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Beyond Budgeting at Nors

How the Group dealt with Business Volatility

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by

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Abstract

Beyond Budgeting is presented by the BBRT (2016) as an adaptive management model that will enable organizations to compete in today's dynamic and volatile environment. Hope and Fraser (2003a) and the BBRT (2016) argue that by abandoning the traditional budget and implementing the 12 Beyond Budgeting principles, organizations will be able to achieve an adaptive and decentralized management process, which should improve their ability to compete in today's turbulent environment.

The purpose of this study is to explore if the Beyond Budgeting model is able to contribute to the adaptation to volatile environments, as suggested by Hope and Fraser (2003a) and the BBRT (2016), by conducting a case study on a company that recently implemented the beyond budgeting model and operates in volatile environments.

This case study reveals that the company under study, Nors, through better planning and reporting routines set in motion by a customized approach to the Beyond Budgeting model, was able to deliver critical information to top-management about their business operations in volatile environments, namely Angola and Brazil, thus creating conditions for the company to adapt to significant market changes.

As a result, the sharp market declines felt by Nors in both these geographies during the year of 2015 have been effectively answered by reducing both the structures and resources in these regions by around 60% and within only 9 months, which in turn allowed Nors to present in the year of 2016 the same positive results shown in 2014 but with a less significant volume of sales.

Keywords: Traditional Budget, Beyond Budgeting, Volatility.

Table of Contents

Acknowledgments.....	iii
Abstract	v
Table of Contents	vii
Table of Figures.....	viii
Glossary.....	x
Chapter 1 - Introduction	12
Chapter 2 - Literature Review	15
1. Management Control Systems.....	15
2. Traditional Budgeting	17
3. Beyond Budgeting	22
4. Beyond Budgeting and Volatility	28
Chapter 3 - Methodology Aspects	31
1. Objectives and Hypotheses	31
2. Research approach.....	32
3. Case Study	33
4. Data collection methods	36
5. How to make a trustworthy study.....	39
Chapter 4 - Beyond Budgeting in NORS	41
1. The Nors Group	41
2. The integrated management control system at NORS.....	44
3. Beyond Budgeting behavior in Nors markets with Market Volatility	60
Chapter 5 - Case discussion	64
1. Nors and the Traditional Budget.....	64
2. Traditional Budget, Rolling Forecasts or Beyond Budgeting?	71
3. Advantages and Obstacles of Beyond Budgeting at Nors.....	74
4. Contribution to the Literature.....	82
Chapter 6 - Conclusions.....	83
Bibliography	85
Appendixes.....	89

Table of Figures

Figure 1 – Nors Planning Process.....	67
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Glossary

BBRT – Beyond Budget Round Table

BSC – Balanced Scorecard

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

EVA – Economic Value Added

GDP – Gross Domestic Product

MCS – Management Control Systems

KPI – Key Performance Indicators

KVD – Key Value Drivers

RF – Rolling Forecasts

ROCE – Return on Capital Employed

Chapter 1

Introduction

Traditional management systems have been criticized as being inadequate in their ability to respond to the new market imperatives. These critics led people to seek alternative methods to the budget and even to the traditional MCS as whole (Hope, Fraser and Woodcock, 1999). Beyond Budgeting is presented as an adaptive management model that will enable organizations to compete in today's dynamic and volatile environment (BBRT, 2016). Hope and Fraser (2003a) argue that by abandoning the traditional budget and implementing the 12 Beyond Budgeting principles, organizations will be able to create an adaptive and decentralized management process, thus enabling them to better compete in today's turbulent environment.

The present case study intends to explore if the Beyond Budgeting approach effectively helped in the management of businesses within volatile environments. To this effect, the organization selected was the Nors group, who finished the implementation process of Beyond Budgeting in 2013 and, in the year of 2015, presented negative results, greatly due to their main geographies, Angola and Brazil, who are characterized by a volatile environment.

Therefore, the main objective of this case study is to understand if the adoption of the Beyond Budgeting model effectively allowed Nors to better manage their business operations within volatile environments, thus helping to reduce the impact felt in these markets.

To this effect, the defined research question is the following:

“How did the Nors group react, through the use of Beyond Budgeting, to the market volatility felt in their international businesses, Angola and Brazil?”

To answer this question, this case study takes both a descriptive and explanatory approach. First, the management control system implemented at Nors and the processes that support it are described, followed by a critical analysis of the system in order to explore if the processes currently implemented at Nors helped in the better management of their businesses within volatile markets, namely Angola and Brazil or if, contrary to what is defended by the BBRT (2016), the model created problems for the organization in managing their businesses within these geographies.

Primary data collection was made through two interviews with Nors Director of the Department of Planning and Performance Management, Manuel Ferreira, who was in charge of the implementation process of Beyond Budgeting, and secondary data was collected through documentation and archival records analysis. Additionally, all the data gathering processes were guided by the literature review, which allowed a better interpretation and analysis of the collected information.

This dissertation is structured in 6 main chapters. After this introduction, Chapter 2 presents a literature review about the Traditional Budgeting approach and the proposed alternative by the BBRT, the Beyond Budgeting approach. Chapter 3 gives a detailed description of the research methodology followed. Chapter 4 presents the organization under study, Nors, followed by a description of the current management control system implemented at Nors and how the group manages their businesses in Angola and Brazil. Chapter 5 discusses the presented findings having in mind the literature review conducted in chapter 2. In Chapter 6, the conclusions of this dissertation are presented and suggestions for future research are made.

Chapter 2

Literature Review

1. Management Control Systems

Management control has been first defined by Robert Anthony (1965) as the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of organizations objectives. However, despite the awareness given to MCS, this definition led subsequent researchers to neglect two important aspects of today's MCS - Strategic planning and Operational Control - focusing only on Management control. As such, accounting measures were stressed and non-financial performance neglected (Otley, 1999; Kim Langfield-Smith, 1997).

Since its first definition, MCS have been the subject of study of several researchers, which allowed the broadening of MCS notion over time (Siska, 2015). They have been described as processes and techniques designed to influence the behavior of employees towards the accomplishment of organizational objectives (Flamholtz *et al.*, 1985) or as a mean to provide information that is both intended to be useful to managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behavior (Otley, 1999).

More recent approaches show a broader view of MCS. For example, Merchant & Van der Stede (2007) define them as a set of rules and procedures, norms of behavior, standards and measures of performance, monitoring and

feedback mechanisms, and incentives to guide and motivate employees to achieve organizational objectives. They identified four types of controls at the disposal of organizations:

- Results control, which dominates in importance in the vast majority of organizations, refers to motivating employees to produce the outcomes the organization wants, through the use of performance measures, evaluations and incentives;
- Action control, which is the most direct form of control, involves ensuring that employees perform certain actions known to be beneficial to the organization and do not perform actions known to be harmful;
- Personnel control intends to make it more likely that employees will perform the desired tasks satisfactorily on their own;
- Cultural control exists to shape organizational behavior norms and to encourage employees to monitor and influence each other's behaviors.

Simons (1995) on the other hand, interprets MCS as "the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities". In his adopted framework, four types of control systems, or as he calls them, levers of control, are identified. These are:

- Beliefs systems, which are used to inspire and direct the search for new opportunities and are based on an Organization's core values;
- Boundary systems, used to set limits on opportunity-seeking behavior.
- Diagnostic control systems, used to motivate, monitor and reward achievement of specified goals;
- Interactive control systems, used to stimulate organizational learning and the emergence of new ideas and strategies.

The four levers presented above establish opposing forces of effective strategy implementation, where Belief systems and Interactive control systems create positive and inspirational forces, while Boundary systems and Diagnostic control systems create constraints and assure compliance with orders.

Both these notions recognize that informal controls are an integral part of MCS, as opposed to Anthony and Govindarajan (2007), which exclude informal controls from MCS (Siska, 2015).

Malmi and Brown (2008) have a slight different view of MCS, interpreting these as a package, a collection or set of controls and controls systems. There are five types of controls in this typology: planning, cybernetic, reward and compensation, administrative and cultural controls. The concept of a MCS working as a package refers to the fact that different systems are often introduced by different interest groups, which may compromise the integration between different types of controls. As such, they argue that controls in their entirety should not be defined holistically as a single system, but instead as a package of systems.

In summary, while at its early steps MCS were regarded as a means to provide information for decision-making purposes, this scope gradually widened to include behavioral-influencing aspects as well. As a result, informal controls became an integral part of MCS definitions and research (Strauß & Zecher, 2012).

2. Traditional Budgeting

Several academics have pointed out that traditional MCS use the budget as the central plank of most organizations control mechanisms, as it is one of the few techniques that can integrate the whole range of organizational activity into

a single coherent summary (Otley, 1999; Fraser 1995). However, this could represent a problem as the attention given to the budget would, in most cases, undermine the importance/authority of other tools (Otley, 1999).

Budgets have been present in organizations for nearly one century. As such, in its most traditional form, budgeting is the epitome of an older management philosophy. It is concerned with top-down planning for financial performance, built on organizational hierarchies, and intended as a control over operational expenditures (Hope & Fraser, 2003a). The Operational management uses of budgeting were less common, but in today's environment they are of growing importance because the need to improve performance is intensifying (Bunce *et al.*, 1995).

Budgets have been described as an integral part of management control systems that aim at promoting coordination and communication among sub-units within the company, providing a framework for judging performance and finally motivating managers and other employees (Horngren *et al.*, 2005, cited in Østergren & Stensaker, 2011). Used in a responsible way, budgets provide the basis for clear understanding between organizational levels and can help senior executives maintain control over multiple divisions and business units (Hope & Fraser, 2003b). As such, budgets serve at least six key functions (Player, 2009):

- Setting targets
- Aligning incentives
- Developing action plans
- Allocating resources
- Coordinating across all functions
- Monitoring and controlling finances

Many see these budget functions as keys to successful management. Yet numerous studies have identified criticisms and complaints.

