issues, and the principles have developed over time (Bogsnes, 2016).

Beyond Budgeting

- enabling business agility

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

Figure 1: The 12 Beyond Budgeting Principles (BBRT, 2016)

The solution to going Beyond Budgeting is not only found in new tools and processes, and a set of leadership principles is therefore also needed (Bogsnes, 2016). Implementing the model in accordance to the twelve principles is a challenge because each principle can represent a big change in itself, and the Beyond Budgeting model does not represent a given management procedure (ibid.). The observations in Hope and Frasers (2003a) studies became the foundation for the six leadership and six management principles. The management principles are grounded on freeing managers and employees from the annual performance trap, opting for elements like relative targets, holistic performance evaluation, rewarding shared success and dynamic management (Bogsnes, 2016; Hope & Fraser, 2003a). The model describes a management philosophy, where the model can be simplified into defining performance in the right way and creating an environment where members of an organization can perform in this way (Bogsnes, 2016). It can be perceived as a simple task but can be difficult to implement in practice as each organization differs and there is no clear recipe (ibid.).

2.4 Beyond Budgeting Challenges

The Beyond Budgeting model is presented as the next step in budgeting advancement that will reinvigorate management accounting contribution in operations and performance management, and the traditional budget has lost its relevance (Goode & Malik, 2011). Traditional budgets have on the other hand been around since 1920 and operating without any form of budget creates various problems (ibid.).

Otley (2008) argues that even though relative performance measurement has potential at the most senior levels, it would be difficult to apply to lower levels. This is due to the lack of details of competitors performance at these levels, when using for example benchmarking (ibid.). Research done on the topic also suggests that managers are more likely to be satisfied with traditional budgeting methods when operating in relatively stable environments with a high degree of task certainty (Dugdale & Lyne, 2014). Furthermore, Otley also recognizes the challenge of applying the model in complex organizations that would require great planning and co-ordination (Otley, 2008).

The Beyond Budgeting model suggests the abandonment of budgets, which may not work in practice. Some of the principles may be adopted towards Better Budgeting, but management will find it hard to completely abandon budgets as they are embedded in business culture (Goode & Malik, 2011).

The Beyond Budgeting model is claimed to be universal but has also received commentary for being only adaptable within certain cultures. Few companies have eliminated budgets, but most that have are, curiously, Scandinavian companies (Heinzelmann, 2015 & 2019; Johanson, 2013). This may be a result of the societal, institutional and organizational factors of these companies are fitting for implementation (Heinzelmann, 2019). Related research has also shown examples of how Beyond Budgeting and its cultural traits manifest themselves in Northern-European and North American countries (Hammer, 2010).

Many companies that start the Beyond Budgeting journey are yet to implement all aspects of the model, often opting for selected principles that fit into the current business model (Bogsnes, 2016). A survey conducted on North American companies by Libby & Lindsay (2010), show that most companies want to improve the budgeting process rather than eliminate it. A study by Ekholm and Wallin (2011) found that there was a positive correlation between the perceived usefulness of having both a traditional budget and a

flexible budget, suggesting that these different types of budgets are complementary, not competitive.

2.5 Performance Management

Performance management is a continuous process of identifying, measuring and developing performance, aligning it with organizational strategic goals, and is a critical aspect of organizational effectiveness (Aguinis, 2013; Cardy, 2004; Gruman & Saks, 2011). It has long been of central interest to both managers and management accounting researchers, as it creates the context for, and the measures of performance (Otley, 1999; Lebas, 1995).

To fully understand the concept of performance management, the term performance must be defined. Lebas (1995) advocates that performance is about deploying and managing components of the casual model that lead to the to the attainment of stated objectives within constraints specific to the situation, and that performance therefore is case and decision-maker specific. Moreover, performance management is about the management of organizational performance, linking it to the organization overall (Otley, 1999). In other words, performance management implements organizations strategic intent into formal processes, and helps them adapt to circumstances in which they must operate (Otley, 2001). A well-designed and implemented performance management system can therefore make a substantial contribution to an organization (Aguinis, 2013).

The Beyond Budgeting literature states that traditional performance management models are too rigid to reflect the fast-moving economy, and the focus should be centered around the enablement of performance in an organization (Bogsnes, 2016; Hope & Fraser, 2003a). The performance management framework should be integrated, meaning the strategy must connect to the people, including both the finance and HR functions of a company (Bogsnes, 2016). Organizations need to look beyond only measurement, even though it is a key part of performance management (ibid.). It is essential to use of the information available in decision making and control, thus managing performance holistically (Bogsnes, 2016; Otley, 2001).

Performance management can be approached by looking at the interrelation between target setting, performance measures and incentives, ultimately driving the performance of the individual and the organization:

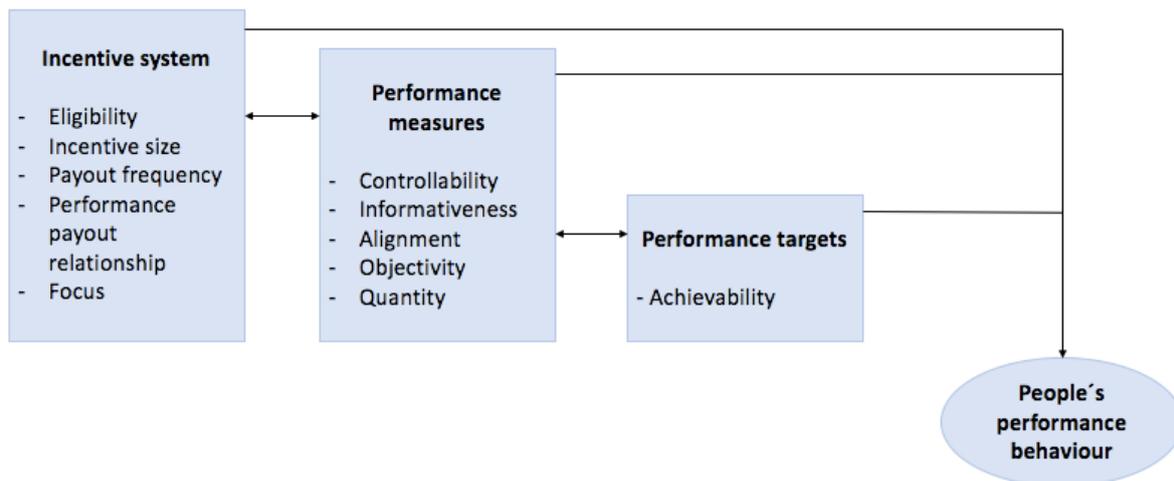


Figure 2: Key factors affecting people's behaviour (Based on Bourne & Santos, 2008, p.3)

Performance management can be perplexing. Decomposing performance management into targets, measurement and incentives, based on research done by Bourne and Santos (2008), can therefore be useful to gain a more in depth understanding of how a successfully implemented performance management system can yield superior performance. Firstly, targets are set as motivation, guidance and a basis for measurement, as targets are intrinsically related to performance measures, and organizations cannot lean on measurement itself (Bogsnes, 2016; Bourne & Santos, 2008). The measurement system is however key to breaking down the performance of the organization, as well as being the basis for incentives (ibid.). Successfully interrelating the components in a performance management system will ultimately help drive individual and, ultimately, organizational performance (ibid.).

2.6 Target Setting

Targets help clarify and link together an organization's goals, strategies and expectancies, as well as motivate managers considering targets often are the basis for performance evaluation and incentives (Merchant & Van der Stede, 2017). Targets are used as a form of motivational technique, and by setting the right targets managers can encourage employees to succeed and drive superior performance (Chartered Global Management Accountant, 2012). Setting the right targets on the other hand, can be difficult and has become an issue for many organizations (Bourne & Santos, 2008; Chartered Global Management Accountant, 2012).

According to Doran (1981), targets should follow the SMART principle; they should be Specific, Measurable, Achievable, Relevant and Time-bound. Targets are most often expressed in numbers, even though a well-formulated goal or objective can motivate and drive performance in a superior way compared to numbers (Bogsnes, 2016). Bogsnes also mentions that setting non-financial targets are often more difficult, but argues that it is still worth it for the increased performance it can accomplish (ibid.). Furthermore, a target can be considered an attempt to describe what good performance will look like at some point in the future (ibid.). Under the circumstances of high uncertainty and little control, good performance can be hard to predict (Bogsnes, 2017). Bogsnes (2016) mentions that the problem with traditional target setting is that they are numerical targets, often expressed as Key Performance Indicators (KPIs). When using KPIs to set targets, these must always be seen with the organization's long-term objectives towards measuring progress in mind (Bogsnes, 2016).

The Beyond Budgeting literature does not argue for the abolishment of targets, but rather proposes stretch and relative targets as a solution (Bogsnes, 2016; Hope & Fraser, 2003a). Stretch targets set ambitious, yet achievable, targets to achieve motivation to maximize the performance of an organization. If the targets become too ambitious, they may be perceived as demotivating for employees (Otley, 1987 & 1999). Therefore, the challenge with stretch targets is setting them motivating and realistic enough for those who will be required to attain the targets to yield superior performance (ibid.).

Targets should be market driven, relative and ambitious, in coherence to the Beyond Budgeting model (Bogsnes, 2016; Bogsnes, 2017). In contrast to traditional methods, the Beyond Budgeting model helps distinguish the processes of planning, target setting and resource allocation, allowing the organization to become more flexible and adaptive to market changes (Heinzelmann, 2019). However, research suggests that organizations that change their management accounting system based on the Beyond Budgeting model and its principles will often maintain targets based on fixed budgets (Sandalsgaard & Bukh, 2014).

2.7 Performance Measurement

Performance measurement is critical to improving organizational performance and is understood as a mainstay of an organizations accounting and control function (Epstein & Manzori, 2006; Merchant & Van Der Stede, 2017). According to Neely, Bourne, and Adams (2003), performance measurement is the process of quantifying the efficiency and effectiveness

of past actions. The systems used to measure performance are often the basis of evaluations and rewards, and a commonly cited managerial “truism” is that what you measure is what you get (Merchant & Van der Stede, 2017).

There are several methods of measuring performance in an organization. Organizations have traditionally used financial measures to evaluate performance (Merchant & Van der Stede, 2017). These short-term, backward-looking, transactions-based orientations of measures can be balanced out by focusing on well-chosen nonfinancial measures that are more future-oriented (ibid.).

When moving from measuring performance against predetermined budgets towards the Beyond Budgeting model, there is less dependence on a one-dimensional control system (Hope & Fraser, 2003a). A much more transparent control system will allow managers to be informed about performance at all levels of the organization (ibid.). The Beyond Budgeting literature states that performance should not be measured based on measurement only, and not for incentives only (BBRT, 2016). Performance should rather be measured in an ongoing process of seeing the bigger picture of performance and breaking free from the annual evaluation of predetermined targets, in a holistic manner (Bogsnes, 2016). This way of measuring performance holistically focuses on evaluating what has been delivered equally to how it is delivered, and therefore setting a new basis for incentives (Bogsnes, 2018ab). According to the Beyond Budgeting principle of performance evaluation, performance should not only be measured holistically, it should also include peer feedback for learning and development (BBRT, 2016). In a Beyond Budgeting environment, relative performance measures play a bigger part in order to measure performance holistically (Bogsnes, 2016).

One of the earlier models to incorporate relative measures was The Balanced Scorecard (BSC), first touted by Kaplan & Norton (1992). It is a strategy performance management tool that provides managers with instrumentation needed to navigate to future competitive success (Kaplan & Norton, 1992). The BSC is used to translate an organization’s mission and strategy into comprehensive performance measures that are used for a strategic measurement and management system (ibid.). There is still an emphasis on achieving financial objectives within the model, but the performance drivers of these objectives are also included in the BSC (Kaplan & Norton, 1996). Recent interest on the use of nonfinancial measures, for example the BSC, generally assumes that such measures are essential to overcome the inadequacies of financial measures (Lau & Sholihin, 2005). Moreover, Kaplan (1983) advocates that the challenge lies

in deemphasizing the current focus of senior managers on simple, aggregate, short-term financial measures and to instead develop indicators that are more consistent with the long-term competitiveness and profitability. The BSC has laid the foundation for the use of many relative and non-financial measures of performance, as thousands of enterprises have adopted the BSC, which was furthermore broadened into a management tool for describing, communicating and implementing strategy into measures to drive performance (Kaplan, 2009).

2.7.1 Key Performance Indicators

Key Performance Indicators (KPIs) are key quantifiable measures focusing on those aspects of organizational performance that are critical for current and future success of an organization and can be financial, non-financial or both (Parmenter, 2010). They help organizations to gain knowledge of the performance in relation to the strategic goals and objectives set within the organization and help reduce the complexity of organizational performance to small, manageable key indicators that can help evaluate and improve performance (Marr, 2015). KPIs can be used as day-to-day, month-to-month, or year-to-year measurements of performance, and KPIs that reflect internal successes can also be used as external promotional tools (Pollock, 2007). Bogsnes (2017) advocates, regarding the holistic measurement of performance, that KPIs are just there to help and that many people forget what the “I” in KPI stands for. KPIs are only indicators if the unit being measured is heading in the right directions, and organizations cannot rely on measurements only (ibid.).

As targets often are the basis for measurement, targets in a Beyond Budgeting environment are often expressed as high-level KPIs, ultimately enabling managers to focus on continuous value creation (Hope & Fraser, 2003a). As a basis for measuring performance, ideal KPIs are difficult to find, at least when moving away from the financial perspective and focusing on relative indicators (Bogsnes, 2016). Characteristics of good KPIs are that they measure real performance towards strategic objectives, there is a good mix of leading and lagging indicators, monitoring is efficient, they are perceived as meaningful at the level used and that data can be collected easily (ibid.).

2.7.2 Benchmarking

When measuring relative success against competition, or within the organization, benchmarking allows a fair evaluation of efforts (Hope & Fraser, 2003a). Benchmarking is the search for best practices within and across industries with the intent to improve performance

and has emerged as a central process in management accounting (Elnathan et al., 1996). The process of benchmarking can involve comparing the performance of the organization against direct competitors, or against companies recognized for their superior performance (Merchant & Van der Stede, 2017). When benchmarking focuses on organizational performance, rather than best practices, the benchmarks are often used as a way of relative performance evaluation (ibid.). Organizations can also use internal benchmarks, for example across different departments. Benchmarking has long been a tool for process improvement and cost saving through best practices, however the expert practices within an organization are often neglected if the use of internal benchmarks is not in use (Southard & Parente, 2007). Benchmarks set goals based on either external or internal measures and comparisons. According to Hope and Fraser (2003a), budgets are barriers for benchmarking, as the use of budgets portrays an illusion of control, and the benchmark loses its visibility due to the predominant short-term financial targets. Furthermore, benchmarks serve two main purposes; to drive an organizations performance and to learn from those who perform better (Bogsnes, 2016).

There are several challenges when opting for the use of the benchmarks. Firstly, it can be difficult to find peers to compare with, especially externally but at times also internally (Bogsnes, 2016). The peers may be difficult to find because the company is unique in the way it operates, or it is simply too demanding to find the best-practice organizations within the industry to compare with (ibid.). Benchmarks must also be perceived as fair and relevant, if not, it will not work within the organization as there will be an endless discussion about not being comparable (ibid.). The data necessary to benchmark may also be too expensive or too time consuming to obtain, although researchers Elmuti and Kathawala (1997) claim that one of the biggest myths about benchmarking is that it is too expensive, reasoning that with careful planning, costs can be kept down. One solution to these problems is the use of “indirect benchmarking”, where an organization compares how well it, or each unit, improves its own performance (Bogsnes, 2016). This can be done by comparing historical data of performance (ibid.).

2.8 Incentive Systems

In effective management, one of the primary principles is that rewards should be the third thing you work on, with measurements being second (Kerr, 2004). The focus of such reward and incentive systems are on motivating and increasing the performance of both individuals and groups within an organization (Bonner & Sprinkle, 2002). The term incentives are often

referred to as positive rewards or bonuses and can be either individual or group based (Merchant & Van der Stede, 2017).

Research done on the field of incentives effects on team members indicates that both individual and group incentive systems each have different benefits (Beersma et al., 2003). While some argue traditional individual incentive systems are most beneficial, evidence suggests that the use of group-based incentive plans create a culture of ownership and engagement, being beneficial for both the organization and its employees (Merchant & Van der Stede, 2017).

The issue of incentives has been the subject of fierce debate within both practitioner and academic communities for decades, as some argue that incentive systems improve individual performance, while others suggest that such “bribes” are unnecessary (Hope & Fraser, 2003b). No controlled scientific study has ever concluded that a long-term enhancement of the quality of work as a result of incentive systems (Kohn, 1998).

According to Pfeffer (1998), individual incentives undermine performance on both an organizational and individual basis. Many studies suggest that individual incentive pay prevent teamwork, encourages short-termism and leads people to believe that incentives are not related to performance, but rather relationships and personality (ibid.).

In conclusion to his research on incentives, Deutsch (1985) advocates that there is no evidence to indicate that performance is enhanced when people are expected to be individually rewarded. Furthermore, industry professional Bogsnes advocates that individual incentive systems do more harm than good, and that they are effective for simple work where there is little motivation in the job itself (Bogsnes, 2016).

The Beyond Budgeting literature correspondingly states that incentive systems need to be adopted to the complexity of the work and the environment (Bogsnes, 2016; Hope & Fraser, 2003a). Hope and Fraser (2003b) assert that the ultimate best practices model should have a mixture of rewards. The incentives should have a percentage of rewards based on the relative success of the company, a percentage based on the relative success of the local team, as well as some incentives based on personal merit (ibid.). When moving from simple to more complex tasks, the individual bonus system loses its power (Bogsnes, 2016). Purpose, belonging, mastery and autonomy are factors that drive both motivation and performance when completing tasks of higher complexity, and a collective bonus scheme would accordingly be more fitting (ibid.) According to the Beyond Budgeting principle of rewards, incentives should

reward shared success against competition and not against fixed performance contracts (BBRT, 2016).

2.9 Summary

Some consultants and practitioners claim that traditional budgeting has lost its relevance, and Beyond Budgeting is considered as a solution to the problems around traditional budgets (Bogsnes, 2016; Hope & Fraser 2003a). Beyond Budgeting introduces a model where organizations ultimately become more empowered and adaptive to the market and competitors, where performance can be managed accordingly as opposed to the traditional way. Targets in the context of the model are to be set directional and ambitious, with the use of relative and stretch targets. Performance is to be evaluated holistically with peer feedback, instead of being based on measurement only. Incentives should also move away from being based on fixed performance contracts, and organizations should instead reward shared success against competition. The Beyond Budgeting model enables organizations to become more forward-looking and responsive. Therefore, a successfully implemented performance management system based on the model will help drive organizational performance.

3 Methodology

This chapter will describe the methodology used in the thesis. The chapter presents case studies, quality of good research and research methods within management accounting.

Management accounting is a set of practices that are often loosely coupled to one another and varying across both time and space, and research on practices comes across as interesting, yet challenging (Chapman, Hopwood & Shields, 2007). Research in the field of management accounting intends to understand the complex interplay between management accounting institutions, practices and understandings (Heinzelmann, 2012). As empirical research on management accounting has advanced, it has developed a variety of theoretical perspectives and research methods to address a rising amount of substantial questions (Luft & Shields, 2007). Research done on accounting practices is periodically challenged about its practical relevance and its progressive scientific achievements (Cooper & Morgan, 2008). Practices within management accounting emerge as a highly situated phenomenon, as it is limited by historical conditions, local meanings, values and rationalities found in organizational settings (Baxter & Chua, 2003). Furthermore, research on management accounting practices is also limited by individual characteristics and habits of participants connected to the management accounting work (*ibid.*). It comes across as important, both empirically and theoretically, to study what the effect in management accounting practices when different pre-understandings meet each other (Heinzelmann, 2012).

3.1 Case Study Research in Management Accounting

Case study research aims at understanding the dynamics present within a setting and can be used to provide a description of a phenomenon (Eisenhardt, 1989). Case studies have over the years become increasingly important and well established in management accounting research (Cooper & Morgan, 2008; Scapens, 1990). Most accounting researchers agree that qualitative field research is social in nature (Ahrens & Chapman, 2006). Case studies' central role in management accounting research seems to be that of exploration and explanation (Berry & Otley, 1994). Furthermore, case studies can involve one single or multiple cases, and have numerous levels of analysis that are useful in order to develop an in-depth understanding (Eisenhardt, 1989; Heinzelmann, 2012). There are various terms that can be used to describe a case study, including field studies, interpretive studies, qualitative research, small sample studies, action research and constructive research (Cooper & Morgan, 2008). Field research is

particularly powerful when studying issues that are not completely understood, complex in nature or that might cause serious response biases in a survey study (Ferreira & Merchant, 1992).

The research question is fundamental for choosing case study as research design, as case studies are suitable when answering “how” and “why” questions (Yin, 2018). There are multiple approaches to organizing and managing the process of conducting a case study in a successful matter. For instance, the approach Eisenhardt suggests is an eight-step process comprising of getting started, case selection, crafting instruments and protocols, entering the field, analyzing data, shaping hypotheses, unfolding literature and finally reaching closure (Eisenhardt, 1989). Similarly, Yin (2018) proposes a six-step model which consists of planning, designing, preparing, collecting data, analyzing and sharing. Other authors have in contrast underlined the importance of taking unique and context-dependent aspects of case studies seriously, with focus enhancing understanding of single case studies (Heinzelmann, 2012). Multiple case studies, on the other hand, can be understood as multiple experiments that aim at achieving greater generalization or comparative foundation of a phenomenon (Burns, 2000). Field study methods used in management accounting are quite diverse, and it seems that field research can accommodate virtually every research interest (Ferreira & Merchant, 1992).

Our methodological design is based on the six-step process suggested by Yin (2018) in order to be able to frame the research process. We have also opted for a multiple case study in order to be able to see similarities and see differences in performance management in companies that have adopted different aspects of the Beyond Budgeting model and its principles. This will conceivably give a better understanding of the phenomenon studied. The data is collected in and across various units in the different case studies in order to give a greater insight into how the organizations operate.

3.2 Quality of Good Research

In general, research is associated with the quality criteria of generalizability, validity and reliability, all of which originate from natural science (Heinzelmann, 2012). Researchers within qualitative work have been critical of using these criterias for qualitative field work in management accounting (Baxter & Chua, 2008). Ahrens and Chapman (2006) argue that the role of theory in qualitative research is key in relating to an expression of a subjective reality more than a clarification of an objective one. This is also suggested by Heinzelmann (2012),

who argues that the first criterion of good qualitative research is the reflexive interplay between empirical material and theory. Ahrens and Chapman (2006) also note that there are better methods of assessing quality than borrowing from positivistic methodology, arguing that reliability and validity are not appropriate for qualitative field work.

In his paper on classifying and evaluating theoretical contributions of case research in management accounting, Keating (1995) proposes a framework for identifying case studies' theoretical contributions. Keating differentiates between theory discovery, theory refinement and theory refutation studies (ibid.). Theory discovery's objective is to map novel, dynamic, and/or complex phenomenon that is ignored or not adequately explained by existing theories (ibid.). Theory refinements objective is to establish the plausibility of a specific theory by either establishing the theory's viability as a competing theoretical perspective or to develop the theory into testable form (ibid.). Theory refutations objective is to falsify or otherwise refute a well-specified theory (ibid.). Classifying our thesis using Keating's framework we can place this thesis as a theory refinement casework, were we look at the viability of the existing Beyond Budgeting theory on how to manage performance.

Lukka and Kasanen (1995) identify generalizability as the derivation of and argumentation for conclusions covering many or all cases of a certain type based on one or more observations of the real world. Generalizability for findings and explanations is a cause for concern for case study research according to Cooper and Morgan (2008). However, accounting researchers mainly focus on a specific type of generalizability which can be identified as empirical generalization (ibid.). Empirical as in it can testify when the knowledge will apply or not (ibid.). Cooper and Morgan (2008) furthermore argue that while large scale, archival studies help to identify the broad patterns, case studies help to identify the specifics and the context, which are important in expert use of the results (ibid.). A moderate view of generalization from casework is that it can be done in two ways, theoretically or analytically (Lukka & Kasanen, 1995). Theoretically as in it will be generalizable back to theory instead of a larger population based on sample evidence (ibid.). Analytically as in the theory will be replicated with testing of the findings in a second or third neighbourhood where the theory has specified that the same results should occur (ibid.). A comparative case analysis has been mentioned as a way of achieving generalizability in case studies (Chua, 1989; Eisenhardt, 1989; Glaser and Strauss, 1967; Roslender, 1990 in Lukka & Kasanen, 1995).

Baxter and Chua (2008) note that there are different ways of interpreting qualitative management accounting field research. There are several assessment criteria proposed within the social sciences as an alternative to reliability and validity. Baxter and Chua (2008) mention concepts such as “trustworthiness”, “methodological rigour”, “interpretive rigour”, and “convincingness” (ibid.). The concept of “convincingness” was proposed by researchers Golden-Biddle and Locke (1993). In our thesis we will be using the concept of convincingness instead of validity and reliability to judge the quality of our research. Convincingness, as it was termed by Golden-Biddle and Locke (1993), is characterised by three terms that the authors termed Authenticity, Plausibility, and Criticality. Authenticity meaning the appeal to readers to accept that the researchers have been in the field and grasped how the members understood their world (ibid.). Plausibility meaning the appeal to readers to accept that the findings make a distinctive contribution to issues of common concern (ibid.). Criticality meaning the appeal to readers to re-examine predefined assumptions which are taken for granted (ibid.). Golden-Biddle and Locke suggest that ethnographic research must at a minimum achieve authenticity and plausibility (ibid.).

Using Authenticity as a base for convincing readers that we have been in the field and grasped how members understood their world, we have explained how we as researchers undertook the meetings with our respondents, by explaining the process of the interviews and how we got in touch with the respondents. This is known as delineating the relationship in the field (Golden-Biddle & Locke, 1993). We have also explained how we have collected and analysed the data. This is done to inform the readers that we have been genuine to the field experience, by depicting the disciplined pursuit and analysis of data (ibid.). Another way of creating authenticity is by qualifying personal biases (ibid.), which is something we as researchers have explained in the Shortcomings and Limitations part of our thesis. These strategies are used by us as researchers in order to strengthen the reader’s belief that we have been there in the field and been true to the field experience (ibid.).

Using Plausibility to convince readers that our findings make a distinct contribution to research, we have organized our thesis using generally accepted practices, meaning our thesis follows a logical progression from introduction, theoretical framework, methodology, research design, empirical settings, analysis, main findings, to concluding remarks. According to Golden-Biddle and Locke (1993) this is known as normalizing unorthodox methodologies. To convince readers that we as researchers offer something distinctive, we have highlighted gaps in the existing literature about Beyond Budgeting, and displayed calls for further research, thereby

arguing for the importance of our thesis. Golden-Biddle and Locke describe this as differentiating findings (ibid.). This approach is used by us as researchers in order to convince the readers asking themselves: a) Does this make sense to me? and b) Does it offer something distinctive? (ibid.).

As mentioned earlier, Golden-Biddle and Locke (1993) identify authenticity and plausibility as necessary for ethnographic texts to convince, meaning that they must convey the vitality and uniqueness of the field situation and build their case for the particular contribution of the findings to a disciplinary area of common interest. Criticality is not mentioned as necessary for ethnographic texts to convince. Our research examines how performance is managed drawing on the Beyond Budgeting principles. The findings of this study may be a part of current research such as Sandelgaard and Bukh (2014) and Nguyen et al. (2018), that are looking into the implementation practices of the Beyond Budgeting principles in Beyond Budgeting companies, thereby challenging how performance is managed in practice set up against the current literature. It is our opinion that this is fulfilling the criticality component of convincingness as termed by Golden-Biddle and Locke (1993).