Wallander (1999) describes the budget as a forecast and a plan for the company for the next year. It is built on forecast and concerning the general development of demand, prices, exchange rates, costs and so on. As such it is heavily reliant on the ability to forecast market variables, which is heavily criticized by Wallander (1999), as he believes it is impossible to foresee something of which we have no previous experience. He concludes that the budget might even be dangerous, because if you believe in your budget it might stop you from adapting to new situations and if you don't believe it, there is no point in making it.

Thus, despite the strong acceptance of the budget and the widespread use of this tool in most organizations, several critics have emerged to the practice of budgets in organizations (Østergren & Stensaker, 2011). Budgets have been called an unnecessary evil, a relic from the past or a fixed performance contract (Wallander, 1999; Hope & Fraser, 2003b; Player, 2009).

Hope, Fraser and Woodcock (1999), used a workshop conducted by Professor Michael Bromwich to show the objectives of traditional budgeting and how it fails to achieve them. The objectives identified are strategic coherence, resource rationality, continuous improvement, congruent behavior and added value. They point out that:

- Strategic coherence is not possible as there is discontinuity between budgets and strategy, which they point out as one of the principal weakness of traditional budgeting.
- Resource rationality is dysfunctional as long as the last year plus approach to setting resource levels is applied and the cycle time remains the same.
- Continuous improvement is frozen as inefficiencies are masked, and targets are internally driven (cost oriented).

- Congruent behavior is about overcoming the functional barriers and dysfunctional behavior which are reinforced by the alignment of traditional budgeting with the organizational structure and its strong focus on financial performance.
- Added value is about reducing the bureaucracy of traditional budgeting and ensuring that the planning and budgeting process really adds value in relation to the time spent by managers on it.

They conclude that traditional budgeting is dysfunctional, as the budget is based too heavily on the organizational hierarchy to achieve its objectives in today's environment where ever higher standards of performance are demanded in response to customer demand and competitive pressures. In extreme cases, it can even lead to a breakdown in corporate ethics as employees might deviate from acceptable patterns of behavior to achieve their targets, fearing the consequences of failing to achieve them, no matter how unrealistic and out of context they might be (Hope & Fraser, 2003b).

Player (2009) describes the annual budget as having all the elements of a fixed contract, such as fixed targets and pre-determined allocated resources, which he considers to be an obstacle in an organization's ability to be responsive in today's ever-changing environment. According to the author, the seven most common problems with traditional budgeting are the following:

- High costs
- Out-of-date when published
- Does not add value in managing the business
- Requires a crystal ball to predict the future
- Slows response time
- Leads to gaming where managers try to negotiate low targets to reach maximum bonuses
- Sub-optimizes results, as people will chase the "targeted number".

Budgeting also tends to block a good management of risk and uncertainty. People prefer not to discuss outcomes other than the target. If they think the outcome might be much better than the target they keep quiet in case their boss raises the target. If they think the outcome might be much worse they still keep quiet, hoping to recover the situation by the year end. The precise targets, set so far in advance, suggest certainty about future events that is unrealistic, encouraging people to continue ignoring uncertainties. The single minded focus on precise and fixed goals tends to lead to poor performance (Leitch, 2003).

According to Neely, Sutcliff and Heyns (2001), there are several frequently cited criticisms in the literature towards traditional budgeting. These critics range from the cost and value of the budget and its focus on cost reduction rather than value creation, to making people feel undervalued and encouraging gaming and perverse behavior. Thus, the traditional budget not only is labeled as an outdated management tool, not suited for today's environment, but also as an enforcer of a value destroying organizational culture. Additionally, the authors suggest that there are 3 different ways in which better planning and budgeting processes may contribute to building shareholder value:

- More cost-efficient planning and budgeting
- Better strategy formulation and execution
- Better company forecast and accuracy

In summary, there are several critics towards the use of traditional budgeting in today's organizations. These problems are related both to the dynamic environment in which organizations operate, where the budget, due to its lack of adaptability, is unable to properly answer, and to the budget command-and-control culture, which furthers the inability of organizations to adapt to a constant changing environment and promotes perverse behavior. As a result, the call for new alternatives to the traditional budgeting model has been made, and several new approaches started to appear.

As a final remark, throughout this dissertation Traditional Management Control Systems was used in order to reflect that MCS have been developed since its first definition, being the ultimate objective the higher integration between the different aspects of an organization MCS, which was lacking in the traditional approach.

The use of the term Traditional Budget follows the same logic. The critics presented towards the budgeting approach are in regards to the traditional budget (Hope & Fraser, 2003b; BBRT, 2016; Player, 2009; Ostergren & Stensaker, 2011; Neely et al., 2001), as improved budgeting approaches have been developed that may solve some of the traditional budget problems.

3. Beyond Budgeting

Traditional management systems are now found to be inadequate in their ability to respond to the new market imperatives. Initiatives to create new management approaches multiply but their benefits are often short-lived. These critics led people to seek alternative methods to the budget and even to the traditional MCS as whole. A comprehensive and unifying management approach is needed that responds to the new business environment (Hope *et al.*, 1999).

In the mist of these critics, emerges the Beyond Budgeting concept. It originated in 1998 in the United Kingdom, as the result of a movement created by companies that were dissatisfied with the traditional management model. In the same year, the Beyond Budgeting Round Table (BBRT) was created. Founded on the Beyond Budgeting principles, its purpose is to help organizations learn from worldwide best practice and studies and encourages them to share information, past successes and implementation experiences to

move Beyond Budgeting. Though its origins are in the UK, it now has members from many countries including the UK, Belgium, Holland, France, Germany, Norway, Sweden, Switzerland, South Africa and the USA.

Beyond budgeting is presented as a new innovative management model, and also an integrated management control system, that seeks to respond to the new dynamic business environment in which organizations operate (Hope & Fraser, 2003a). The authors argue that abandoning the budget process opens up two opportunities for organizations. The first one is to enable a more adaptive set of management process, while the second is to enable a radically decentralized organization. This is possible because in their view, the traditional budget is a fixed performance contract, which is unadaptable and restrictive by nature, but also enforces a command and control culture through its budgeting process. Player (2003) also highlights the fact that by removing the cost of the budgeting process and eliminating the entitlement mentality that traditional budgets create, front-line managers can spend less when they need less while safe in the knowledge that they will be provided greater resources should they need them. Thus, a more adaptive set of management process will allow managers to focus on medium-term strategy rather than short-term fixed targets, and on taking actions to support key value drivers rather than negotiating and then following fixed plans and detailed numbers. This is achieved through the use of rolling forecasts and a frequent revision of the defined targets, which are relative, competitive and linked to benchmarking performance. Moreover, managers will now have the capability to respond more effectively to emerging threats and opportunities (Hope & Fraser, 2003a).

A radically decentralized organization intends to give managers more freedom to make decisions that will lead to the achievement of goals proposed. This freedom increases the accountability, the motivation, and the productivity of managers, thus potentiating better customer service (Hope & Fraser, 2003a).

A decentralized company also encourages an environment of good governance and ethical behavior (Player, 2003).

The essence of the adaptive and decentralized management model is that by giving capable and committed people the authority to make fast decisions in their local markets; they will act responsibly, thus responding appropriately to the threats and opportunities confronting them and with an eye on competitive performance, delivering consistent results (Hope & Fraser, 2003a).

The Beyond Budgeting principles include the most important leadership and process principles to be addressed in order to achieve the full benefits of the Beyond Budgeting management philosophy (BBRT, 2016). There are a total of 12 principles, which are then subdivided in two main categories; the first six are intended to develop a flexible organizational structure, while the remaining six aim to create an adaptive management process (De Waal, 2005). According to the BBRT (BBRT, 2016), these principles are:

1. Purpose – involves engaging and inspiring people around bold and noble causes, leaving short-term financial targets aside.
2. Values – organizations should govern through shared values and sound judgment not through detailed rules and regulations.
3. Transparency – make information open to everyone, not restricting it to top-management.
4. Organization – organizations need to cultivate a strong sense of belonging and organize themselves around accountable teams, avoiding hierarchical control and bureaucracy.
5. Autonomy – give people the freedom to act, and make them accountable for their actions, not everyone.
6. Customers – everyone should be connected to customer's needs, thus maintaining the focus on value creation.

7. Rhythm – concerns with leaving aside the end-of-the-year mentality that the budget promotes. Management processes need to be organized dynamically around business rhythms and events.
8. Targets – should be competitive and relative to benchmarking practices, thus avoiding fixed and cascaded targets.
9. Plans and forecasts – need to be made lean and unbiased processes, not rigid and political exercises.
10. Resource allocation – resources need to be made available as needed, not through a detailed annual budget.
11. Performance evaluation – performance should be measured holistically and with peer feedback in order to promote learning and development.
12. Rewards – Reward shared success against competition, not fixed performance contracts.

It is important to highlight that the Beyond Budgeting principles do not represent a set of tools or instruments and that their individual use may lead to the breakdown of the existing coherence in the model without a clear alternative (Player, 2003). Additionally, along with these 12 principles, the BBRT purposes 6 tools which are especially helpful in going Beyond Budgeting. These are:

1. Shareholder value models - aligns decisions of internal managers with the expectations and interests of external shareholders;
2. Benchmarking models - allow setting competitive targets. Well-chosen benchmarks ensure that firms are measuring performance against best industry standards rather than internally negotiated targets.
3. Balanced scorecards - provide a strategic framework for local decision by setting goals and providing an action plan for meeting those goals.

This allows front-line teams to manage strategy by making sure goals and actions are aligned.

4. Activity-based management - allows managers to understand better the causes of costs and the net profit contributions of different products, channels and customers.
5. Customer relationship management tools - focus managerial actions on knowing and satisfying customer needs profitably.
6. Enterprise information systems and Rolling forecasts - join up the disparate functions of the organization and enable managers to relate work and cost inputs to customer outputs across the business.

The focus of the model has shifted from central to local control. Local teams are the ones that engage in planning and executions, as they are the ones in touch with customer needs and the ones who have the freedom and capability to act. Leaders will also benefit by having more time to challenge and support front-line people and reinforce principles and boundaries (Player, 2003). However, the model doesn't expect people to simply act in the organization best interests. Fast, transparent information ensures that there are many checks and balances that provide strong controls (Player, 2003).

Still, this model can present some disadvantages. In a field study research conducted by Ostergren & Stensaker (2011), the authors have suggested some of the problems that might arise with the Beyond budgeting model:

- With the bigger interdependence that the model promotes, a problem with one business unit might affect the whole organization in a faster and more impactful way;
- The possibility to undermine the relationship between formal responsibility and control, as the majority of coworkers might not be

prepared to deal with the higher levels of responsibility that the model provides;

- May lead to the appearance of new games and manipulations, using, for example, projects as a bargaining chip to impact the allocation of resources.

Other authors pointed some other problems such as the difficulty in managing time to be able to constantly update rolling forecasts (Henttu-Aho T & Jarvinen J, 2013), the fact that several companies do not have good data or information about their relative performance or the lack of information about the cost-benefit trade-off between planning and control in environments with different uncertainty levels (Hansen, Otley and Van der Stede, 2003).

The benefits enjoyed by companies who implemented the Beyond Budgeting model, like Svenska Handelsbanken, Rhodia, Borealis, Leyland Trucks, Ikea, Bulmers, Ahlsell, Groupe Bull, Carnaud Metal Box, and Fokus Bank include (Leitch, 2003):

- Huge time savings in the finance team and throughout management, with time being spent instead on using actuals and forecasts to understand what is happening in the business and steer it;
- Improved status for the finance department, with less time spent on unpopular and unhelpful budget activities and more time spent on helping managers with decisions and analysis;
- Greater responsiveness and customer focus;
- More successful empowerment.

To the author, one key principle of Beyond Budgeting is to judge performance in hindsight by comparison with competitors, both internal and external. Thus, if business conditions improve unexpectedly during the year, so the "benchmark" automatically adjusts. It also means that managers are encouraged to think about how their plans will work out in a variety of future

scenarios, which improves risk and uncertainty management and also lessens the frequency of shocks and crisis. It is important to note that no company studied by the BBRT that has abandoned budgetary control has experienced a failure of internal control. On the contrary, the dysfunctional and sometimes dishonest behavior generated by fixed performance contracts is largely removed, strengthening the control environment. Managers now have a cleared picture of what is really happening in their company. Furthermore, instead of reviewing the company's direction only annually, companies with adaptive planning review it frequently throughout the year and in response to events. Thus, the shareholder's investment is being looked after with more care and attention (Leitch, 2003).

To conclude, the proponents of the Beyond Budgeting approach argue that this new adaptive management model, through superior analysis of context, rapid availability of information to all, and clear principles and values, boosts an organization ability to predict and adapt to market dynamics, something the traditional budget was failing at.

4. Beyond Budgeting and Volatility

It is generally agreed that dramatic and irreversible change is taking place in the business environment. The competitive pressures include global competition, rapid commercialization of technology, and the use of new management techniques. Their combined effect is to create wider markets for new products and services, at lower costs, with greater functionality, and new ways to respond to customer needs. The negative side of this movement is the rapid exposure of surplus capacity and outdates competencies, with a consequent threat to business and their people. The market place has become

volatile, highly competitive and customer driven. These new realities are channeling major companies towards a major change in their organizational structures, skills and therefore, a new model of the enterprise is emerging, both in its structure and purpose (Bunce, Fraser, Woodcock, 1995).

From the 1980' onwards, uncertainty increased and the pressures on corporate performance became more intense. Shareholders were demanding that firms be at or near the top of their industry peer group on a range of measures. Intellectual capital such as brands, loyal customers, and proven management teams had risen to be the primary drivers of shareholder value. Product and strategy cycles had shortened, emphasizing the need to continuously innovate. Prices and margins were constantly under pressure, requiring action to slash structural costs and reduce bureaucracy. And customers were increasingly fickle, calling out for more decentralized authority to enable front-line people to respond to changing customer needs. Moreover, "command and control" had become a pejorative term for an outdated management style. Leaders had recognized that to become more "agile" or "adaptive" meant transferring more power and authority to people closer to the customer. As the competitive environment becomes more volatile with growing global competition, rapid developments in technology and the new economy, companies are being forced to respond more quickly (Neely *et al.*, 2001).

For instance, Henttu-aho and Jarvinen (2013) pointed out that in the paper industry, cyclical variations had almost disappeared, which had the effect of undermining predictability and making budget targets more difficult to set. These new problems stemmed partly from the increased globalization and the emergence of new players in the markets. Consequently, the utility of the static annual budgeting gradually eroded and emerging pressures for more proactive planning became obvious. The authors conclude that the world today seemed to be much more volatile and dynamic, and, in order to be successful,

companies need a timely reaction to this constant changing environment, as market fluctuations now seemed larger and more dramatic than before (Henttuaho & Jarvinen, 2013).

For Axson (2010), significant changes in volatility, competition, and globalization, combined with the increase in the amount of data being produced from new systems and the introduction of new tools to analyze and report the resultant information has increased complexity, thus placing a tremendous amount of pressure on managers to accommodate complexity and change. Organizations need to adapt constantly if they are to achieve sustained success. Furthermore, for a management practice to be a best practice, it must be capable of functioning in a wide variety of economic conditions. The ability to rely on the effectiveness of management practices in both good and bad times is essential for fast, confident decision making. Therefore, management practices need to be able to adapt to a volatile and fast changing environment (Axson, 2010).

According to Hope and Fraser (2003a), the Beyond Budgeting model allows organizations to transform themselves in order to compete in a twenty first century environment, in which the only certainty is uncertainty and change. The model allows for rapid decisions and adaptation to new market realities, through the use of set of more adaptive processes and tools, such as the rolling forecasts, and the setting of relative performance targets, which are better suited to a rapidly changing environment, where the budget quickly becomes obsolete. Hope and Fraser (2001) believe that the volatile nature of the environment means budgets and plans are redundant. Therefore, a new adaptive management model is necessary to answer the uncertainty of the information age. In their opinion, an ever-changing market, not a dated plan, dictates behavior (Hope & Fraser 2003a). Thus, in the Beyond Budgeting model, superior analysis of context, rapid availability of information to all, and clear

principles and values tend to replace the budget culture of high level of authorization and requests for explanations (Leitch, 2003).

Chapter 3

Methodology Aspects

1. Objectives and Hypotheses

The main goal of this study is to understand how the Beyond Budgeting model, which is anchored in its flexibility and adaptability, helps in managing geographies characterized by high volatility, where the need to be able to adapt to a constant changing business environment is crucial. According to Hope and Fraser (2003a), the abandonment of the budget will open the way for an organization to obtain a more adaptive set of management processes. This new management model will guide managers to focus on medium-term strategy rather than short-term fixed targets. The authors point out that the use of rolling forecasts and a frequent revision of the defined targets will give managers the capability to effectively respond to emerging threats and opportunities. Therefore, it is expected that the implementation of the Beyond Budgeting model has contributed to the better management of Nors international businesses, namely Angola and Brazil, where the ability to successfully respond to emerging threats and opportunities is essential as they are currently characterized by a high degree of volatility.

Following the main goal of this case study, the proposed research question is the following:

“How did the Nors group react, with the use of Beyond Budgeting, to the market volatility felt in their international businesses, Angola and Brazil?”

In order to reach this objective, the scientific methodology selected was inductive reasoning, based in a singular qualitative case study, the case of Nors, the first Portuguese organization to go Beyond Budgeting and also regarded as one of the fastest to go through the implementation process of this model. Additionally, this case study will take both a descriptive and explanatory research approach. The descriptive connotation concerns the first part of the case study, where the researcher will describe the integrated management control system present at Nors in light of the twelve Beyond Budgeting principles advocated by the BBRT (2016). The explanatory approach intends to explain the phenomena present in the data. In this case study, it refers to the procurement of reasons as to why the model helped or not Nors to adapt to the new market contexts felt in both Angola and Brazil.

2. Research approach

This study can be categorized as an instrumental case study based in two face to face interviews and documentation analysis to triangulate the data collected.

The deductive reasoning can be defined as the methodology where the researcher construct hypothesis based in the strength of some theories and the conclusions are made exclusively from tested reason proved by the study (Karlsson & Jonebrant, 2011). The inductive reasoning method tries to purpose believable conclusions obtained through theory and empirical evidence that are plausible even if other explanations can also be applicable to the analyzed phenomenon (Blumberg, Cooper and Schindler, 2008, cited in Karlsson & Jonebrant, 2011). The inductive approach has been used throughout this dissertation since the presented findings cannot be seen as the only truth. The

empirical evidence found in the qualitative case study, in combination with different theories, is used to present believable explanations. The essence when conducting an inductive case study is to research an organization which struggles with specific problem area and also evaluate how they are coping with it, based on a holistic view of key processes.

3. Case Study

Case studies as qualitative methodology of research studies, seems to be preferred when the research questions are focused in 'why' and 'how' questions, when the phenomenon is contemporary in some context, when the investigator has little control over the phenomenon and when the boundaries between the phenomenon and the context are not perfectly clear (Yin, 2009). Case study research has been advocated as a valid research strategy in marketing, operations management, management information systems, and strategy. In order to be a useful research strategy, the case study approach should focus on a broad and highly complex topic, where there is not a lot of theory available and when "context" is very important (Dul & Hak, 2008).

Nowadays the case study approach is considered the most appropriate tool in some situations, such as the critical early phases of a new management theory, when key variables and their relationships are being explored, and because case studies are commonly carried out with high proximity between the researcher and the participant impacted with the study phenomenon, that influence, take decisions or simply execute, this method became the most appropriate to test real management situations and create managerial relevant knowledge (Gibbert *et al.*, 2008).

According to Pettigrew(1973, cited in Gibbert *et al.*, 2008), while case studies may, and often do, use quantitative data, a key difference with other research methods is that case studies seek to study phenomena in their contexts, rather than independent of context. Nevertheless, like any quantitative or qualitative research designs, the case study analysis has both strengths and weaknesses. Eisenhardt (1989) argues that one of the weaknesses with case study research is that the intensive use of empirical evidence can yield theory which is overly complex. That is, given the typically overwhelming volume of rich data, there is a temptation to build theory which tries to capture everything. The result can be theory which is very rich in detail, but lacks the simplicity of overall perspective, because theorists working from case data can lose their sense of proportion as they confront large volumes of data. Another weakness pointed by the author is that building theory from cases may result in narrow and idiosyncratic theory. The risks are that the theory describes a very individual phenomenon or that the theorist is unable to raise the level of generality of the theory.