3.3 Research Methods

Research methods can either be qualitative, quantitative or mixed (Creswell, 2013). The mixed methods approach falls somewhere in between, as it incorporates elements of both approaches (ibid.). Quantitative research relies heavily on linear attributes, measurements and statistical analysis (Stake, 2010). Qualitative research, specifically field research, are social in nature and commonly used for research on management accounting and its practices (Ahrens & Chapman, 2006; Cooper & Morgan, 2008). As opposed to other research methods, qualitative research relies primarily on human perception and understanding, where experience, intuition and skepticism are central and work alongside one another (Stake, 2010). Qualitative research concerns the collection of data that represent experiences in specific situations or processes (ibid.). It is crucial for qualitative case-based methodology to use several different sources of evidence when collecting data (Heinzelmann, 2012).

To collect data, social scientists use several different sources (Boeije & Hox, 2005). Sources can be differentiated between primary and secondary sources. Primary data is data that is collected for specific research purposes and problems, while secondary data is data already collected by other researches and used for other purposes. (ibid.). The research done for this

thesis is mainly based on primary sources when analyzing the findings, in order to achieve an in-depth understanding of companies internal and external performance management processes.

The use of a qualitative research methodology dictates the selection of methods (Heinzelmann, 2012). Qualitative research embodies interviews, ethnographies, texts and audio data (ibid.). Our research mostly includes qualitative data collected from interviews, as the data focuses on human perception and aims to gain insight into the processes of performance management in the three organizations studied. Interviewing will therefore be outlined in greater detail.

3.3.1 Qualitative Interviewing

Interviews are one of the most important methods for gathering information when conducting case studies (Yin, 2018). More specifically, qualitative interviewing serves three main purposes for researchers; obtaining unique information, collecting a numerical aggregation of information from many persons and finding out about a phenomenon (Stake, 2010). Qualitative interviews are defined as guideline-based conversations, and enables researchers to explore in detail the experiences, motives, and opinions of others (Rubin & Rubin, 2012). If there is an expectation that one or more interviewees will produce quotable material, the interview should be tailored to the specifics of the interviewee (Stake, 2010).

A major strength of qualitative interviewing is that it helps reconstruct events the researchers have never experienced, as well as it can challenge long-held assumptions and help recast ineffective public policies (Rubin & Rubin, 2012). Furthermore, qualitative interviewing also produces highly credible results (ibid.).

Qualitative interviews can vary in techniques according to how structured the interview is. When conducting an interview, it can either be unstructured, semi-structured, focused or problem-centered (Heinzelmann, 2012; Rubin & Rubin, 2012). In a qualitative setting, a structured interview will rarely be used as it does not invite follow-up questions and is rigid in how it collects information (Denzin & Lincoln, 2005). In a semi-structured interview, the interviewer has a specific topic to learn about, prepares a limited number of questions in advance, and plans to ask follow-up questions (Rubin & Rubin, 2012). Problem-centered interviews are theory-generating and aim to increase the user's knowledge, while focus interviews use a similar approach but there is a predefined purpose selected coupled with more specific questions. (Heinzelmann, 2012; Witzel, 2000). We have chosen to utilize a

semi-structured interview in our data gathering process. The use of semi-structured interviews gives us as interviewers a degree of control over the direction of the interview, as we have specific requests about information, while having the opportunity to ask follow-up questions (Rubin & Rubin, 2012).

4 Research Design

Research design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions (Yin, 2018). Our research has been structured based on Yin's model on how to undertake case study research. The steps in the model are as follows: plan, design, prepare, collect, analyze and share (ibid.).

The research question is the guideline for the thesis. The research question helps to keep focus throughout the study (Stake, 2010). Our interest in the research came from coursework done on Beyond Budgeting in a course we both had in university. We undertook a literature review on the Beyond Budgeting literature and found that there were gaps in the literature relating to performance management in organizations that were implementing principles of the Beyond Budgeting model. Accordingly, we planned our case selection based on organizations that were listed as having implemented the Beyond Budgeting principles. We used information from the Beyond Budgeting round table to find suitable organizations that we would like to explore as case-studies. The cases that were selected were chosen based on availability and suitability.

4.1 Collecting evidence

The case studies in this thesis are based on semi-structured interviews, some internal documents and publicly available information. Our main method of information gathering has been interviews with different knowledge workers in the case organizations. We interviewed people in leadership positions. Data was collected through in-person meetings and through video-interviews. Some were done through video because of the travel distance and availability of the respondents. We made use of the snowball technique when selecting interviewees, which is a sampling technique which gives the researcher access to informants through contact information that is provided by other informants (Noy, 2008). When picking the respondents, we made sure to choose respondents in different parts of the organizations to get different information that was valuable for our research. In the Equinor case we were given access to a total of seven respondents who were in different parts of the organization, all were in leadership positions, and were familiar with the performance management system in use at Equinor. In the Posten case we were given access to a total of two respondents working in different leadership positions in the organization. In the Miles case we were given access to one respondent working as CEO of a local branch.

4.2 Interviews

The empirical data was collected from March to April 2019. An interview guide consisting of open-ended questions was prepared in advance and sent to each respondent prior to the interview. This was done to enable the respondent to prepare, and to make sure we as researchers could gain the information we needed. The interview guide, which can be found in the appendix, consists of three sections; targets, performance measurement and incentives. This was done to gain more insight into each of the processes, and to link them together. To establish quality and credibility of the interview guide we ensured the approval of our supervisor, and we tested the questions on fellow students to make sure they were understandable.

The interviews were conducted with two interviewers and one respondent at a time. The interviews were recorded and transcribed immediately after each meeting. We followed the guideline while also asking follow-up questions, in order to ensure flexible information gathering. This was done in order to explore the interviewee's answers to obtain further depth and level of detail, examples, as well as to clarify concepts and themes (Rubin & Rubin, 2005). Most interviews were done in Norwegian, one was done in English as the respondent was an English speaker. After transcription, the interviews were translated. The interview objects are listed in the following table, which also provides an overview of the respondents in the analysis:

| | Position | Company | Date |
|----------------------|---|----------------|-------------|
| Respondent 1 | Financial officer; E-commerce and logistics | Posten | 12.03.2019 |
| Respondent 2 | Department Head; Target and Budget processes | Posten | 29.03.2019 |
| Respondent 3 | Manager Finance & Control; Drilling and Wells | Equinor | 21.03.2019 |
| Respondent 4 | Controller; Middle East Operations | Equinor | 21.03.2019 |
| Respondent 5 | Leader Finance & Control; Project Development | Equinor | 25.03.2019 |
| Respondent 6 | Lead Analyst Performance Management; New Energy Development | Equinor | 25.03.2019 |
| Respondent 7 | Finance Controller; Marketing and Processing | Equinor | 26.03.2019 |
| Respondent 8 | CFO; Foreign Operations | Equinor | 04.04.2019 |
| Respondent 9 | Senior Advisor Performance Framework | Equinor | 09.04.2019 |
| Respondent 10 | CEO/Daily Servant Local Branch | Miles | 06.03.2019 |

Figure 3: List of interview objects

4.3 Analyzing & Reporting

No formal coding program was used for the analysis. We analyzed the data from the interviews, internal documents and publicly available information. The analysis of the data was grounded in a theoretical perspective and through the proposed research questions. The first research question focuses on breaking down performance management in to targets, measurement and incentives. The two other research questions have been related to the challenges that companies experience and whether budgets still are a part of performance management. Related challenges and limitations are previously listed in the introductory chapter of the thesis.

5 Empirical Settings

This chapter will give an overview of the three companies studied in this thesis. We will succinctly outline an introduction to the company, and how Posten, Equinor and Miles each have adopted principles of the Beyond Budgeting model in different ways. The empirical settings in this chapter will serve as a mean to give a better understanding of the analysis of how performance is managed in the three companies studied.

5.1 Posten

Posten Norge AS is a Nordic postal and logistics group that develops and delivers integrated solutions in postal services, communications and logistics (Posten Norge, 2019a). The Posten group has over 17200 workers and approximately 1400 points of sale in Norway (ibid). The company has a strategy of developing a customer oriented, integrated and industrialised Nordic postal and logistics business (ibid.). Posten is owned by the Norwegian state (ibid.). The Posten group is divided into 4 divisions: Mail, E-commerce & Logistics, International Logistics, and Express (Posten Norge, 2019b). In our case we have interviewed one Financial Manager in division E-commerce & Logistics, and one Department Head of Target & Budget processes in division Mail. E-commerce & Logistics division is responsible for all parcel products towards e-commerce customers as well as groupage and part-load, temperature-controlled transport and warehouse solutions in Norway (ibid.). Mail division is responsible for traditional postal services in Norway and Bring Citymail in Sweden (ibid.).

5.1.1 Adoption of Beyond Budgeting principles

Posten initiated a new management model based on the Beyond Budgeting principles in 2010 (Pedersen, 2014). In her research, Pedersen notes that many informants in her master thesis implied that they were still using some budget processes and that they were not fully “Beyond Budgeting” (ibid.). The feedback we received from our informants indicates the same. The financial manager in the E-commerce and Logistics division was clear on the fact that Beyond Budgeting was not a term that employees used or were familiar with. The department head in the Mail division explained that the process today was even closer to traditional budgeting processes than before:

“We had a period, 3-4 years, ago where we tried to implement some of the Beyond Budgeting principles more systematically. We looked at what we

delivered and what we expected to deliver in the next 12 months. Some of it is still left, though there has been a lot of change in the organization, so it looks a bit more like the old-fashioned budgets. It is difficult to maintain the type of activity described in the Beyond Budgeting documents, without having a quite permeable management organization. Many in our organization talk about the budget as a traditional budget, which is not something we actually should do. They relate to what they call the budget.”

Even though many of the traditional budgeting processes remain in the company, some of the Beyond Budgeting principles are in use such as utilizing benchmarking, non-numerical KPI's, using stretch targets in accordance to the Beyond Budgeting model.

5.2 Equinor

Equinor is a Norwegian energy company founded in 1972 that has developments in oil, gas, wind and solar energy in more than 30 countries worldwide (Equinor, 2019a). Equinor has more than 20 thousand employees and is one of the world's largest offshore operators (ibid.). They are also listed on the New York and Oslo stock exchange (ibid). The Norwegian state has an ownership of 67% (ibid.). By turnover they are the largest company in the Nordic region (Statista, 2019). The headquarter is located in Stavanger (ibid). Equinor's values are to be open, collaborative, courageous, and caring (ibid.). Equinor acquired their current name after changing name from Statoil in 2018, as part of their strategy to become a more diverse energy company instead of primarily being an oil and gas company (Equinor, 2019b).

In our case we interviewed seven respondents. Our respondents were all working in Norway, although most had international experience, and some were mainly working internationally. We interviewed people from different areas within the organization and in different positions.

5.2.1 Adoption of Beyond Budgeting principles

After operating after traditional management methods for many years, Equinor started a long journey in 2005 for the management processes to better reflect the company's values and beliefs (Bogsnes, 2018a). As the company's values and leadership changed along with the unpredictable environment, the management processes also needed change (ibid.). The new management model implemented was heavily inspired by the Beyond Budgeting model, being influenced by both the leadership principles and the management processes (Bogsnes, 2018a).

The new integrated performance management process, called “Ambition to Action”, translates the company’s vision, values and strategy into action and results, further creating clear-cut links to both team and individual contributions (The Equinor Book, 2018).

Strategies are turned from ambitions to action in the model, securing flexibility and activating values and leadership principles. In contrast to the traditional budgeting processes, the Ambition to Action model enables Equinor to separate the targeting, forecast and resource allocation functions in order to become more event driven and adaptive:

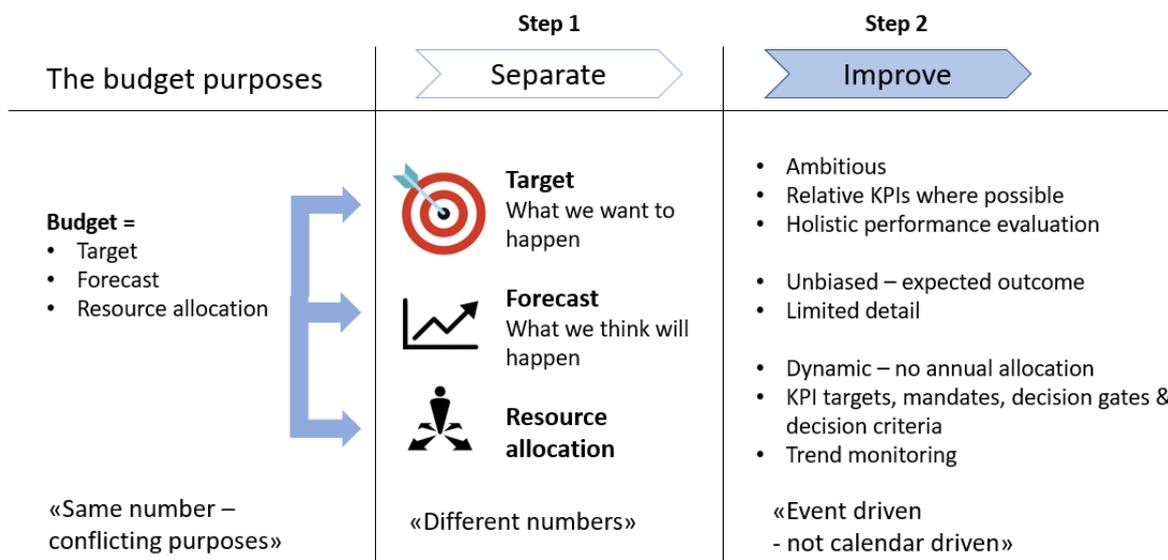


Figure 4: Start of the Statoil (Equinor) Journey – solving a serious budget conflict (Based on Bogsnes, 2012, slide 5)

Ambition to Action is described as a continuous process where improvement always is warranted, and Equinor became even more adaptive when the calendar year was abolished where possible in 2010 (Bogsnes, 2018b).