However, for Yin (2003), depending on the type of the research questions, the control that the investigator can have above the study event and the focus on contemporary phenomenon, the better scientific research method can perfectly be the qualitative methodology based in a case study research. The case study is a suitable tool when conducting a research paper with an inductive approach since it enables the possibility to get insights into an organization which struggles with the studied problem area. Furthermore, the power of case studies lies in its ability to manage a wide range of empirical material such as documents, observations and interviews (Merriam, 1994, cited in Karlsson & Jonebrant, 2011)

There are two different approaches to choose from when conducting a case study, the intrinsic and the instrumental approach. The intrinsic case approach

is to be used when you want to get insights into a specific and unique case. In contrast, the instrumental case study is best used when the aim is to get a general understanding about a wide problem area (Stake, 1995). The instrumental case study is the most suitable tool for this paper since its aims at creating a basic understanding of the Beyond Budgeting characteristics that help to better manage businesses operating in volatile environments.

Patton and Appelbaum (2003), based on the work of Stake (1995), Hamel (1993) and Eisenhardt (1989), outline five different activities that need to be undertaken in order to conduct a proper and useful case study. The methodology followed in the case study of this dissertation is based on the five steps recommended by the authors:

1. Determine the Object of Study - The first crucial step is for the researcher to decide what topic the case will focus on. It is important for the aims of the research to be outlined and tentative hypotheses to be constructed.
2. Select the Case - Case study research does not rely on random sampling techniques. Rather, the case study researcher must strategically select a case that is pertinent to the object of study and that will allow the subject to be investigated fully.
3. Build initial theory through a literature review - The existing literature on the object of study helps frame the case study and is important for establishing validity in the research and confidence in the findings. If the theories and hypotheses in the existent literature coincide with the findings of the case, then confidence in the findings will be increased. Still, if the results of the case do not coincide with the literature on the subject, then an excellent opportunity arises to determine why and perhaps develop new theory. As Eisenhardt (1989) underlines, tying the emergent theory to existing literature enhances the internal

validity, generalizability, and theoretical level of theory building from case study research.

4. Collecting and organizing the data gathering - To avoid being overwhelmed with mountains of data, instruments and protocols should be established for the collection of data. While data collection is a constant process of grasping good opportunities as well as setting structured plans for observing events, interviewing sources and reviewing documentation, it is important that the focus remain on the object of study.
5. Analyzing the data and reaching conclusions - Once again, the risk of being overwhelmed by the quantity of data exists during the analysis phase. The ultimate goal of the case study is to uncover patterns, determine meanings, construct conclusions and build theory. The quality of the context description, creating links back to the literature and triangulation will all play a crucial role in determining the validity of the research.

To conclude, the idea that properly designed case studies lack rigor is clearly false; in fact, case study is remarkably hard, even though case studies have traditionally been considered to be “soft” research (Yin, 1984).

4. Data collection methods

Case studies typically combine data collection methods such as archives, interviews and observations. Case study research does not imply the use of a particular type of evidence, thus, the evidence may be either qualitative, quantitative or both (Eisenhardt, 1989; Yin, 1981).

The quantitative information is usually known as expressed in figures or numbers also called hard data. Qualitative data refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies. It can range from a short list of responses to open-ended questions in an online questionnaire to more complex data such as transcripts of in-depth interviews. To be useful this data needs to be analyzed and the meanings understood. Qualitative data analysis procedures assist this, by allowing developing theory from the gathered data. Furthermore, qualitative data is more appropriate when working with inductive research because it allows collecting general insights about the context itself and the specific object under analysis (Eneroth, 1984 cited in Karlsson & Jonebrant, 2011).

The qualitative case study approach was the one selected for this dissertation. Gathering data with a mainly qualitative method enables a richer and more relevant analysis and a broader understanding of the studied phenomenon. This method is also suited when working with an inductive research approach since it can be used to obtain general insights into one organization. The characteristics when using a qualitative method are that simple and direct questions are asked, which gives rich and complex answers containing interesting events, opinions and patterns. Furthermore, this approach also gives the flexibility to interviewees to deeply expose their own thoughts, viewpoints and opinions about the phenomenon under analysis, which is the main strength of this approach.

Additionally, this study will be supported by both primary and secondary data. The primary data will be collected through the semi-structured interviews into the company being analyzed, Nors, which will be gathered for the first time by the researcher. The secondary data is the information gathered through literature, such as theories, principles, definitions, and information about the company and the specific project under analysis.

The data collection procedures should be guided by the research question and the design chosen. Qualitative research strives to collect, integrate, and present data from a variety of sources of evidence as part of any given study. The study's conclusions are likely to be based on triangulating the data from the different sources. This convergence will add to the study's credibility and trustworthiness (Yin, 2011). Thus, the main purpose of using a variety of sources of evidence is to provide theory triangulation, which offers stronger evidence of constructs and hypotheses while also allows clarifying meanings and confirming the repeatability of observations or interpretations bringing (Stake, 1995). This study will use documentation, archival records and interviews as the selected data collection methods, which are more relevant and adjusted methods for non-sociological investigation (Tellis, 1997).

For the documentation and archival records, any researcher has to take into account the potential usefulness of a large amount of documents that can be gathered. So, it's essential that these study documents be carefully reviewed to avoid incorporating incorrect data. The documents and archival records analyzed in this study were mainly documents about the company under study, Nors, given by the company itself or gathered in the internet in the institutional site, such as the annual reports of different years and the company code of conduct.

There are three main typology's concerning interviews, which are structured, semi-structured and unstructured interviews. Structuring concerns to how much freedom the interviewee is given to respond. A structured interview is based on a very detailed interview guide and the interviewer has a strict control over the interview. Semi-structured interviews start with rather specific questions but allow the interviewer to make chances as the interview goes on which enable the respondents to develop his or her ideas. The unstructured interviews often start with the respondent's story and do not have any precise

topics or questions that necessarily need to be covered (Blumberg, Cooper & Schindler, 2008; cited in in Karlsson & Jonebrant, 2011)

The qualitative semi-structured interview is the main source of primary data collection within this case study. Two interviews were conducted with the Director of Planning and Performance Management, Manuel Ferreira, who was also in charge with the finding and implementation of the new management model Beyond Budgeting. The semi-structured interview is used because the researcher has a set of questions to follow, which are presented in appendix 1, but the interview will be guided by the schedule.

During the interviews, tape recorders were used to increase the level of accuracy and richness of data collected and also to facilitate the data analysis process.

5. How to make a trustworthy study

Four tests have been commonly used to establish the quality of any empirical social research. These are construct validity, internal validity, external validity and reliability. Because case studies are one form of such empirical research, the four tests also are relevant for case study research (Yin, 2009).

According to Yin (2009), while doing case studies, three tactics are available to increase construct validity. The first is the use of multiple sources of evidence, the second is to establish a chain of evidence, and the third tactic is to have the case study report reviewed by key informants. This case study uses different sources of data collection, such as interviews, documentation and archival records, thus enabling to confront different sources of information on the same research topic. Additionally, the present case study was reviewed by its key informant, NORS Director of the Planning and Performance

Management Department, Manuel Ferreira, as to avoid biases due to incorrect interpretations. Furthermore, a preliminary final version of this dissertation was commented by Nors executive member Rui Miranda and its comments reflected and incorporated in the case discussion.

Internal validity is mainly a concern for explanatory case studies, when an investigator is trying to explain the casual links between two different variables. That is because if an investigator incorrectly concludes that there is a causal relationship between two variables, the research design has failed to deal with some threat to internal validity. Another concern referring to internal validity is that a case study involves an inference every time an event cannot be directly observed, thus opening the possibility for the researcher to make incorrect inferences. Thus, this study uses theory triangulation and a review by its key informant in order to address the potential problem of internal validity.

The third test deals with the problem of knowing whether a study's findings are generalizable beyond the immediate case study. The external validity problem has been a major barrier in doing case studies, as critics typically state that single cases offer a poor basis for generalizing. However, the purpose of this case study is not to generalize the findings, but to present facts that can help other companies to develop similar projects.

The goal of the final test, reliability, is to minimize the errors and biases in a study, so that, if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions. The general way of approaching the reliability problem is to make as many steps as operational as possible and to conduct research as if someone were always looking over your shoulder.

Chapter 4

Beyond Budgeting in NORS

1. The Nors Group

The Nors group is present in the biggest markets, from Europe to Africa, from Brazil to the United States of America. Their story began in 1933, when Luís Óscar Jervell became the first representative for Volvo in Portugal. Later, in 1949, Luís Óscar Jervell and Yngvar Poppe Jensen founded the group Auto-Sueco, which would be the group brand until 2013, where an organizational restructure led to the redefinition of values, culture and ultimately the group brand, which became known as Nors.

Currently, the Nors group operates in four major business areas, Original Equipment Solutions, which is the first and main activity of the group and consists of the sale and after-sale of trucks, buses, construction equipment and cars; Integrated Aftermarket Solutions, which gathers the companies that make-up the after-market structure, such as the distribution of workshop equipment and multi-brand parts for trucks, buses, cars and construction glass; Recycling Solutions, which focus on delivering recycling solutions and equipment; and the last one, Safekeeping Solutions, comprises the group insurance mediation and inspection centers for vehicles.

It is important to note that the group focuses not only in the commercialization of their main products such as light vehicles and trucks, but also on a whole structure of aftersales, which goes from specialized workshops

and components of origin and multi-brand to insurance and assistance contracts, allowing them to be able to answer to all their customers' needs in a complete and efficient way (Nors, 2013).