Due to several factors in the industry Equinor operates in, such as contracts with external partners, not everything can be done precisely in coherence to the model, but some key principals remain. The key principles of the Ambition to Action model are (Bogsnes 2012):

1. Performance is ultimately about performing better than those we compare ourselves with
2. Do the right thing in the actual situation, guided by the Equinor Book, the Ambition to Action, decision criteria and authorities and sound business judgement.
3. Within the framework, resources are made available or allocated case-by-case.

4. Business follow up is forward looking and action oriented.
5. Performance evaluation is a holistic assessment of delivery and behaviour.

Using the Ambition to Action model has enabled Equinor to incorporate their vision and values into all parts of the organization. The framework empowers all employees to deliver on behalf of the company, as well as the company itself has become more adaptive to changing and unpredictable conditions in a complicated industry (The Equinor Book, 2018).

5.3 Miles

Miles AS is an IT consulting company established by Tom Georg Olsen and other entrepreneurs in 2005 (Miles, 2019). In his previous work, Olsen experienced a traditional way of management, leaving him frustrated (ibid.). When starting Miles, Olsen and his colleagues wanted to structure the company based on different beliefs and principles with a passion for the work (Bogsnes, 2016).

The vision of the company is to be an outstanding workplace based on the values of being a professional authority as well as being compassionate and warm. Through its mission and strategy, Miles have over time built a strong organizational culture. Miles' vision is an example of the company's uniqueness, as the creation of a safe and stable work environment is prioritized as opposed to reaching financial numbers and following strict budgets (Miles, 2019). Even though Miles are profit driven, they operate without any budgets or specific financial growth targets. They have however had strong growth and solid results since the company was established (ibid.).

Centrally in Miles' philosophy stands the acquisition of "the right employees", which contributes to the focus on building a unique and common culture and mindset. This is done by focusing on values such as quality and employees' well-being (Miles, 2019). Another reflection of Miles' the culture and business model is the CEO title. For each branch, it is substituted with daily servant, as the CEO should serve the employees to enable them to work in the best possible way and evolve. The title as "Daily Servant" has been recognized, praised and described as a modern way of managing (Fallmyr, 2018).

Today, Miles offer project deliveries, consulting services, business consulting and UX-design. There are over 150 employees working for Miles across the world, as they have offices in Bergen, Oslo, Stavanger, Mumbai and Johannesburg (Miles, 2019). Miles continue to work towards their vision of being an outstanding workplace based on the core values of the

company. Miles has been recognized for its leadership philosophy, organizational culture and success obtained operating without any form for budget (Østerbø, 2018; Mossige, 2014). Furthermore, Miles have had several accolades including winning “Great Places To Work” twice in Norway and achieving second place in Europe (Braathen, 2012).

5.3.1 Adoption of Beyond Budgeting principles

Since being established in 2005, Miles have never operated after or used budgets in their company. Moreover, Miles have been described as a great example of an organization that was born Beyond Budgeting and avoided copying others, staying true to their core values and beliefs (Bogsnes, 2016). The Beyond Budgeting model and its principles have been important for Miles. As the CEO, or Daily Servant, Tom Georg Olsen stated in a 2014 interview:

“The Beyond Budgeting philosophy that Bjarte Bogsnes from Statoil (Equinor) is the driving force for in Norway, correspond well to how we operate and think – with regards to the fact that employees don’t need tight controls and govern to do a good job. It can actually be quite demotivating and therefore not profitable.” (Mossige, 2014)

Miles continue to operate without budgets, as there was no need for budgets when they started out, and they still don’t see the need for it today (Bogsnes, 2016). Managers at Miles have described budgets as an unnecessary and often negative management tool, as it is time-consuming and not effective (Klingenberg, 2014). In order to become an agile business, Miles have replaced the budget, and the corresponding processes, with core values and beliefs (Fantoft, 2018). Doing so, Miles have become more event-driven and can take decisions based on needs, instead of being restricted by a predetermined budget (Klinkenberg, 2014). In line with both Miles’ philosophy and the Beyond Budgeting model, is the simplistic use of targets (Bogsnes, 2016; Miles, 2019). Today, Miles does not set any quantitative targets. The only targets set are some simple, high-level forecasts, as well as to perform better each year, which they have done since day one (Bognes, 2016).

Miles are continuously looking for candidates, which can contribute to making Miles better. The company recruits only when the right people are identified, and never for the sole purpose of growing (Bogsnes, 2016). The process, as explained by Olsen in 2014, is called value-based recruiting:

“We call the process value-based recruiting because our values are key in the evaluation of the candidate. The process covers both the professional aspect, and what we call warmth. The warmth is about personality, and we often experience candidates that only have one of the dimensions.” (Mossige, 2014).

The organizational culture is essential to Miles’ business model, and by striving to recruit the best and most fitting employees, Miles have created a unique corporate culture (Miles, 2019). It is also reflected through the trust and transparency principles the management have in the employees. At Miles, each employee chooses which conferences they want to attend, what IT equipment is needed, such as PCs and phones and how one chooses to develop within their specialization and profession (Miles, 2019).

Miles describe themselves as a business that focuses on the quality of the work and has therefore never operated after budgets or quantitative targets (Fantoft, 2018; Klingenberg, 2014, Miles, 2019). This has made Miles a unique company, as the agile philosophy is a part of their DNA (Miles, 2019).

In our case we got the opportunity to interview the CEO, or Daily Servant, of a local Miles branch with approximately 40 employees.

6 Analysis

In this chapter we will address the main research question of this study by assessing how performance is managed in the three companies studied. We will begin by analyzing how the target setting processes are in the three organizations studied. Thereafter we will do the same with the measurement of performance and the incentive systems in place. For the sake of relevance, we outline the three processes and try to display the interrelationship between them and how they drive performance in the organizations.

The chapter is built on empirical data and the theoretical framework, emphasizing the Beyond Budgeting principles of targets, performance evaluation and rewards.

6.1 Target Setting

Setting targets is a way of trying to describe the best possible performance given the circumstances (Bogsnes, 2017). Targets help clarify and link together the vision, expectancies and the strategy of the company, and it is crucial to performance management as it is the basis for performance evaluation and incentives (Merchant & Van der Stede, 2017). The Beyond Budgeting principles describe that organizations should avoid fixed and cascaded targets and rather focus on targets being directional, ambitious and relative (BBRT, 2016). This part of the analysis will try to explain how the three companies studied use targets, and in what way it is linked to the literature and principles of Beyond Budgeting.

6.1.1 Posten

The target setting process at Posten is a procedure where each division agrees on an official target map. This is done through cooperation between each division director and the CEO of Posten. Each division has an EBIT target as the main target priority, which is set yearly. The division directors also set targets in cooperation with the regional directors in their division. This is an extended target map which is connected to the official division target map set by the CEO. The regional directors then communicate this to their employees. The process follows a hierarchical structure. Most of the targets are set by KPIs. The targets are separated from the forecasts and are also set to be more ambitious than the forecast.

Not all employees are involved in the target setting process at Posten. The Official division target map is set by the division director, and the regional directors each have an extended

target map that they operate by. The Department Head of Targets & Budgets explained how employees were connected to the process of target setting:

“The target-process is not relevant for all the employees. The line management, which are the most dependent on the KPI maps, is followed up on the targets, but from our point of view, only the regions have targets. The levels below, there are 2 levels below the regional managers, they often have slightly different criteria. They have a target of certain changes that will be made, and they are followed up on this. So officially we have no targets lower than regional. However, employees will be compared to themselves and are expected to do better than they did in the previous period. We are rarely focused on targets at the individual level. It goes from regions and upwards.”

The Beyond Budgeting literature states that targets should avoid being a cascaded and fixed procedure (BBRT, 2016). The process at Posten with the main target being set yearly and as a significantly top-down process seem to be conflicting with the principle of targets. As many employees are not part of the process this can be interpreted to be a cascaded process from the top management.

At the same time, the process of continuous improvement is an important part of the measurement which can be perceived as having a target of always improving. The SMART principles of Doran (1981) make clear that targets should be Specific. It can be questioned if this is something that applies to all the employees as individual targets are not an official practice, and continuous improvement does not seem especially specific. Another principle of Doran (1981) makes it clear that having Relevant targets is important to make sure that people take ownership of the targets. We can question if the targets are relevant for all employees when the official targets stop at the regional level at Posten.

That the targets are set to be ambitious, and that it is set with improvement in mind was something our respondents agreed with:

“What is a forecast and what are goals? It is a bit put together, we make a forecast and include a bit of challenging ambitions, which form the basis for targets.”
(Respondent 1)

“A single target can be within sick leave, where we have a target where the result is rolling. The target is based on the result you have had, and it is then

agreed to become for example half a point better at the next period.”

(Respondent 2)

This indicates that targets are set ambitiously. The use of continuous improvement is an example of a relative target where the goal is better performance than what was achieved last year. This follows the principle of targets according to the Beyond Budgeting model, targets should be set directional, ambitious and relative (BBRT, 2016).

The targets are also set with a focus on the market, as the Financial Manager of the E-commerce & Logistics division explains:

“The targets are based on historical assumptions which are projected with an expectation of price and growth increase. We also look at our strategic plan and look at how the market is operating.”

This indicates that the targets follow Beyond Budgeting literature, which states that targets should be market driven (Bogsnes 2016; Bogsnes 2017).

There have also been some challenges with target setting at Posten as the Financial Manager of the E-commerce & Logistics explains:

“We have some general challenges with target setting. How accurate the basic data is, the target ambition itself.”

Finding the correct ambition level when setting targets is seen by many as a complicated process (Otley, 1999). One way of accomplishing an ambitious target that at the same time is achievable can be to involve employees in the process. One of the reasons behind Posten struggling with accomplishing achievability and ambition in their targets can be as a result of the non-inclusion of most employees in the target setting process.

There were also some challenges with setting the targets for non-financial targets as the Financial Manager of E-commerce & Logistics explained:

“After all, it is other things than just numbers that are used in the target setting process. It is sick-leave, productivity, and some of the problems we have. Setting targets here can be challenging.”

This follows what Bogsnes (2016) mention about non-financial targets. Non-financial targets are often more difficult to measure, but according to the Beyond Budgeting literature it has the potential of driving performance better than numbers (ibid.).

There are some relative targets in use in Posten, however the most important target for each division is the yearly EBIT target. This is a fixed target and is also the target that every official division target is governed against. The target setting process in Posten does not follow the Beyond Budgeting principle of targets which states that targets should be relative and to avoid fixed and cascaded targets (BBRT, 2016). However, the targets that were set seemed to be directional and ambitious. To get rid of fixed performance contracts is an important part of the Beyond Budgeting literature regarding target setting. According to Bognes it is the fixed performance targets that are made as a result of a top-down process that lead the way for unethical behaviours such as low-balling and gaming of targets (Bognes, 2016).

6.1.2 Equinor

The target setting process at Equinor is set by the Ambition to Action model, which as mentioned earlier is the performance management system employed by Equinor. In the Ambition to Action model targets are set by first defining the strategic objectives, and then translating the objectives to measurable targets. Most targets are set by KPIs, this includes both short-term targets and long-term targets. The targets are separated from forecasts and are set with a stretch in mind.

Everyone at Equinor is connected to targets, from an individual level up to the higher levels of the organization. As one Manager in Finance & Control within Drilling & Wells puts it:

“We use targets at all organizational levels. We use targets from the individual level, where everyone has development goals and shall contribute to some major targets, to group level where everyone should contribute to a scorecard that has a set of targets. Many contribute to specific KPIs that are the most important within what we are working on. And this scales up in bigger and bigger teams that have their own targets, all the way up to the targets of the organization.”

The Manager furthermore explained that the targets that Equinor set are not limited to financial targets:

“What my experience is, is that we set targets in many areas, not just financial targets. It can also be largely operational goals, depending on where in the company one is, also health, safety and environmental related goals, fewest possible accidents at work etc. We use a wide range of different targets.”

The statements indicate that non-numerical targets are in use at Equinor and every employee is connected to the targets in some way. This seems to be in correspondence with the literature, as even though targets often are expressed in numbers, a well-formulated relative target can drive performance in a superior way compared to numbers (Bogsnes, 2016).

According to the Senior Advisor of Performance Framework, most targets are set by a combination of a top-down and bottom-up process, thereby including the employees in the target setting procedure. Top-down meaning that the targets are set by the top management and bottom-up meaning that the targets are set by the employees.

“We use Ambition to Action to set targets, which means that most targets are actually not financial. Because Ambition to Action is not financially oriented and we want to have a concept where the ownership of targets is incredibly important. Therefore, we want the main model of target setting to be that run by what we call translation, where you look around and see if there are goals set by the top-management and set your own goals based on these. We believe this gets the best ownership of targets. Saying that, there are situations where it is more beneficial with top-down and cascading of targets. We try to set relative goals where possible, i.e. how we do it in relation to others. The most important financial corporate targets are relative, how we perform at return on capital and shareholder return.”

The inclusion of employees in the target setting process helps Equinor to follow the Beyond Budgeting literature, which states that targets are best if they are perceived to be achievable (Hope & Fraser, 2003a, Otley, 1999). By including the employees in the process, the targets should be achievable, as the employees themselves are a part of the development with their knowledge and experience. As Equinor tries to set relative targets where possible, they fulfil the principle of targets according to the Beyond Budgeting model, where targets should be set relative. (BBRT, 2016).

That the target setting process is a cooperation between the top-management and down in the organization was confirmed by a Controller in Middle East Operations:

“Senior management will set the targets to achieve and close the gaps between the ambition and today’s reality. They will then seek enlightenment of those targets with the rest of the organization. And this is where you get this bottom-up process kicking in... It is a huge dialogue, so it is a top-down, bottom-up

process where we work out how these targets are set. It is normally some stretch in the target to motivate the organization to achieve. This process is across all levels of the organization, from board of directors, to senior management down to the Business Areas, then to a number of Business Units across the Business Areas.”

As mentioned by the controller, Equinor, in most cases, utilize stretch targets. This is done to increase motivation and it follows the Beyond Budgeting literature regarding target setting, namely that stretch targets should be ambitious and achievable (Hope & Fraser, 2003a). The process of involving all levels of the organization in the process of target setting should help with the targets being both ambitious and achievable.

The leader of Finance & Control within Project Development gave an example of how to create stretch targets when using the Ambition to Action model:

“It always starts with having to understand the business. You have to understand what the drivers are and how to create value by setting targets. So, it starts there, and then one often sets a target that is p30 on the normal curve, [top 30% in a normal distribution] which is a goal that is difficult but achievable. This is a form of stretch target. And all targets we use are stretch targets. It is important to set targets that are motivating and inspiring to achieve. If it is perceived as impossible to achieve, then it is demotivating, so we try to avoid it.”

A Manager in Finance & Control in Drilling & Wells gave an example of the challenge of making sure the targets are towards creating value:

“What most companies survive on is the cash flow and profit. As an example, if you have an operational KPI that is about cutting the cost as much as possible, it can in isolation give the greatest possible profit, but if you cut costs so much that it affects the income of this activity, it can lead to a decrease in profit. And then it is important that you do not have KPIs that drive people to design a well as cheap as possible, but that people should design the most optimal well that gives the optimal value creation. It is important that you do not have KPIs that drive people to design a well as cheap as possible, but that people should design the most optimal well that gives the optimal value creation. So that is a typical dilemma. That is why we have the balanced scorecard and that is why the theory

is as it is. You have to measure a lot differently at the same time and you have to reward many things at the same time in order to get the total effect you want.”

The use of KPIs can be misleading according to Bogsnes (2016). In Equinors case they seem to be aware of the pitfalls that solely focusing on cost can lead to. The focus on real value creation seems to follow Bogsnes characteristics of good KPIs in that they target real performance towards strategic objectives (ibid.).

The Leader of Finance & Control in Project Development also argues that the use of KPIs can be one of the big challenges in the target setting process:

“Managers need to constantly think about stimulating good performance, producing value and giving people meaningful work. To inspire people to give the best possible effort. Occasionally, the KPIs may be an obstacle to this. We must acknowledge that we cannot measure everything. KPIs can measure individual deliveries but does not show the totality. It shows an indication, that is why it is called an indicator. Regarding what is good and bad, it can be a guide but not a blueprint. But it is the main challenge that KPIs tends to become too true for many. They interpret too much of it and forget to look holistically at it.”

Another challenge with setting targets is when the target is not based on numbers, as the CFO of Foreign Operations explained:

“One of the big challenges in the target setting process is when we have to convert the ambitions of the organization that is not number-based. For example, one of our values is safety. It is more complicated to create a target regarding safety since it is not just a number one can easily control. There is more to explain, which is why it takes time to build up an Ambition to Action system so systematically. And I do not want to say that we have finished yet, there is still a need for improvements with us. But I am absolutely sure that it is a better system than we had before.”

This follows the literature’s mention of non-financial targets (Bogsnes, 2016). Non-financial targets are often more difficult to measure, but according to the Beyond Budgeting literature it has the potential of driving performance better than numbers (ibid.).

Many of our respondents informed us that one of the biggest challenges with the target setting process was to get the level of ambition in the target correctly:

“Perhaps the most important thing is that those who are measured can achieve their goals so that they are not demotivating and that it affects what they have delivered this year. Setting a stretch target five years into the future is a much easier process.” (Respondent 6)

“One of the biggest challenges with what I have worked with is to set goals at the right level. Sometimes the gap between the forecast and where the target is, is too big. It can by itself seem demotivating if the target is not realistic. If there is too little stretch, the target is not challenging enough. It is a tough balancing act with how challenging the target should be.” (Respondent 7)

This supports Otley’s claim that setting ambitious targets are what many companies find to be challenging (1999). Even though Equinor places great value on employee participation and to make sure that employees are a part of the target setting process, this does not by itself solve the problem of achieving the correct level between ambitiousness and achievability.

A key goal when implementing the Ambition to Action procedure, was to get rid of annual budgets. According to our respondents’ budgets and budget procedures are still relevant in the organization:

“You see that when you start, if you try to reduce costs then you are almost back in such a budget world. It is easy for it to become very numbers-based. I feel that probably not all environments here at Equinor have got rid of that idea [using budgets]. For business analysts it sits in the spinal cord.” (Respondent 6)

“I have a relationship with budgets, that we do not use budgets any longer is perhaps a truth with modifications. I have been working on a license where we have partners, and if you are an operator on a platform then it is often not just Equinor who owns it, there are other companies too. On this license we approve a budget.” (Respondent 7)

“Because we are not the operator, we are subject to a budget structure. We get budgets from the operators, so we already have estimates for 2020, so we will soon get the 2020 budget. We get cost, operator and investment budgets ... So

yes, we have a kind of budget involved which is the result of not being an operator. One more thing, this is something that must be approved by countries and authorities in order to have approved tax-related depreciation on production costs, etc.” (Respondent 8)

According to our informants even though they have implemented a model based on Beyond Budgeting, budgets are still something they encounter in their work. Often when cooperating with other firms they will need to use budgets and some processes can be similar to budget procedures even though they are not called budgets.

There are some fixed and cascaded targets in use at Equinor, but the most important targets are set to be relative as the most important financial targets are relative. The target-process includes all employees and is a cooperation between top-management and lower level employees.

6.1.3 Miles

Miles’ philosophy is fundamental to all aspects of performance management in the organization. The philosophy is further represented in the use of targets of Miles, as there are few relative targets that are being set. The CEO (Daily Servant) put the use of targets as:

“We hardly use concrete quantitative goals. Our main goals are more general; always improving and growing.”

“It would not be right for us to set concrete quantifiable targets and goals. For us as a small IT-company it would be difficult to try to predict the future and set a target in January. It would be silly to do so, as it would take too much time from many aspects of the organization.”

The relative goals used is in line with the Beyond Budgeting literature, where targets are suggested to be market driven, relative and ambitious (Bogsnes, 2016; Bogsnes, 2017). The part of being market driven however lacks in a sense. When asked about why the company chooses to focus on the relative and more general targets rather than quantifiable ones, and how they relate to the market, the CEO further explained:

“The whole process of improving based on targets comes down to the trust we have in our employees. The board puts their trust in me to set the goals I think best suits the market in Stavanger, and my employees set their own goals based on these. These individual goals are also often not quantifiable, as it would be

difficult for them to follow them. It is important that we all work towards a common goal”

Many organizations that have adopted the Beyond Budgeting principles have not fully abolished budgets in certain areas (Goode & Malik, 2011; Libby & Lindsay, 2010). As mentioned in the empirical settings chapter, Miles are considered a company “born Beyond Budgeting”. In the interview, being asked about if there were any dependencies on using budgets when setting targets, the CEO stated:

“We do not operate after budgets, not even when setting targets as almost all our targets are relative. Our accounting is simple; in the budget column we the results from this year in and compare them to last years. Our margin is on 10%, which is a solid margin that helps us make the choices we want to do. There are no budgets in the organization.”

When asked if the companies relatively small size had something to do with it, the CEO explained:

“Yes, it is easier at least. Our principles can also be used in big organizations. We believe that if you give as much trust to your employees that we can achieve the best organizational performance, instead of quantifying goals and working after predetermined budgets.”

Miles have been able to completely abolish the budget in all parts of the organization, thus leaning on relative targets to drive performance. Moreover, these targets serve to help clarify and link together an organization’s goals, strategies and expectancies, as well as motivate managers and employees (Merchant & Van der Stede, 2017). The CEO of the local Miles branch explained:

“When setting targets, our principles are important. I believe that by giving as much trust as we can to employees we can as an organization achieve better results than operating after budgets and quantifiable targets. Miles is quite a flat organization in regard to organizational structure, and our values based on trust and transparency helps us drive forward as an organization.”

There can be several challenges when setting targets, and the CEO elaborated what the biggest challenges with setting targets at Miles were:

“The challenge with our main targets, especially growth, is to achieve the targets set which is not easy. We need to acquire competency in a very hard market. We were more cautious in 2016, we didn’t set as ambitious targets as now. At the moment, we use all our connections to expand and grow with the right people.”

This suggests, in correspondence with the literature, that the challenge with such stretch targets is setting them motivating and realistic enough for the ones trying to reach them to yield superior performance (Otley, 1987 & 1999). Evaluating by Miles’ growth during the last year they have succeeded in their efforts. The use of relative targets suggests that Miles work towards their vision of being an outstanding workplace based on the main values of being a professional authority and warm. This is especially highlighted through the trust given to the employees. The targets setting process in use at Miles suggests they follow the SMART principles; the targets are Specific, Measurable, Achievable, Relevant and Time-bound (Doran, 1981). The targets also come across as aligned with the stretch targets mentioned in the literature. Judging by Miles’ results, they have been both motivating and realistic enough to yield superior performance (Bogsnes, 2016; Otley, 1987 & 1999; Hope & Fraser, 2003a).

6.2 Performance Measurement

Targets are often the basis for measurement. Performance measurement is the process of quantifying the efficiency and effectiveness of past actions (Neely et al., 2003). Furthermore, the measurement of performance is important as it also lays the basis for incentive systems. According to the Beyond Budgeting principle of measurement, performance should not be measured based on measurement only and rewards only. The measurement of performance should be done holistically with peer feedback for learning and development (BBRT, 2016). This part of the analysis will try to illustrate the measurement processes in the three companies and relate it to the literature.

6.2.1 Posten

The performance measurement at Posten is based on Key Performance Indicators, some internal benchmarks and historical results. The Department Head of Targets & Budgets explains how performance is measured:

“We have some universal measurement protocols in division Mail. In Division Mail we have what is referred to as 1st line managers and 2nd line managers. 1st line manager controls the postmen. 2nd line manager controls the 1st line managers. The 1st line manager and the 2nd line manager report to the regional manager who reports to the division manager. The 1st line manager has a weekly measurement where they look at what happened last week. The control parameters are volume and time spent, which gives productivity. This is compared to previous weeks and last year. Every day the teams will have a morning meeting where they look at how things went last day in terms of volume and time spent. So, it is the simplest form of performance measurement that managers have. With the help of the support systems, we summarize to the division how things have gone every week.”

Asked about how the employee review was organized the Financial Manager of the E-commerce & Logistics department explained that there was a large amount of freedom on reviewing employees at the lower level in the organization.

“Everything we measure goes into employee interviews, where it is followed up. It is a bit up to each leader how to follow up their employees on results. There is a large amount of freedom there, depending on how far down the organization you are. Otherwise, we have a business review, where the region's leaders place themselves at the division, or the division management, go through ambitions, action plans and such, and connect this up against the group.”

There is a big focus on decentralizing tasks and not making Posten a top-heavy organization. This is also a part of the Beyond Budgeting model. According to Hope and Fraser (2003a) it is imperative for organizations implementing the Beyond Budgeting principles to give people the freedom to make local decisions that are consistent with governance principles and the organization's goals.

When measuring results, our respondents made it clear that they were not only using numbers in the evaluation process. The Financial Manager of E-commerce & Logistics explained some of his challenges when measuring results:

“When it comes to measurement, we find that things are changing faster and faster, so finding out what is actually happening is important. Not to just look at the numbers, but rather find out the underlying cause behind the numbers.”

The greatest challenges are to keep track of everything, and to find good explanations for deviations.”

To review results with a keen look at the underlying cause behind the numbers follows the Beyond Budgeting principle in evaluating performance holistically (BBRT, 2016).

Posten utilizes internal benchmarks between the units in the division. The Financial Manager of the E-commerce & Logistics division explains the use benchmarks as:

“We do not benchmark against competitors, not directly at our level. We compare more against other departments. At least structurally, if something gets caught up, for example some building terminals with a high cost. We compare unit costs, we have formulations about where the market is located, on some services, and where we should be measured against other divisions and departments.”

In the Beyond Budgeting literature benchmarking is explained as being paramount to recognising best practice (Bogsnes, 2016). Bogsnes argues that benchmarks are not only used to drive performance but also to identify who the best performers are and use them for learning (ibid.). This is something that Posten has been able to apply. Even though they do not use external benchmarks they are able to compare themselves against other units within the organization and in this way drive performance. As to why Posten does not use external benchmarks, the Department Head of Targets & Budgets in Division Mail reasons that they are not comparable to others:

“There are not many people who work with letter production on the scale we are in Norway, this makes it difficult to compare. It is also an extremely falling market. So, we must realize that volume goes down and we have KPIs related to productivity and staffing. The goal is to maintain productivity and to not lose more than 4 points on productivity on the KPIs, because the volume goes down more than we manage to adapt to resource use. As the postal division in relation to the logistics division is a unit focusing on downsizing relative to the operation adaptation, much of our activities are focused on staffing and downsizing, there are not many growth targets for us.”