On October 2012, based on the principles of decentralization, the group made an important restructure of their governance model, shifting from a geography/product mixed organizational system to a region based model. This change is intended to accelerate growth and cement their position in the markets where they are already present, by giving them their own support structures, dedicated to the different business's existent in each region and with decision making autonomy, which in turn will allow top management to focus on strategic issues, transversals to the whole group (Nors, 2013). This restructuration also enabled the elimination of duplicated functions in different regions.

Each region is now treated as an operational unit, led by a "regional board", whose main competences are the following (Nors, 2016):

- Define and implement regional transversal politics, which in turn are aligned to the global strategy of the group;
- Manage the business portfolio in the affect region and monitor the performance of the companies that make it up;
- Decides and/or prepares investment decisions to the board of directors;
- Manages the main financial and human resources of the affect region.

To this effect, 4 different regions have been distinguished, Angola, Africa, Brazil and Iberia. Additionally, a new business unit was created, Ventures, with the objective of managing business assets that require different approaches from those currently used in the group different regions, such as inspection centers and urban cleaning equipment.

The current strategic orientation for Nors is given through what the group defines as the “wanted position 2020” (Nors, 2016). This position, which encompasses the 3 strategic pillars defined by the group, profitability, consolidation and leadership, is presented as a combination of the following 5 ambitious objectives:

1. To be among the most profitable in their industry;(profitability)
2. To be recognized by the market as the bests; (leadership)
3. To have a talented workforce who fully adopt the company values; (leadership)
4. To have an efficient and frugal organization; (profitability)
5. To center their product portfolio in transport solutions, construction and agriculture equipment. (consolidation)

The Darwin Project

Darwin was the name given to the project of abandoning the traditional budgeting process and going Beyond Budgeting, which started in 2012 and was completed in July 2013. The implementation of the Beyond Budgeting model was anchored in three main tools, each one with its specific purposes, the strategic map “MyDarwin”, the medium-long term financial strategy and the rolling forecast. The strategic map “MyDarwin” consists of the new BSC adopted by the group. This new BSC, contrary to the old one, uses short, medium and long-term financial and non-financial measures, in order to steer the organization in the desired path. According to Manuel Ferreira, the old BSC was nothing more than the absolute measures already present in the budget, therefore creating no real value for the group. The medium-long term financial strategy consists of the position the group has targeted for the next 5 years. This is visualized through the wanted position 2020 presented in the previous section. The rolling forecasts were adopted with the purpose

of allowing managers to better accompany their activities, with a focus in the business critical success factors (Nors, 2013). This structural change of Nors management and performance monitoring system, allows business managers to track their business activity in a dynamic way, focusing only in the critical business factors and setting relative targets, which are then comparable with internal or external benchmarking (e.g. market share, circulating fleet, etc.).

2. The integrated management control system at NORS

The decision and implementation process

Since the last international crisis in 2008, the evolution of Nors business stopped being stable. Therefore, when the budget was being made, due to the now unpredictable nature of their businesses, it became harder to make the budget trustworthy as the budget lacked the ability to adapt to market changes, creating an inaccurate interpretation of the current market context, and consequently leading top management to base their actions on unreliable budgeted numbers. Later, in 2012, the countries who most contribute to the group's EBITDA, Angola and Brazil, each one with values around 20 to 30% during the years of 2011-2014, started to feel this crisis and the gap between the reality of their businesses and the budget became even more evident. Nors spent a high number of resources a year to produce its annual budget, which was done using the working hours of their highest paid coworkers and was made from August/September to December. When reaching March/April it was already out of context with the reality. According to Manuel Ferreira, "When we got to March/April there was no relation between the reality and the budget". Thus, despite the high cost of producing the budget, Manuel Ferreira stated that it could not fulfill its role as a tool for planning operations or its

motivation role, because the defined targets would prove inadequate once a few months have passed, as they were defined during the budgeting process and consequently do not reflect the market changes that occurred after its conclusion, thus creating a problem for business managers.

Following these budget problems, the Nors board reached the conclusion that a new management tool was needed and requested to Manuel Ferreira that he sought out a lighter, more adaptable tool to replace the traditional budget. After reading some alternatives, Beyond Budgeting came to light, and Manuel Ferreira recognized that the abandonment of the budget, and not its improvement was the best course of action for the group. He then proposed to the board the model only as a financial tool, leaving aside its cultural aspects, which he was sure that the board would not see with kind eyes, as the command and control culture was strongly present in the group. Thus, the project was approved and from 2013 onwards, the budget was never prepared again.

The process of implementing Beyond Budgeting was divided into 4 phases. The first one, was the definition of the group strategy, that is, how it positions itself, where it wants to go, and how this defines and interval of action for the different businesses/teams.

The second phase consisted of asking their businesses to draw a business plan of 4 years, which served to disrupt the end of the year mentality that they were used to. These formulated strategies were communicated through the use of a new BSC, which was made by the business manager, allowing each team to focus on their own strategic map.

The third phase concerned the implementation of both rolling forecasts and the new BSC. The rolling forecast is made on a monthly basis, having in mind the following 15 months. The construction of rolling forecasts is based on the forecast of relative non-financial KPI's. For example, business managers are

asked what the expected market behavior is, what is the expected market share (with their current strategy plan), how many people will be needed, marketing costs and so on. This information is inputted into an excel sheet, and then uploaded into a database. This database does not have formulas, as the costs to develop in such manner would be considerably higher. The database then exports the forecasts into another excel spreadsheet that contains formulas that will translate the forecast information into financial information for that determined operation and within the determined time-window. The Director of Planning and Performance Management and his team are in charge of incorporating this information in the businesses monthly reports, giving manager's feedback about their forecasting accuracy and helping them to achieve better results. The new BSC refers to the strategic map "MyDarwin", which intends to define the values, mission and ambition for each of Nors business, while serving as a way to measure the strategic implementation.

The fourth phase, which lasted for around 2 years, relates to the role of the controller and his team. According to Manuel Ferreira, both he and his team went through a shift in their role in the organization. That is, contrary to the past, where they were in charge of producing maps and charts for the business managers, spending around 80% of their time in low value creation work, and 20% talking/explaining to people how to interpret these maps, they now spend 80% of their time helping managers to build rolling forecasts, managing the business in a holistic way and helping them to learn from the produced RF, consequently leading to better results from management actions, as they are now better prepared to correctly interpret and react to the market.

The present system at Nors

Using the information obtained through the interviews conducted with Nors Director of Strategy and Performance Management, Manuel Ferreira, and

drawing on the 12 Beyond Budgeting principles advocated by the BBRT (2016), presented in the literature review, this chapter will give a description and analysis of the new management model implemented by Nors. This analysis will be divided in two parts. The first part consists of a critical analysis of the Beyond Budgeting principles concerning the implementation of an adaptive management process. The second part will follow the same approach but having in mind the principles relative to the creation of a decentralized organization. The creation of an adaptive management process is one of the two cornerstones of the Beyond Budgeting model. According to Hope and Fraser (2003a), this new management style will enable organizations to respond faster and more efficiently to market threats and opportunities.

Management Processes

Rhythm

The calendar year or fiscal year is very often an artificially construct from a pure business point of view. The processes focused by Beyond Budgeting, like target setting, forecasting, resource allocation and performance evaluation, have to be driven and organized more on business rhythms and less on calendar rhythms (BBRT, 2017). Nors uses rolling forecasts as a tool for business managers to keep planning their operation. Thus, every month, business managers gather their team in order to make their rolling forecasts. This process is done every time new information is available that requires readjustments to the last forecast and at the end of each month, the last planning made is the rolling forecasts present in the monthly reports. According to Manuel Ferreira their trimestral meetings are growingly focusing on the year ahead instead of the current year. However this is still an ongoing process and not truly achieved. Thus, despite the fact that business managers are encouraged to plan on a daily basis, the year-end mentality is still present in the group as top-

management still conducts strategy revisions in December and the performance evaluation of business operations continues to be year-based.

Targets

Meaningful targets are the ones that provide direction rather than precision. Thus, when setting targets, make sure they are relative and not fixed as fixed targets are bound to lead to poor performance (BBRT, 2017).

Nors long-term strategy, which was first defined with the implementation of Beyond Budgeting, consists only of relative targets visualized through the “wanted position 2020” and is intended to provide guidelines for the actions that the organization will take in the next three years (Nors, 2016). These targets are, for example, “To be among the most profitable within our sector”, “To be recognized by the market as the best” and “To have talented employees who intensely live the company values”. However, the organization still has in place short-term financial targets for the year-end, which although aligned with the organization long-term strategy, are still a characteristic of the predominant command-and-control culture. Nevertheless, the implemented BSC uses different targets for different management levels, which disrupted the top-down EBITDA previously used by the organization.

Plans and Forecasts

Targets should be ambitious whereas plans and forecasts should be realistic. This is one of the reasons that annual budgeting should be replaced by separate processes for each of the target setting and the planning process that goes forwards. In order to add value through higher quality decision making, forecast must represent the most likely outcome (BBRT, 2017). Planning and forecast is about correctly interpreting and using the available market information in order to adjust our plans to emerging threats or opportunities,

thus giving a vision of the most likely outcome. According to Manuel Ferreira, planning routines in Nors have the purpose to force managers to critically think about the best course of action in order to achieve their ambitions. Contrary to the traditional budget process, where planning is made once throughout the year, they now have in place a constant planning process, where managers are in charge of updating every month their rolling forecasts.