The Beyond Budgeting literature states that external benchmarking should be applied when appropriate (Bogsnes, 2016). As Posten has a special position in the Norwegian market when

it comes to letter delivery, it can be reasonable to assume that they are not comparable to other companies. However, within the logistics segment, Posten is competing with other big European logistics companies such as Schenker, Postnord, and others (Riksrevisjonen, 2016). In a government white paper from the Office of the Auditor General of Norway published in 2016, Posten was perceived as not having accomplished a satisfying return, and not accomplishing demands from the owner to create better earnings within the logistics segment (Riksrevisjonen, 2016). According to Beyond Budgeting literature one way of achieving better organizational performance is to compare against other competitors, in other words to use external benchmarks (Bogsnes, 2016). Connecting the fact that Posten has been criticized for lack of earnings within the logistics division, with the fact that they do not use external benchmarks, it can be discussed if Posten has underutilized an important aspect of the Beyond Budgeting model in recognising best performance and using external benchmarks. At the same time, external benchmarks can be cost intensive and it may not always be easy to gather information needed.

Some challenges have occurred when Posten tries to benchmark between the different regions and divisions:

“There are also some challenges with benchmarking between the terminals. We have a potential for improvement there. There is a difference between what is delivered at the terminals, but there can be a good reason for it. It is hard to find the right level to measure, but one can measure against oneself to see how one develops, but how good one should be is a bit difficult to find the appropriate level on.” (Respondent 1)

“The challenge is often related to when we have KPIs as a basis when we benchmark the regions. We experience that people challenge the parameters that build the KPI. As an example, if Finnmark has the same production levels as Stavanger. Everyone thinks it's a little different, so a solution to this challenge is to balance it by using comparisons where each region measure improvement against themselves. Many of the KPIs we have produced in the different regions use internal benchmarking, as they are measured a lot to themselves. Much of our activity is based on the fact that we look at what was delivered at KPIs the previous period, and what we expect in the next period.” (Respondent 2)

By using indirect benchmarking as explained by our respondents, Posten can solve an important problem that Bogsnes (2016) identifies, the need for the benchmarking to be relevant and fair. Indirect benchmarking is when each unit in an organization is measured on how they improve their own performance (ibid.). This is something that Posten has been able to employ.

This study has found that Posten measure performance in a holistic manner. There are some challenges identified with measuring but at the same time the measurement of numbers is not everything as there are procedures in place for looking at the big picture, taking in considerations after the fact. We found that the use of internal benchmarks helps Posten to identify the best performance internally in the organization, and that external benchmarks were not in use at the level of management of our respondents. We can conclude that Posten has implemented key elements of holistic performance measurement; to evaluate performance holistically and with peer feedback for learning and development; not based on measurement only and not for rewards only.

6.2.2 Equinor

Targets are often the basis for measurement of performance in an organization. The targets at Equinor are often expressed as KPIs or a set of KPIs, and as the targets are closely linked to the measurement process, KPIs are also often the basis for measurement. As several interviewees explained:

“Individuals are measured based on targets, and in projects the targets are often built around several KPIs.” (Respondent 3)

“We operate after our targets and try to bring our strategy down to practical action. After projects we measure ourselves after several parameters, or KPIs.”
(Respondent 5)

“We consider several KPIs and choose certain ones that become the basis for measurement, and it is a further choice to have targets on the KPIs.”
(Respondent 9)

The targets come across as well connected with the measurements, especially the KPIs. After implementing Ambition to Action, Equinor has operated in a more holistic manner when it comes to the measurement of performance. The company has tried to look at other aspects of performance than just the financial ones, underlining the importance of measuring performance

holistically. The new model has helped with measuring what has been delivered equally to how it was delivered. As Senior Advisor for the Performance Framework confirmed:

“We have an important principle of what we deliver is equally weighted to how it was delivered. It is an important mainstay for a holistic performance evaluation. The other part of the holistic evaluation concerns looking at the hindsight insights, looking at all the aspect we did not know beforehand. The KPIs are only indicators, we do not base our performance measurement on only comparing two numbers and concluding.”

Several others further elaborated on the holistic performance evaluation and the use of KPIs:

“We measure what we do and how we do. We want to measure this equally, the how is often a bit more difficult, looking at sustainability, the environment, the staff and several other factors.” (Respondent 4)

“The measurements are both qualitative and quantitative. We use GPS measurement, which helps steer performance. We use several soft parameters along with the KPIs, like measures on work environment and subjective perception of quality.” (Respondent 5)

“At Equinor we try to look at Ambition to Action and not be locked down to indicators. The assessment should be comprehensive and include several factors. Especially when it comes to business development, we don’t use a lot of indicators, but we look at things like continuous improvement and work environment.” (Respondent 6)

The statements indicate that the Ambition to Action model has helped Equinor to evaluate performance holistically, moving away from only depending on financial numbers. According to the principle of measurement in the Beyond Budgeting model, performance should be measured holistically with peer feedback for learning and development (BBRT, 2016). KPIs are however not the only form for measurement, even though they are an essential part of it. Equinor uses other relative measures as well, and benchmarking is utilized widely within the company, often in connection to KPIs. The literature states that when benchmarking has its focus on organizational performance, the benchmarks are often used as a way of relative performance evaluation (Merchnat & Van der Stede, 2017). The Senior Advisor on Performance Framework explains the use of benchmarks at Equinor:

“Benchmarking is something we, like others, have been doing for quite some time. What we do is that we use benchmarking to make relative KPIs. Most benchmarks we use are internal benchmarks. It can be platforms or assets that are compared on production cost per barrel, on regularity, on safety etc. Benchmarking can be quite powerful if a couple of relationships are present, namely that it is accepted as fair and relevant. If this is not in place, then it never works. Given that it's in place it can be quite powerful. There are two effects we have. One is of course that no one wants to be on the bottom of the table, so it can drive performance like that. But the other is also important and is about learning. Benchmarking helps one to see who is performing well, so that we can use that for learning.”

Equinor mostly use internal benchmarks, but external benchmarks are also utilized. Furthermore, the use of benchmarks varies across business areas and business units. Because Equinor is such a large company there will be differences in processes, as several respondents indicated:

“It would be desirable to use benchmarking more, but it is difficult to find the right benchmark every time. My current business unit uses external benchmarks, as there aren't enough internal units to measure. We would ideally use a combination of internal and external benchmarks, but it is not always that easy”
(Respondent 3)

“Some of the Business Areas outsource the benchmarking to other functions to get access to their peers. What we need to do is understand where we are with our competition. So, research is done on peers to then be able to benchmark ourselves with the pack to ensure if we are behind, similar or ahead. Sometimes we want to place ourselves behind, ahead or with the pack, depending on our strategy. So, we definitely benchmark ourselves against the best and try to achieve more” (Respondent 4)

“We use benchmarking for measurement, but not so much for renewable energy. We are currently working on it and will have some numbers in soon, and we can then use external benchmarks.” (Respondent 6)

Even though KPIs are the most used tool for measurement of performance, benchmarking is still utilized at Equinor. The internal benchmarks are more used than the external ones, as there

are several challenges with using benchmarks, such as findings peers to compare with (Bogsnes, 2016).

Equinor has through the implementation of Ambition to Action managed to use relative measures with a focus on both financial and non-financial numbers. The biggest challenge Equinor seems to face when measuring performance is not being reliant on financial numbers only. In a business environment where measurement is important and financial numbers are traditionally dominating, Equinor has established a process of measurement where what has been delivered is just as important as how it is delivered, focusing on a holistic performance evaluation.

6.2.3 Miles

Miles has a flat organizational structure, but all employees are evaluated by the CEO. In relation to the non-financial and relative targets used in the company, the performance evaluation at Miles is also quite unique and reflects the philosophy of the company. The CEO interviewed stated:

“We evaluate our employees based on our values, focusing on reaching our growth target and always improving. It is my job to evaluate and help my employees to reach the goals.”

Trust and transparency are essential values in how Miles operate, and the employees are therefore also a part of the measurement process. The main process of measurement, internally called “the temp”, is a set of KPIs that can be rated 1 to 6, where 6 represents the highest score. Each indicator has a column where each employee can leave a comment, and the measurement process is done three times a year. The CEO explained:

“...it helps us measure our values. The temp measures the employees’ professional development, job satisfaction, the social after-work activities and follow-up from leader satisfaction. This is our main form of control and measurement, and it reflects Miles as a company.”

As with the general Miles philosophy, the performance measurement system corresponds with the principles of including peer feedback for learning and development included in the Beyond Budgeting model (BBRT, 2016). As a response to a follow-up question regarding the holistic measurement of performance, the CEO gave an example and explained:

“If for example one of our consultants gives a score of three for job satisfaction, we look further in to it and ask him or her what we can do. We can rearrange the current job the consultant is working on, finding a more fitting one. The model is quite straight forward, and it is focused on keeping our employees happy. If the satisfaction goes down, our employees will ultimately look for other challenges.”

This implies that the performance evaluation is also done holistically, and not based on measurement only. The CEO, or Daily Servant, of the local branch further explained that these KPIs are mainly used at a lower level in the organization for employees to take part in the process. Similar KPIs are however not used at the higher levels of the organization:

“The KPIs are mainly used for the employees, but we are considering introducing some KPIs at the higher levels of the organization as well. These would mainly be centered around growth targets, as opposed to the indicators based on job satisfaction used for the individual employee.”

The KPIs used at Miles reflect that performance is managed holistically. Another tool to measure relative success is the use of benchmarks. However, Miles do not use benchmarks. The reason behind it is that Miles do not study other small IT companies, rather the big ones that are hard to compare against. As the CEO explained:

“We do not compare ourselves with businesses of similar size. We are confident that we are far ahead when it comes to values, trust and Beyond Budgeting, because it shapes us as a company. Miles is always working on improving itself, but we cannot always look at other companies and copy them. Of course, we can look to other companies if it suits our model, but we like to think of ourselves as leaders and innovators, so we do not measure ourselves against others. We try to do what we do in the best possible way and believe the results will come from it.”

This illustrates the size of Miles as a company and the management philosophy. It would be difficult to do benchmarking simply because there are not many similar companies to compare with. If Miles continue to grow as targeted, it may be possible in the future. Growth can however bring some challenges, as the CEO explained:

“It is often difficult to keep hold of some principles when growing as a company and its bureaucracy grows. This is something we have to look after. We will probably have some challenges when growing. However, our model is fitting when it comes to measurement.”

Miles’ DNA is further illustrated when it comes to performance measurement. It is mostly centered around KPIs based on core values such as trust, continuous improvement and job satisfaction. The process of performance measurement is an example of how the evaluation of performance can be done holistically and with peer feedback for learning and development, as suggested by the Beyond Budgeting model (BBRT, 2016).

6.3 Incentive System

Incentives are often expressed as rewards, normally based on the performance measures (Merchant & Van der Stede, 2017). According to the Beyond Budgeting principle of rewards, incentives should reward shared success against competition and not against fixed performance contracts (BBRT, 2016). This part of the analysis will test the studied companies’ incentive systems against the principle and the Beyond Budgeting literature.

6.3.1 Posten

Posten has a bonus system in place for the top management, which is based on achieving targets, mainly on achieving what is known as the official division targets that are set for each year. The targets that are used for the bonus system are set on a yearly basis. The bonus system includes top management that reports directly to the division leader, which includes regional directors and above. There are also some sales bonuses for the sales team.

The Department Head of Targets & Budgets does not argue for the motivation that bonuses bring but does point out that the bonuses help top management to control the most important strategic goals as they are linked to bonuses:

“I am not one of those who take part in the bonus system. Whether it works or not, I do not know. What I know is that there is a lot of focus on the things that are in these contracts. This then helps communication and clarification of assumptions. So, for our part some of the criteria are important to reach. We know that the system helps us to reach the right things, especially the things that the regional managers will incorporate. Because we know that those things are

part of the bonus system, meaning those things will not be set aside to be resolved later. So that is how it works for us.”

According to Hope and Fraser (2003b) incentives, when linked to fixed targets, can lead to a management culture based on fear. The Beyond Budgeting literature argues that incentives connected to fixed targets do not work (Bogsnes, 2016). The literature especially admonished individual bonus payments linked to fixed targets (Hope & Fraser, 2003a). The respondents did not perceive the individual bonus scheme as a challenge, rather a form of control.

When asked if Posten was able to be a competitive employer without a bonus system for employees which are not part of top management, the Financial Manager for Division E-commerce & Logistics pointed out that Posten is still an attractive place to work for employees:

“Down on the floor I don't think it affects us. We are an attractive employer with good arrangements and tidy conditions. We also have a strong union. If you come a little further up the system, then we are probably not salary leading. We probably do not compete very high up in terms of wages and bonus schemes economically speaking. But we are a recognized and attractive employer anyway.”

When asked about any challenges that Posten has noticed related to their bonus system the Department Head of Targets & Budgets explained that there were no critical challenges:

“No, I would not say that we have had any big challenges with the bonus system. However, there is always a discussion about these parameters, if the same assumptions that were made when setting up the targets exist today. Part of the goal is that, as our regional managers are measured by costs, the expected cost use in the next period is part of the targets. At the same time, we are making changes to the organization, for example by moving the cost blocks between the regions along the way. When we do that there are usually discussions on how the costs are transmitted when some of the tasks are changed, by the task distribution being slightly different between regions A and B. It is not the source of any big controversies in my opinion, but everyone wants to achieve the target, so then they want to have the target re-calculated fairly.”

The fact that everyone wants to have the targets re-calculated fairly can be considered as an obvious thing, however the Beyond Budgeting literature claims that gaming of incentive

systems with fixed targets can happen (Hope & Fraser, 2003a). It can also be questioned if the bonus would be re-calculated if the underlying assumptions changed to make it easier to obtain the bonus, although we do not have the data to make any conclusions about this.

The Beyond Budgeting literature claims that the ideal incentive system incorporates group targets and group rewards, Posten has not gone this route. Our two respondents did not perceive this to be an issue. The bonus system at Posten is limited to top management and the sales team, meaning that it does not follow the principles of shared success against competition, and it is not based on relative targets meaning that it does not follow the Beyond Budgeting principle of not rewarding against fixed targets.

6.3.2 Equinor

There are multiple incentives in place at Equinor. There exists a general bonus-system for all employees. This is driven by organizational performance in relation to competition, and through two KPIs, return on capital employed and shareholder return. This bonus is set at a maximum of 10%. There also exists another bonus system for top management which is connected to achieving KPIs in their personal Ambition to Action model. This is also strengthened by a holistic performance evaluation. In addition to the bonus system, a share saving incentive exists for all employees. The arrangement is such that Equinor deducts up to 5 per cent of the employees' monthly wages for share purchases. The employees are rewarded with a bonus share for each share purchased. The bonus share is given to employees two years after the purchase.

The attitude towards the incentive system in place is mixed:

“I believe incentives help to motivate people. It is not always the money that matters, but the action of setting targets and managing to realise these targets, then seeing the results is motivating.” (Respondent 3)

“You do not go deeply into understanding how the bonus is measured, either it comes, or it does not, that is my personal view of the incentive system. It is not driving my performance. I do not come in the morning thinking about it. I do not think my personal performance is linked with the incentive scheme, it may retain me but not motivate me.” (Respondent 4)

“The incentives should stimulate people to be interested in the financial situation of Equinor. After all, it is the underlying idea that you should be

concerned about the health of Equinor. The incentives should help people to stimulate their own holistic assessment.” (Respondent 5)

“I have never kept it a secret that I do not believe in individual bonuses for knowledge workers, but it is an arrangement we have. The most important thing is that we have the holistic evaluation. We are relatively modest in relation to scope and amount compared to our competitors.” (Respondent 9)

Our respondents have a mixed view on whether the incentive system works from a motivational perspective. Some were positive and some were sceptical, the main takeaway from our respondents was more directed towards the incentives not playing a big part in encouraging harmful behaviour. There were some different perspectives on challenges with the incentive system in place:

“There are probably some challenges related to the incentive system. People may feel it is unfair, they can feel that the performance is not being measured correctly. How do you reward good performance in bad times? Some have it embedded in their pay, which can lead to gaming, maximizing their own benefit / profit at the expense of Equinor's result. People will try to maximize their own benefit, but that is where we have to place the right incentives and that is the challenge for Equinor, to make employees put Equinor and their co-workers ahead of their own gain.” (Respondent 5)

“I do not believe that with our system here in Norway, that people do things that become a big problem because of the incentive system. This is because the bonus is not a big part of the salary. Other places where this is the case, I think one can risk people making sub-optimal decisions to support their own bonus.” (Respondent 8)

Our respondents mostly agreed that there were few challenges with the incentive system in place. As the general bonus program and the stock scheme are based on success in relation to competition and through return on capital and shareholder return, it can be argued that these incentives follow the Beyond Budgeting principle of rewarding shared success against competition. At the same time, there was mixed responses to the motivational effect of the incentives, which might be because the general bonus system is for every employee, and not for smaller groups within the organization. There also exist individual bonuses for top management which are also based on target setting with a holistic performance evaluation.

Hope and Fraser (2003a) argues that incentives should also be based on personal merit. The bonus based on personal merit is reserved for top management. The feelings towards the incentives from our respondents were mainly positive or neutral, and there were not any perceptions of big challenges connected to the incentive system in use.

6.3.3 Miles

The main incentive scheme at Miles is a pay scheme consisting of a fixed and a variable part. When conducting the interview, the interviewee did not share specific details about the variable part. The incentives for variable pay are not based around the number of working hours, as the company wants its employees to work normal days to achieve a good work-life balance. However, Miles offer incentives for other aspects such as development. The CEO explained:

“We have incentives based on keeping up to date professionally and take further education to develop professionally.”

As mentioned in the empirical settings, employees at Miles get to choose what equipment is needed and what conferences to attend, which also works as an incentive for employees. The CEO elaborated:

“I think it is a good arrangement, which is based on the trust we give our employees. The only thing we demand from our employees is that they register it in the internal systems. It works as a form of control as there are no budgets, the trust we give results in employees not misusing the arrangement in place. Openness works in many ways.”

As illustrated before, trust is essential to the performance management at Miles. The feeling of belonging to the company is something management emphasizes. All employees at Miles have very similar incentives. Accordingly, Miles have incentives based on group and organizational performance. The CEO explained:

“We all have very similar incentive schemes. We have said that if we reach our target of 10% we will go on a company outing next year, and this works as a group incentive in a way. Instead of paying out bonuses we choose to benefit the whole group to improve satisfaction and the dynamic of the group.”

The Beyond Budgeting literature claims that the ideal incentive system incorporates group targets and group rewards, something Miles have chosen to do. Evidence suggests that the use

of group-based incentive plans create a culture of ownership and engagement, being beneficial for both the organization and its employees (Merchant & Van der Stede, 2017).

Miles do not believe that their incentive systems have any specific challenges as the model they operate after today works well and the employees are motivated not only by incentives but also in other ways. The CEO of Miles at the local branch we interviewed further explained:

“We continue to grow and very few people here locally quit, so we know that it is motivating working for Miles. Our employees spend most of their time consulting at other firms, so it is important that they bring the values of the company with them. The employees are happy based on our values. In that case, bonuses and incentives are not the most important things. We have a good pay structure and other forms of incentives that create a new incentive of staying with us.”

The incentive system at Miles has a combination of group and individual incentives, however there are not any specific group incentives for the different branches, and shared success against competition is not rewarded. This is probably down to the relative goals used, as it would take more specific targets for the group as one to work towards. What is also significant is that most employees at Miles use 90% of their working hours at other businesses performing consulting services.

7 Main Findings

This study reports on performance management in three companies that have adopted elements of the Beyond Budgeting model. It examines how targets, performance measurement and incentive systems are managed in the context of the Beyond Budgeting model, and how the interrelationship between the elements ultimately drive organizational performance. The purpose of this chapter is to present findings on the main research question:

“How is performance managed drawing on the Beyond Budgeting principles?”

The main findings are explained in detail through the three sub-questions presented in the introductory chapter of the thesis.

7.1 Research Question 1

Are relative targets, holistic performance measurement and group incentives widely implemented in “Beyond Budgeting” companies?

7.1.1 Relative Targets

The study finds that relative targets are used in companies that have implemented elements of the Beyond Budgeting model. The relative targets found were mainly centered around growth, benchmarks and KPIs that incorporated both financial and non-financial measures, but financial targets dominated. One of the companies studied did not incorporate relative targets to a large extent, using primarily fixed and cascaded targets instead. The principle of targets in the Beyond Budgeting model states that organizations should avoid fixed and cascaded targets. The study finds that in the three cases directional, ambitious, and to some extent, relative goals was in use in accordance with the literature. One of the companies in this thesis only used relative targets, but the company can be perceived as “one-off” or a special one in this setting.

Furthermore, this study found that most of the relative targets used were perceived as financial targets often expressed as Key Performance Indicators. The KPIs, or set of KPIs, also included non-financial measures. This finding relates to the interrelationship with performance measurement, as non-financial and non-numerical targets can be difficult to measure. The study found that the targeting process differed between the companies and was a mixture of a top-down and bottoms-up process.

7.1.2 Holistic Performance Measurement

In relation to the measurement of performance, this study finds that companies that have adapted principles of the Beyond Budgeting model evaluate performance holistically. According to the principle of performance evaluation, the measurement of performance should not be based on measurement only and not for rewards only. Even though the measurement was the basis for incentives and there for measurement purposes, it was not solely reliant on it.

The measurement processes in the companies all include the use of Key Performance Indicators. These KPIs consisted of both quantitative and qualitative measures of performance. Especially related to the quantitative measures, the holistic evaluation concerned using the KPIs just as indicators, seeing past the numbers. Holistically evaluating performance is centered around seeing the past actions from an overall perspective, trying to explain the performance in relation to the given circumstances. This has helped the organizations studied to enable flexibility in measuring, especially in the lower parts of the organizations. The flexibility helps organizations not to be locked down to financial numbers explicitly. Other criteria, such as the subjective perception of quality and hindsight to the performance delivered, are important to the holistic evaluation of performance.

This study also finds that relative measures, such as benchmarks, were widely implemented. The benchmarks used were however mostly internal, as external benchmarks were only used in some parts of the organizations where measurement against peers was possible. The use of internal benchmarks indicated that the comparison of best practices within the organizations was helpful in order to drive performance.

Accompanied by a holistic performance evaluation, peer feedback for learning and development is essential for measurement in the context of the Beyond Budgeting model. This study finds that all the case studies, to some extent, incorporate feedback from employees to learn and develop in the measurement process. These are expressed as KPIs, evaluation forms and employee meetings. In the research, we found that the measurement was mostly based on set targets, and that it was the foundation for incentives.

7.1.3 Group Incentives

This study finds that group incentives are not widely implemented and in use. The incentives systems studied in this thesis are mainly individual incentives in the form of bonuses available for top management positions. There are however some elements of group incentives in place.

The group incentives uncovered in the analysis relate to organizational performance, where employees get a bonus based on how well the organization performs. Furthermore, this study finds that these general organizational performance incentives have different perceptions from the employees, where some found it motivating while the majority only perceived it as an additional bonus.

According to the principle of rewards, shared success should be rewarded. This study finds that there are no group incentives based on specific targets set within smaller groups within the organizations. In the analysis, we find that the use of group incentives based on success against competition, as the principle of rewards suggests, is not widely implemented in the cases studied.

7.2 Research Question 2

What challenges do “Beyond Budgeting” companies face when managing performance?

7.2.1 Target Setting

Regarding challenges with target setting, we found that setting ambitious targets were something that the 3 companies studied were found challenging. The difficulty of making sure the targets were ambitious while also being achievable was something that the respondents agreed upon. The study found that involving employees in the process could be a solution to finding the correct level between ambition and achievability. The fact that one of the companies studied who were more focused on a top-down process had difficulties with finding the correct ambition level implicates that involving employees in the process might be a solution to finding the correct level of ambition and achievability. This does not mean that simply involving employees in the process will solve all challenges, as this study finds that one of the companies studied who greatly valued employee participation in the target setting process still had challenges with this. However, employee participation could support the process of finding the correct level.

The study also found that the companies examined had different perceptions of the difficulty of setting non-financial targets. Miles as a relatively small consulting company did not perceive this to be a challenge, but Equinor and Posten did. A considerable reason for this could be that the size and complexity of Posten, and especially Equinor, greatly confounds the process. With

a greater number of employees and different business areas the complexity of setting targets will be much more challenging.

7.2.2 Performance Measurement

Regarding the challenges related to performance measurement all the companies studied found that finding the correct external benchmark was a challenge. There were challenges within some of the newer business areas to find comparable companies to benchmark against at Equinor. Posten experienced similar problems, and Miles also considered this to be a futile task as they did not find companies similar in size to be comparable. Using internal benchmarks were something that Equinor and Posten utilized to a large degree. This was also found to have its own challenges but as the principle of holistic performance measurement was also used, this study found that the challenges with the internal benchmarking could be negated by a comprehensive look at all the actions that were behind the results.

There were also challenges with measuring performance that was not based on numerical figures. This is closely related to the target setting process and challenges imposed by setting non-financial targets, as well as difficulties measuring the performance of these. One of the solutions used was to measure after the principles of continuous improvement which is something all the companies studied utilized.

7.2.3 Incentive Systems

Regarding challenges with the incentive system, our respondents did not have any perceptions of specific challenges connected to the incentive systems in place. The view of how the incentive system worked was that it was either a positive contribution or a neutral one. The comments we received were mostly concerned with the motivation aspect of incentives as many of our respondents did question whether the incentives worked as a motivational tool. The respondents at Equinor were mixed in the perception of the incentive system as a motivating factor, and this was also questioned by Posten. Miles claimed that the most important thing was to have a competitive salary package and that other than that the incentives should be used to improve satisfaction and group dynamics.

7.3 Research Question 3

Are companies that have implemented the Beyond Budgeting principles still dependent on budgets?

This study finds that implementing the Beyond Budgeting principles does not necessarily mean that companies are completely free from traditional budgets. Even in companies that implement new management systems based on freeing itself from the budgets, the budget is still to some extent ingrained in how employees think and act. This study found that when cooperating with other companies who did use budgets, a tendency was to simply use the traditional budgeting methods in collaboration with the partner companies. Another finding is that when using methods based on the Beyond Budgeting principles some of the methods used were similar to traditional budgeting procedures, being simply renamed but serving the same purpose. Moreover, this was not seen as a problem, indicating that completely freeing the organization from budgets was not fundamentally a goal that the companies studied wanted to achieve.

8 Concluding remarks

This study reports on performance management in organizations, drawing on the Beyond Budgeting principles. This study contributes to empirical research towards the implementation of Beyond Budgeting, challenges with implementation and how connected Beyond Budgeting companies are to traditional budgeting procedures.

According to the Beyond Budgeting literature there are optimal ways of managing performance, and companies willing to adapt to the Beyond Budgeting model should follow the principles laid out by the model. Our research finds that when looking at performance management divided into target setting, measurement and incentives, the processes may differ from what the Beyond Budgeting model states is correct. The companies studied found implementing some of the Beyond Budgeting principles to be challenging and not practical. Our research suggests that one of the challenges lies in target setting procedures. Some companies found it difficult to set and measure non-financial targets. There were also challenges setting ambitious yet achievable targets. The companies' measurement of performance was generally in line with the model, as they applied a holistic view for most of their results. The incentive systems in use were also not following the principles of Beyond Budgeting to a great extent, choosing to ignore principles calling against the use of individual rewards and focusing on shared success against competition. The research found that size and organizational complexity could be an important aspect of how the Beyond Budgeting principles are implemented, as well as the challenges that can arise.