The rolling forecast, which according to Manuel Ferreira takes on the role of a tool for constant planning, is produced on a monthly basis. Their construction is based on the forecast of relative non-financial KPI's, where business managers are asked, for example, about the expected market behavior and market share and how many people they will need. At the end of the month, the information is uploaded into a database where the team of the Director of Planning and Performance Management is in charge of transforming the forecast information into financial information for the determined operation and within a certain number of months. Additionally, during the month, whenever a review of the rolling forecast is needed, for example due to the availability of new market information, the business manager assembles his team in order to update their rolling forecast. At the end of the month, the last information present in the rolling forecast is the one utilized by Nors monthly reports. Furthermore, one of the monthly reports pages concerns the quality of the forecast. Manuel Ferreira argued that this is an important procedure as it helps business managers to learn with their forecast quality, gradually gaining more trust in the results of their management actions and the achievement of the defined path. As Manuel Ferreira said,

“The rolling forecast, which constitutes business interpretation, is the true planning tool”

The reporting routines have also suffered important changes with the adoption of the Beyond Budgeting principles. According to Manuel Ferreira,

although reporting routines are still made on a monthly basis, what the organization does with the monthly reports is completely different. The monthly reports have three distinct levels. Administration board, which concerns consolidated patrimonial information and also the main businesses performance indicators, with a rolling forecast of twelve months ahead, Board of directors, the second level, keeps the focus on patrimonial information, giving special attention to resource allocation and financial management, such as region debt. It is in the third level, business managers, that trimestral indicators and relative operational KPI's start to appear. These reports are divided in two parts, the first part gives an overall look at the business performance and the second concerns a more detailed description of the different performance indicators.

Resource allocation

The purpose of resource allocation must be to ensure the optimal use of scarce resources. It all starts with a mindset of cost consciousness but you also need strong values and clear direction to make this happen (BBRT, 2017). We should be better at asking the right questions. When we look at our processes, we should use these to continuously help us allocate costs to where they create most value. More autonomy and more flexibility will ultimately lead to a more optimal use of resources. According to Manuel Ferreira, resource allocation is now based out of necessity rather than previous allocated by the budget. Daily managing routines are conducted normally and whenever a management action requires an increase or decrease of the current resources, the request is assessed by the administration board, which either approves or disproves the action according to the needs and objectives of the organization. Therefore, managers can ask for resources along the calendar year, as long as the boards sees said resource allocation to be in the best interest of the organization, for

example, in core businesses. This is quite different from the previous allocated resources and the continuous focus on Angola and Brazil that the group had in place. Additionally, if a business is deviating for more than six months from the strategy orientation in terms of results, the administration board meets in order to conduct a strategy revision, which according to Manuel Ferreira, usually implies altering resource allocation. This strategy review also allows the board to explore the reason that led to the deviation, if it comes from a poorly implemented strategy or if it simply isn't the correct strategy.

The criteria for resource allocation are based on the group's investment policy, the disinvestment in non-core businesses and investment in core. Nevertheless, Manuel Ferreira referred that these decisions are increasingly being made on the basis of the best available information, which is the last rolling forecast. Thus, although the guidelines for resource allocation are the focus on core businesses, these projects are still evaluated on a case-to-case basis. He continued by stating that the implementation process of Beyond Budgeting within Nors had the main objective of changing the question from "what" to "how", thus providing better information for resource allocation.

Performance evaluation

The main purpose of performance evaluation is learning and development and not rewards. Thus, Performance evaluation cannot be dumbed down into hitting a number only (BBRT, 2017).

Nors uses 2 different types of performance evaluation. The first concerns the use of external benchmarking practices in order to compare themselves to competitors, like Mercedes and Renault. Thus, relative performance indicators such as market share and after-market penetration make up the group's external performance evaluation. Business managers use these indicators in their planning routines. According to Manuel Ferreira, Financial benchmarking

represents a problem due to the inaccessibility of public financial performance indicators such as return on equity, leaving the group without comparison when it comes to external financial benchmarking.

The second is the group's internal performance evaluation. With the adoption of the Beyond Budgeting model, the group implemented an internal performance league. This league is divided into first division and second division, where the first division consists of the people who remunerate the shareholder and the second of everyone who doesn't. The performance evaluation is then made with the comparison of a business manager ROCE and their evolution on forecast quality. The evolution on forecast quality is determined by the evolution of business managers forecast accuracy, that is, the gap between the forecast and the actual results. Thus, when this gap starts to decrease, it means that business managers are actively improving their forecasting skills, as the difference between their forecast and real keeps on getting smaller. The business manager who shows the best progress at the end of the year gets awarded with the title of best manager. Manuel Ferreira referred that this represented a mentality change in comparison with the traditional budgeting setting, where the best manager was the one who had the higher EBITDA.

However, performance evaluation in Nors is still far from what is recommended by the BBRT core members (BBRT, 2017). Despite the target setting process being based on relative targets, the group performance is still evaluated by top management through the use of fixed performance indicators. According to Manuel Ferreira, business units are growingly focusing their attention on business information; however, top management still conducts business evaluation on the basis of fixed financial indicators, such as EBITDA. This may derive from the fact that although the organization strived to create an adaptive management process, it had no intention of creating a

decentralized culture. Thus, while business managers are in charge of producing RF, top management transforms this information into financial information, showing the traditional budget culture of focusing on numbers.

Rewards

Profit sharing leads to better performance than individual incentives. This however is a poor description of the task organizations have today, where cooperation and teamwork are crucial elements for success (BBRT, 2017). The recommendation made by the BBRT is to establish profit sharing schemes and avoid individual incentives. Additionally, rewards should be based on relative targets as performance is ultimately about beating the competition. According to Manuel Ferreira, although contracts by objectives are now made on the basis of relative targets rather than absolute targets, Nors reward scheme still lacks alignment with the organization. This, however, is due to the fact that at the time the interviews were conducted, Nors was still developing their new reward scheme. Therefore, the complete adoption of this principle is still an ongoing process for Nors.

Leadership principles

Purpose

Regarded as one of the most important requirements for employee's engagement, a purpose creates energy and excitement and it can help release the intrinsic motivation in employees, which in turn leads to higher organizational performance (BBRT, 2017). In Nors 2013 annual report (Nors, 2014), the commitment of the organization to align their employees with the organization can be seen through the following statement:

“During the year of 2013, projects and initiatives relative to the alignment and engagement of all employees with the Nors group values and

objectives have multiplied, an essential condition to, along with the development of technical and behavioral skills, guarantee the achievement of Nors medium-long term strategy”

These projects and initiatives include, for example, the “Top-level” program, which started in 2013 and has continued ever since and gives Nors directors individual coaching sessions on topics the organization deems important, such as communication, the topic chosen for the coaching sessions during the year 2013. Another important initiative that furthers the alignment of Nors employees is “Prémio Ação”, which is described in the 2015 annual report as an initiative with the purpose of distinguishing teams and employees that present an excellence performance in several domains, namely leadership, innovation, initiative and team-spirit (Nors, 2016).

Values

According to the members of the BBRT (2017), value based management provides guidance while leaving autonomy and the freedom for the employees to do their work. This stimulates creativity, sparks initiative and leads to more responsibility, leading to organizational improvement. In dynamic and uncertain environments, detailed rules too often get in the way of doing what was right in the situation. In September 2013, Nors launched “To Be Nors”, a document detailing the group’s code of conduct, which provides guidance for everyone in the organization, regardless of their degree of responsibility, on what it means to “be Nors” and to “act Nors” (Nors, 2017b). Through a set of principles inspired in the values of the group, Ambition, Trust and Talent, the document regulates the relationships that employees keep with other employees in the company and in the group, with customers, suppliers, other partners and competitors, with the local community and society in general, as well as other entities that work with Nors (Nors 2017b). The document ends

with a declaration of commitment to uphold the values and rules of the code of conduct.

Transparency

Transparency is a key principle on Beyond Budgeting. It sends an important message that an organization is operating in a proper manner, as there is nothing to hide or to be ashamed of (BBRT, 2017). In the same way business managers try to tell a story to maintain or gain more resources, the board does the same with the shareholders, trying to persuade them to keep their investments in the company. However, as Manuel Ferreira stated:

“With its transparency, the new model prevents people from keep on acting as they used to as they are now asked uncomfortable questions by their peers.”

“If I want to lower the costs with travel and accommodation, it is enough to publish on the intranet, person by person, what are the expenses and after a few months they drop to half.”

Thus, peer pressure has an important role in mitigating deviations of managerial actions from both top and middle management. From the statement, we can also perceive that traditional budgeting could lead people to act out of the organizations interests, which is one of the critics pointed out by Hope and Fraser (2003b). Additionally, providing relevant and timely information to the front line teams enables them to take action in a faster and more efficient way.

This peer pressure is effectively attained because every business managers has access to the monthly reports of the different business units, which contributes to stimulate learning and a competitive environment, where no one wants to be singled out as the manager with the lowest levels of performance. Therefore, while with the traditional budget approach everything was a secret expect for top-management, business managers now have the ability to

understand how and why others businesses are doing better by looking at their monthly reports. As Manuel Ferreira stated, “With the budget everything is a secret while here there is transparency of information.” However, as lower level managers are still unable to access this information, which goes in accordance with the remaining command and control culture that can be verified throughout the group, this principle is not fully adopted by Nors.

Organization

Organizing in a Beyond Budgeting way means to see the coworkers in a company as responsible and social beings. In the consequence, there are three fundamentals to be followed. First, the decision power is truly decentralized. Second, people are allowed and supported to interact freely in the organization with direct one to one communication. Third, teams have the freedom to initiate and coordinate activities. In combination, these principles lead to a strong sense of belonging, high engagement and accountability throughout the organization, and therefore create resilient and liable organizations (BBRT, 2017). Nors is currently on the path to becoming a decentralized organization. During the interview, Manuel Ferreira clearly stated that the predominant culture within the Nors group was still the command-and-control. However, in his words:

“It is completely different from what it was five years ago. It hasn’t stopped being a command-and-control organization, but much more less command and control from what it used to be”.

Furthermore, in his opinion, while the 6 principles concerning the adaptive management process have been all implemented, the remaining six constitute a journey for the organization, not something that can simply be implemented like the rolling forecasts. The predominant command and control culture within Nors can be seen, for example, with the requirement of all management actions to be approved previously by the administration board, while the ongoing path

to decentralization can be seen when they ask business managers to draw their own business plan in accordance with the organization overall strategy. Thus, we can ascertain that the decision power is not truly decentralized.

Autonomy

Autonomy is fundamental for employee engagement, which is crucial for high performance organizations (BBRT, 2017). This was the second step in Nors Beyond Budgeting implementation process. After top-level management defined the group strategy, the first step, they asked their businesses to, within the same strategy framework, draw their own business plan as to where do they want to be within a four year time-period. According to Manuel Ferreira, this new process represented a rupture with the budget mindset, where people are used to think in the short-term. He then added,

“When you are not in an administration, you are in a business, your objective is to sell and make margins, not to think in the long-term, and thus it was a shock”.