Another finding of this study is that separating completely from budgets is still not something that comes naturally when implementing a new management system based on the Beyond Budgeting model. This supports the findings of Sandelgaard and Bukh (2014). Also, abandoning budgets is not necessarily a result of the implementation of new systems based on the model, as some companies still maintain a form of budget planning, which supports findings in studies done by Bourmistrov and Kaarbøe (2013) and Henttu-Aho and Jarvinen (2013).

The findings must be carefully interpreted. With this being a master's thesis, the scope of the research is limited, and the generalizability of the findings are restricted. This thesis also has limitations in terms of the number of respondents, where the findings may have been different with more, or different respondents.

On the other hand, this thesis has supported the need for more empirical studies within the subject of the Beyond Budgeting model in practice (Nguyen et al., 2018; Sandelgaard & Bukh, 2014). Furthermore, this thesis has contributed to filling the gap in the Beyond Budgeting literature by examining the interrelationship between target setting, performance measurement and incentives in the context of the Beyond budgeting model, and how it drives organizational performance.

8.1 Suggestions for Further Research

This study has uncovered how performance is managed in the context of the Beyond Budgeting model. We will give some recommendations for future research that can build on this thesis. To establish a more thorough understanding of the subject, we suggest a similar study with different companies, to complement our findings.

We opted for a multiple case study of three vastly different companies in terms of size and structure. To outline if the model is more befitting to some types of organizations, we believe it would be important for further research to try to explain how organizational complexity and size influences the implementation of the model, as well as raise specific challenges.

Furthermore, the three companies studied in this thesis all operate in different industries. A suggestion is to do research on companies that operate within the same industry in order to compare similarities and differences. It could help generalize the model to some business areas and create an overview of best practices of implementations and management, within the industry.

In this study we chose to interview respondents in leadership positions. Further research could also look at how lower level employees perceive the use of targets, measurement and incentives used in organizations implementing the Beyond Budgeting principles. This could be interesting from a research perspective as this study did not have the resources to include lower level employees.

While we have looked at target setting, performance measurement and incentive systems as components of performance management, further research can dig deeper into the use and implementation of relative targets or group incentives. Earlier studies on target setting processes and group incentives within the Beyond Budgeting model are scarce, and such research could help increase knowledge of the processes.

This study finds that budgets are to some extent still in use in certain business areas and companies, even when going Beyond Budgeting. A further suggestion is to evaluate the underlying factors to as why budgets remain important in some organizations and certain business areas within organizations, even after adopting aspects of the Beyond Budgeting model.

Indications from this study tell us that KPIs play an important role, especially in target setting and performance measurement processes. To establish a clearer view of how KPIs drive performance in the context of the Beyond Budgeting model, it would be interesting to see further research on the subject.

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10 Appendix

10.1 Norwegian Interview Guide

Introduksjon

- *Hva er din jobbtittel?*
- *Hvor lenge har du jobbet i *Selskap*?*
- *Hva er dine arbeidsoppgaver?*

Målsetting

- *Kan du forklare hvordan ditt selskap bruker mål?*
- *Kan du forklare hvordan prosessen ved å sette mål ser ut? Hvordan fungerer det?*
- *Hvordan settes målene, og hva er måleattributtene basert på? Er det noen form for budsjett involvert?*
- *På hvor mange organisatoriske nivå brukes målene?*
- *Hvilke fordeler ser dere med dagens målsetting metoder? Er det forskjell fra tidligere?*
- *Hva er basis for målsettingen? (benchmarking, historisk data, markedsundersøkelser?)*
- *Kan du fortelle litt om selskapets bruk av relative mål?*
- *Hvor dynamiske er målene? Hva er forskjellen ift. hvordan det var før?*
- *Hvordan er målsettingen relevant for resultatstyringen?*
- *Er det noen insentiver som er basert på mål?*
- *(Hvis ingen mål) Hvordan måles resultat når det ikke er målsetninger involvert?*

Resultatstyring

- *Kan du fortelle litt om hvordan selskapet måler performance?*
- *Hva er basis for resultatstyringen? (KPIer, Benchmarking etc?)*
- *Kan du forklare bruken av relativ resultatstyring i selskapet?*
- *Hvordan måles ansattes resultat?*
- *Hvilke utfordringer opplever dere når resultat måles?*
- *Er resultatstyringen i dag annerledes enn den var før? Hvordan?*
- *Hvilke utfordringer har du møtt på når du skal måle resultater? Hvordan forbedre dette?*
- *Føler du at ansatte blir motivert gjennom å måle resultater?*
- *Er disse resultatmålingene knyttet til insentiver?*

Insentiv systemer

- *Har selskapet et insentivsystem i bruk? Hva brukes som basis for insentiver?*
- *Hvis nei, hva syns du om at det ikke er et insentivsystem på plass? Er det noen utfordringer knyttet til det faktum at det ikke finnes et insentivsystem?*
- *Hvis ja, er det noen form for bonussystem?*

- *Er insentivsystemet motiverende for deg og ansatte?*
- *Er det noen utfordringer knyttet til insentivsystemet? Hvordan forbedre dette?*

Eventuelle oppfølgingsspørsmål / oppsummering

10.2 English Interview Guide

Introduction

- *What is your job title?*
- *How long have you been working at *Company*?*
- *What are your responsibilities?*

Target Setting

- *Could you please outline how your company uses targets?*
- *Could you explain how the target setting process looks like? How does it work?*
- *What are the set targets based on? Is there any kind of budget involved (at some level)?*
- *On how many levels are the targets used? (top, unit, team etc.)*
- *In what ways do these targets differ from traditional targets, and are there any challenges?*
- *What is the basis for your targets? (Benchmarking, historical data, market research etc?)*
- *Could you elaborate on the use of relative targets in the organization?*
- *How dynamic are the targets? What is the difference compared to the targets used before?*
- *Is the target setting process linked to performance measures?*
- *Is there any incentive system coupled to targets?*
- *(if no targets;) How is the idea of no targets connected and used in measuring performance?*

Performance measurement

- *Could you tell us a bit how your company measures performance? How far do you break that down?*
- *What is the basis for performance measurement? (KPIs, Benchmarking etc?)*
- *Could you elaborate on the use of relative performance measure in your company?*
- *How are employees' performance measured?*
- *What challenges have you faced from measuring performance?*
- *Is the performance measurement process different to the past? If so, in what way?*
- *Where do you see challenges and ways to improve?*
- *Do you feel that employees are motivated through the measurement of performance?*
- *Are these performance measurements connected to incentives?*

Incentive systems

- *Does your organization have an incentive system in place?*
- *If no, how do you feel about there not being an incentive system in place? Any challenges or hurdles that exist because of a lack of incentive system?*
- *If yes, does it include a bonus system?*
- *Do you find the incentive system motivating personally and for employees?*
- *Where do you see challenges and ways to improve?*

Follow up questions / Brief summary

10.3 Reflection Notes

10.3.1 Reflection Notes Martin Melangen

This thesis studies how performance is managed in organizations drawing on the Beyond Budgeting principles, focusing on the Beyond Budgeting model in practice. We have investigated how companies that have gone “Beyond Budgeting” set targets, measure performance, and their use of incentive systems. We have also studied coherent challenges, and if the traditional budget is in use in any way or form. This was done by applying a multiple case study where three companies from different industries were the object of study.

Our main findings suggest that performance is managed differently in the context of the Beyond Budgeting model. Furthermore, there are specific challenges in setting targets and the use of group incentives, and the budget is to some degree still involved in performance management.

This reflection note is written as a part of a master’s thesis in Business Administration at the University of Agder. The purpose of the reflection note is to draw on the knowledge generated from across the whole master program and discuss how the thesis topic relates to three broad terms: International trends, innovation and responsibility.

International trends

Our thesis topic relates to international trends in several ways. Beyond Budgeting is a model that tries to free management from the annual performance trap. It is a dynamic model that claims to be better suited for fast-changing business environments and has been adopted by companies from many different countries of origin. The three companies investigated in this study are all part of business environments that are influenced by international forces.

Equinor competes with other international energy companies and has offices all over the world. They are affected by international trends such as changing oil and gas prices, a stronger focus on how the world’s energy use is a leading factor towards climate change and a demand for more sustainable energy solutions. Posten as a broad mail delivery and logistics company is affected by international trends such as an increase in demand for package delivery and E-commerce, and lower demand for traditional mail delivery. Miles as an IT-company are competing on an international market against other IT-firms and will have to adapt to what other international companies are able to offer of IT-solutions. Beyond Budgeting claims to be a more adaptive and dynamic management system that empowers

people to make the right decisions and strive for the best performance possible. In an international business environment, this will be essential for companies to survive in an increasingly competitive world.

Innovation

Beyond Budgeting is described as being an innovative management model. Proponents for the model claim that Beyond Budgeting is a better system for knowledge workers in a modern business world compared to traditional management models. The companies studied in this thesis are in highly competitive industries. As we have learned throughout our master program, to stay competitive it is imperative for companies to continuously improve and keep up with the changing business landscape. The need is great for innovation in the energy sector, logistics sector, and in the IT sector. Innovation gives associations to new technology and disruptive business models, however management innovation is important, and in my opinion, an overlooked way of creating a competitive advantage.

The companies studied in this thesis has reformed many of their management processes with inspiration from the Beyond Budgeting model. However, the model has not been fully implemented at all levels, which illustrates that in the companies we investigated there are still processes which resemble traditional management methods. This indicates that the companies studied still have opportunities to improve on traditional methods with more innovative processes.

Responsibility

The Beyond Budgeting model is declared as a solution to unethical behaviors such as low-balling of targets, maximizing of bonuses for personal gain, and overspending based on using up pre-approved budgets. In the companies studied the impression was that the use of management systems based on the Beyond Budgeting model was useful to keep a focus on what is best for the company as a whole, instead of what is best for each individual. The three companies studied are situated in industries where responsibility is very important, and unethical behavior from employees can lead to disastrous results. In the oil and gas industry which Equinor is a big actor in, responsibility for the environment, carbon footprint, and health and safety is vital. In the logistics sector responsibility for carbon footprint and health and safety is also vital. In the IT-sector responsibility for securing sensitive data is vital.

The Beyond Budgeting model has the potential of being a competitive advantage for the organizations studied as ethical choices are an increasingly important demand from consumers and government agencies. The Beyond Budgeting model can be seen as a responsible management practice that empowers managers and employees to take responsibility for their actions. The companies studied can make sure that trust and transparency are important values in the organizational culture. This will, in my opinion, increase the responsibility of managers and employees.

10.3.2 Reflection Notes Nevill Sofo

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Our main findings suggest that performance is managed differently in the context of the Beyond Budgeting model. Furthermore, there are specific challenges in setting targets and the use of group incentives, and the budget is to some degree still involved in performance management.

This reflection note is written as a part of a master’s thesis in Business Administration at the University of Agder. The purpose of the reflection note is to draw on the knowledge generated from across the whole master program and discuss how the thesis topic relates to three broad terms: International trends, innovation and responsibility.

International Trends

The topic of performance management in the context of the Beyond Budgeting model relates to international trends in several ways. Firstly, the Beyond Budgeting model is claimed to be universal, where all companies can adopt certain aspects of it. We have also suggested future research to investigate how different organizations implement the Beyond Budgeting model, and this can be looked at from an international perspective.

The Beyond Budgeting model itself is a response to the fast-changing economy, where traditional budgeting methods are perceived as out of kilter with the competitive environment. The three companies studied all work in industries where utilizing and keeping up to date on

international trends is important. Two of the companies studied are also multinational companies. Factors such as oil prices, new technology and other external factors are international trends that the companies in this thesis relate to and adopt accordingly.

Furthermore, the topic of performance management is essential in each company to drive performance. Performance management in the context of Beyond Budgeting can be perceived as an international trend, where agile management philosophies have gained more attention in all parts of the world in order to drive organizational performance.

On a personal note, I have through my studies learned a lot about international trends. My exchange semester as part of the master's program was an experience where I gained a lot of knowledge regarding international trends and environments. I learned a lot from the courses, but the most rewarding about going abroad was interacting in an international environment and what I gained from it. I had to learn to adapt to new situations and people, which was challenging at times but proved to be a great and valuable experience.

Innovation

Innovation concerns the creation and adoption of new ideas or technologies, finding superior solutions to meet the requirements of the competitive environment that surrounds organizations. This thesis in relation to innovation explains that performance management is a continuous process, where organizations must always develop and improve. Furthermore, the thesis aims at explaining how performance is managed in the context of the Beyond Budgeting model.

The Beyond Budgeting model is described as an innovative model within management, and the topic is therefore important within management accounting practices and innovation. In this thesis we find that organizations adapt principles of the Beyond Budgeting model differently, and there is still room for adapting even more aspects of the model to become more innovative within management practices.

The companies studied operate in highly innovative environments. The oil and gas sector is always looking for new technology and innovation to effectively improve processes. IT companies such as the one studied is especially innovative, where new technology and tools is essential for continuous improvement. Also, the postal sector focuses on optimizing where appropriate, thereby continuously developing innovative processes.

Personally, I have gained knowledge about innovation within practices, processes and in technology from several subjects during my master's program. Most of the subjects have included a mixture of past, present and future-oriented aspects of the subject studied.

Responsibility

This thesis did not uncover any specific challenges when it comes to ethical responsibilities. It did however study three companies that find responsibility key. The three companies focus on both organizational ethical responsibilities in relation to their employees and environmental responsibilities when it comes to not harming the environment. Especially the oil and gas sector find corporate social responsibility important when extracting oil and gas and always search for ways to do it in a matter that does not harm the environment. One of the companies studied, Equinor, changed their name to illustrate how renewable energy is now a big part of their business.

The Beyond Budgeting model is a model that emphasizes organizational culture in order to work in practice. Decentralization is an important aspect of implementing the model in organizations. This thesis has shown, especially in one of the cases studied, that transparency and trust are important in order to drive performance in the context of the Beyond Budgeting model. The employees are responsible to act in the right manner when conducting work, and the employers place their trust in them doing so.