Therefore we can see that business managers are now encouraged to think in the long-term, by providing a business strategy for the next 4 years. Furthermore, with the ability to update the rolling forecasts throughout the month, they are presented with the freedom to act in response to market changes and plan strategy readjustments. However, before proceeding with significant strategy readjustments actions, they still have to ask their administration board for approval, which is another sign of the predominant command-and-control culture of the group. To conclude, although the organization has been progressively giving more autonomy to their employees, the group needs to show more trust in front-line managers and teams by providing them with more responsibility and freedom to act. As Manuel Ferreira said, in regards to goal definition, “The objective here is to be proposed

by the manager. Obviously this is improving gradually, only now we are approaching teams”.

Customers

Understanding customer’s needs and how to best serve them should drive an organization entire structure, activities and processes (BBRT, 2017). In high performance and effective organizations everyone work is connected with customer needs (BBRT, 2017). The customer focus within Nors can be seen with the organization long-term strategy, where Nors aims to be recognized by the market has the best. This objective then translates into a strategic guideline for the following years stating that they want to achieve the best service quality in the market. Additionally, the group focuses not only in the commercialization of their main products such as light vehicles and trucks, but also on a whole structure of aftersales, with the objective of being able to answer to all their customers’ needs in a complete and efficient way (Nors, 2013).

However, the organization does not truly embrace this principle as the main focus of the group continues to be financially oriented. This can be seen with the guidelines for the group’s long-terms strategy, where profitability and consolidation refer to financial orientation and only leadership effectively addresses this principle. Furthermore, only one of the three strategic guidelines relative to the leadership principle is related to customers, “To have the best service quality of the market”. This goes in accordance with the predominant command-and-control culture, where financial information is the main focus of attention.

Conclusions

As presented above, the conclusion is that the Nors group did not implement the Beyond Budgeting model as suggested by the BBRT (2017), but instead introduced a customized approach to this new management model. As such, the organization has currently adopted 5 out of the 6 principles relative to the creation of an adaptive management process, leaving behind only the question of the rewards scheme alignment with the organization strategy, which at the time the interviews were conducted was still under development, and adopted partially some of the principles relative to the decentralization of the organization, namely, the definition of the group's Values and respective code of conduct, the transparency of information, which was achieved down to the level of business managers, and the organization purpose, by trying to align their employees with the organization through several different initiatives. This is in accordance with Hope and Fraser (2003a) as the authors suggest that in order to achieve an adaptive management process organizations do not have to achieve decentralization, although the opposite is true.

Therefore, the new management model implemented by the Nors group is expected to have a higher capacity to manage in volatile environments due to the fact that the principles and tools relative to the creation of an adaptive management process have been implemented. However, as the group still has in place a predominant culture of command-and-control, this ability to better react to market changes may be conditioned, for example, by the fact that business managers do not have enough autonomy to make relevant management actions without top-management approval, as it may represent an obstacle to the velocity in which the organization is able to adapt.

3. Beyond Budgeting behavior in Nors markets with Market Volatility

Both Angola and Brazil are currently characterized by a high degree of volatility. According to the World Economic Outlook published by the FMI in October 2015 (Nors, 2016), Angola has been under a slowdown period, mainly due to the sudden fall of oil prices, with the country GDP growth rate in 2015 to be around 3.3%, a value considerably lower than the 6.8% presented in 2013 or the 4.4% in 2014. Angola inflation rate has also risen substantially during 2015, with a value of 10.3%, 3pp above the rate presented in 2014, 7.3%. The Brazilian economy is equally under a slowdown period; however this slowdown is significantly stronger. Brazil GDP growth rate grown rate has presented negative values during the year of 2015, situating around -3.8%, which constitutes a difference of 3.9pp when compared to 2014. Additionally, the country inflation rate is situated around 8.9%, 2.6pp above the values presented in 2014.

The economy slowdown in Angola has translated into a sharp decline of sales to all of Nors businesses within the region, between 40-60% deviations when compared to 2014. This however falls in line with the significant decrease of Angola automobile market, where both light and heavy trucks have experienced a recession of around 56% when compared to 2014.

The recessive movement of the Brazilian economy has also translated into a sharp decline of the group sales within the region, although the market-shares of these businesses have remained within approximately the same values of 2014, which may indicate better management practices in Brazil.

According to Manuel Ferreira, resource allocation to both these geographies was a continuous process as the group was heavily investing in both these geographies. Later, from 2014 to 2015, Angola contribution to the group's EBITDA fell from 18% to 9% and Brazil's from 17% to -3%, which represented a serious management challenge for the group. As stated in the group's annual report (Nors, 2016), "The year of 2015 was marked by the profound alteration of context in two of the group's main geographies, Angola and Brazil". This profound alteration of context led to a temporary disruption between the demand and the installed capacity of the group's businesses in both countries (Nors, 2016). Thus, during the year of 2015, Nors made several management actions in order to adapt and re-dimension their operations to a new context. In Angola, where the sales volume dropped 39% compared to 2014, the group made relevant organizational restructures to the several businesses in order to adjust them to the market sharp breaks, such as disinvestment actions in the retail network and the closure of 2 Onedrive shops. In Brazil, the sales volume also dropped significantly, namely 55% when compared to 2014. In order to react to this sharp decline Nors made a considerable readjustment of their Human Resources and Operational expenses in the country. Additionally, the group revised their investment plan, adapting it to the new market reality, through the disposal of assets not directly related to the group's core businesses (Nors, 2016).

According to Manuel Ferreira, the group was only capable of rapidly adjusting their resources to the new market contexts due to the use of the new dynamic management model, "Based on a dynamic model, top management acted and spent half a year adapting resources". That is because with the traditional budgeting mindset, a good manager is someone who has many resources but not high profitability, thus and according to Manuel Ferreira, they would oppose to the reduction of their resources by arguing that the market

would recover and that there was no need to worry. As Manuel Ferreira stated, “Nothing was ever done, and then you would enter the budget process again and continue with the “next year” mentality”.

With the use of rolling forecasts, top management was able to analyze historic values and conclude that some of the performance indicators were out of a determined level or performance, leading to an in-depth exploration of the causes. These historic values are analyzed with the comparison between the year-end targets and the intervals of confidence defined for the different KPI. Thus, when a determined KPI starts to be perceived as out of the normal parameters of performance, within the current market interpretation, the group reacts by investigating the reasons behind this deviation, as it can compromise a business manager ability to achieve the year-end target. Additionally, both these geographies went through a restructuring process that made aftersales operations to pay for all the indirect costs, whereas the group’s profit comes from the sales of trucks. According to Manuel Ferreira, “Anything they sell is profit”. He then concluded:

“The Beyond Budgeting model allowed that within nine months in 2015, we were able to adapt both the resources and structures to less than 60% in both geographies. Thus, the year of 2016 will have better results than the year of 2014 and with less 300 million euros worth of sales”

Nors is currently able to safely predict the market in Angola and Brazil within a time horizon of 3 months. Their 3 month rolling forecasts has a 95% of giving correct predictions of market sales, as long as there is no context change. Furthermore, this is possible despite the fact that both Angola and Brazil have different market behaviors. As an illustrative example, while in Angola, it is usual to have a month where 500 trucks are sold, then the following month 0 trucks are sold and then in the next one 250 are sold, which is an average of 250 trucks a month, therefore showing a high degree of sales volatility, in Brazil the

market sales are more stable, selling around the same four hundred trucks every month. But to Manuel Ferreira, what matters is the proper understanding of a market behavior, which furthers forecasting abilities. He defends that it is easier to predict market behavior than to give a correct sales forecast, because business managers always try to boost their market share forecasts, while with the use of historic data they are able to better predict said market behavior, as they look to the normal performance levels for a determined KPI, and, without relevant context changes, the tendency remains the same. According to Manuel Ferreira “If I have a history of market-share and a behavior of market-share, I can analyze market behavior through these historic values”. Additionally, in his opinion, the monthly report page about the rolling forecast quality is critical for business managers to improve their skills, which in turns allows them to gain trust in the result of their management actions and in the defined path. Thus, the use of rolling forecasts, supported by the BSC of each country, that helped to define the businesses KVD and the respective KPI contained in the RF, and the strategy orientations for the businesses within each region, such as profitability and customer satisfaction, forced business managers to answer questions around “why” instead of “what”, which led the group to be able to correctly interpret the market behavior, through the use of better information, and not to be hidden behind the traditional budgeting mentality.

Chapter 5

Case discussion

1. Nors and the Traditional Budget

The problems identified by Nors with the traditional budget are in accordance with those present in the literature. Business evolution has long lost its stability, making budget forecasts something extremely hard and the result is usually completely phased out of the real business environment (Henttu-aho & Jarvinen, 2013). Nors budget process was also considered heavily expensive. The high costs associated with low-end results are two of the three critical problems associated to the traditional budget. The third one is the inefficient process of resource allocation. This process was budget based, which means business managers already had their resources stipulated for the current year, no matter the context changes that could appear or new project opportunities, the budget was their threshold. During the interview, Manuel Ferreira even referred “You get to a point where you don’t have either a planning tool or a motivation tool”. Therefore, the Nors board reached the conclusion that a new management process was needed, and after the approval of the implementation process of the Beyond Budgeting model, the budget was never prepared again. This in accordance with Neely et al. (2003), that suggests that companies that seek to improve their planning and budgeting systems do so not only to achieve cost reductions, but also to improve forecast accuracy, better formulate and execute strategy and to establish real connections between financial performance and value drivers. This is the case of Nors, where they not only replaced the budget due to its relation between high costs and low value, but

also to implement new strategy and planning routines, which would allow them to better adapt to market changes.

However, as defended by Hope and Fraser (2003b), the abandonment of the budgeting process doesn't mean that the budget key functions are left out of the organization activities. Instead, Nors performs these functions through separate but integrated processes, which allowed the organization to create an adaptive management process. The organization long-term strategy was first defined in 2013. The current medium/long-term strategy is seen in the 2015 annual reports (Nors 2016) under the name "wanted position 2020" and uses relative targets such as "to be among the most profitable in the sector" and "to be recognized by the market as the best" in order to define strategic guidelines for the following years. Business managers were then asked to define their own long-term strategy in accordance with the group's objectives, which forces them to critically think about the future of their businesses, something that Manuel Ferreira referred that gave them a "shock", because with the traditional budgeting process they were focused on short-term planning with a predominantly year-end mentality.

The defined strategy is then communicated through the use of a new BSC adapted to each of the group's geographies. While the old BSC was nothing more than the absolute measures of the budget, the new one uses different performance measures to different organizational levels. Thus, while the groups still defines the organizational objectives through the use of EBITDA, this measure then translates into a determined market-share and ROCE for a business manager which is also translated, for example, into a determined market-share by product for the respective commercial director. Therefore, the group stopped with the old process of using EBITDA as the main focus of business managers, focusing them instead in the achievement of KPI, such as ROCE, based on KVD, such as profitability. However, according to Manuel

Ferreira, they only started approaching management teams in order to give them the autonomy to set their objectives at the end of 2016, which shows the predominant command-and-control culture present in the group.

After setting their long-term objectives, the organization implemented the rolling forecast as their continuous planning tool, which is what Player (2009) suggests. Business managers are in charge of uploading their rolling forecasts every month, where the last update of the month is the rolling forecast used for reporting purposes. These rolling forecasts act on relative non-financial KPI, such as market-share, number of people needed and gross margin, which at the end of the month are uploaded into an excel database where this information about the KPI of a determined business is transformed into financial information for the following months. Thus, business managers are encouraged to critically think about the available business information in order to adapt their rolling forecasts. At the end of each month, a report about the rolling forecast quality is given to each business manager, which allows them to learn from past forecasts with help from the team of the Planning and Performance Management Department. Additionally to this permanent planning process, a strategy review is conducted every three months where business managers explain to their administration board the results of their management actions and the progress towards the defined path. However, despite this trimestral meetings, the group still conducts a strategy revision in December, thus highlighting the fact that top-management still hasn't discarded the year-end mentality. This process is represented in Figure 1.

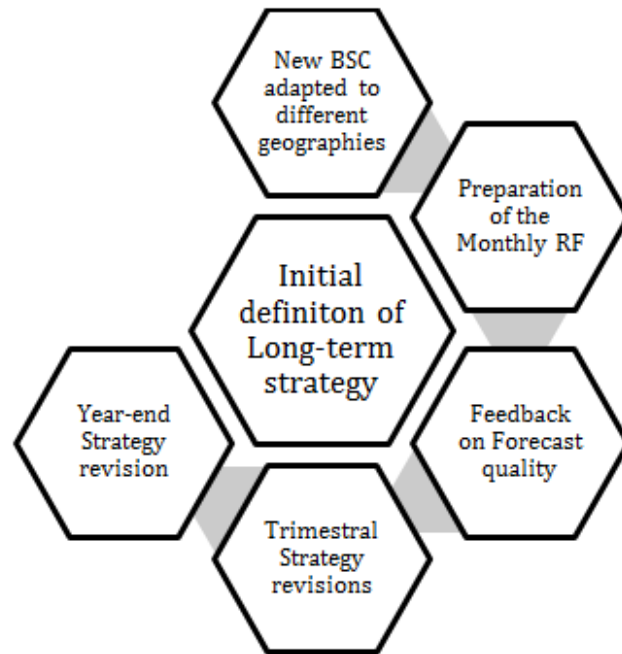


Figure 1
Nors Planning Process
 Source: Author's own work.

The reporting routines continued with a monthly frequency on the studied organization, but according to Manuel Ferreira, what the organization does with it is now different. Monthly reports are prepared on three different organizational levels, board of directors, management board and business units. These monthly reports are now focused on giving valuable business information to managers, such as rolling forecasts quality, where before, they focused on any little deviations from budget numbers and asking managers to justify them. Thus, with this new approach, managers spend less time worrying about having to explain to the management board possibly insignificant deviations and more time on how to successfully manage their business operations. It is important to note that any deviation of the pre-established intervals of confidence for a determined operation is still flagged by the system, and followed by a request to the business manager to explain, in a report to the management board, why these deviations occurred.

Furthermore, before adopting Beyond Budgeting, business managers would always try to boost their numbers, making bold predictions of their business indicators in order to keep their resources, even though they had no basis for such predictions, which is in accordance with the “gaming the numbers” problem attributed to the traditional budgeting (Player, 2009; Hope & Fraser, 2003b; Neely *et al.*, 2003). With the new focus on actions and business information, business managers are asked how they are achieving such targets rather than only what targets they are achieving. This change in business mentality forces managers to better prepare their business plans, as they are now requested to justify their position, for example, through the use of RF data. Manuel Ferreira states that the current reporting routine makes it impossible for business managers to “tell a story”, which allows to identify the business managers who truly know how to create value. Additionally, each business monthly report is also available to all business managers, which promotes transparency within the organization and a conscious mind about how other operations are performing. According to Manuel Ferreira, the new model prevents people from keep acting as they used to as they are now asked uncomfortable questions by their peers. Therefore, peer pressure has an important role in mitigating deviations of managerial actions from both top and middle management, which is one of the key features of Beyond Budgeting within Svenska Handelsbanken (Wallander, 1999).

Resource allocation, another of the traditional budget key activities (Player, 2009), is now made throughout the year. Daily management routines continue, and when a business action that requires changing the current resource allocation is needed, the administration board evaluates the request and either approves it or not. According to Manuel Ferreira, the criteria for resource allocation are not objectively defined. The organization evaluates each request on a case-to-case basis with the group current investment strategy serving as a

guideline, which concerns the disinvestment in non-core business and investment in core. Additionally, every request for resources must be followed by a throughout explanation of the reasons behind the request through the use of historic data and rolling forecasts. Thus, with the adoption of Beyond Budgeting, the group started to use the latest business information available in order to efficiently allocate their resources. This resource allocation is aligned with the group's overall strategy and can be done throughout the year, which allows the organization to quickly identify market shifts and adapt their resources as needed, which was seen both in Angola and Brazil, where within a year their resources were reduced around 60%. This is consistent with Player (2009), as he argues that by abandoning pre-determined resource allocation practices, organizations will attain a higher capability to respond to market changes. However, the command and control culture is still present even if managers are encouraged to forecast KPI and propose management actions as the region administration board is the one in charge of approving strategy and strategy reformulations.

With the adoption of Beyond Budgeting, the group also started to measure all their business operations with the financial indicator ROCE. According to Manuel Ferreira, a business operation monthly report contains all kinds of performance indicators, such as ROCE, EVA, Cash-Flows, and so on, which in turn represents a focus on value creating activities and shareholders' interests. The group also implemented both internal and external benchmarking practices in order to better measure their relative performance. The internal benchmarking is done through the group's performance league, which awards a "best manager" prize to the business manager who shows the best evolution in terms of forecasting qualities and ROCE. Thus, business managers are encouraged to keep updating their rolling forecasts in order to have the best

possible prediction at the end of the month and also to become more efficient in their assets management.

The external benchmarking is done by comparing market shares with their main competitors, such as Mercedes and Renault. Additionally, the market-share formula used for benchmarking purposes has been updated. This formula used to be calculated by dividing the number of Volvo license plates by the total number of license plates in the market, which would lead to deviant management actions as managers would try to reach their targets by licensing trucks that weren't going to be sold and therefore creating useless stocks. The new formula is calculated by dividing the number of sold units by the total number of license plates in the market, thus reducing the possibility of deviant management actions from business managers. Therefore, the adoption of Beyond Budgeting allowed the detection of poorly calculated performance indicators, reducing the problem with "gaming the numbers", one of the critics towards traditional budgeting by Hope and Fraser (2003a) and Player (2009). According to Manuel Ferreira, these slight changes to performance measures make business managers uncomfortable as the top-level management has better business information and can better assess business managers who know how to create value from those who resorted to "gaming the numbers", consequently allowing them to take proper actions.

By comparing business managers with their peers, the internal league also promotes the focus on value creation, as managers will now fight to be among the top, through the betterment of their business operations and forecast capabilities. Thus, this league serves as a mechanism to promote continuous improvement both in the business manager's skillset and in the business operations KPI. This is what is suggested by Hope and Fraser (2003b), as they argue that by not knowing the results of their peers until the end of the period, business managers are encouraged to keep on improving. Additionally, Nors

has implemented a program dedicated to the development of top management, where each director went through individual coaching on communication skills (Nors, 2014).

Despite the new performance measures and practices implemented by Nors, the organization still has to align their rewards system with their defined strategy, although the contracts by objectives have been redefined to use relative objectives as opposed to the previous setting where absolute numbers were used.

2. Traditional Budget, Rolling Forecasts or Beyond Budgeting?

As discussed in the previous chapter, the management model implemented by the Nors group has effectively allowed the organization to react to the significant market changes felt in both Angola and Brazil in a fast and efficient way. However, it is equally important to discuss if, with the use of the traditional budget, the identification of the materially relevant deviations from sales and EBITDA in both these regions would lead to the same corrective management actions that were taken.

The management actions performed in response to the sharp market declines were able to be performed by several reasons other than the simple detection of significant deviations, such as: the guidelines to perform resource allocation, with a focus on core businesses; structure restructuring; the selling of workshops that have just been concluded; all of these are actions that with the traditional budget are harder to perform, because, for example, of the culture of who has the most resources is the best manager, something that changed with

the implementation of the internal performance league, derived from the Beyond Budgeting approach.

Thus, it is suggested the significant deviations would also be flagged with the use of the traditional budget but the management actions taken in response to these deviations would be conducted in a different way, and with different levels of velocity. Therefore, while with the traditional budget mindset the detection of deviations would lead business managers to try and defend their resources by suggesting that they were the ones who understood the market and that it would soon get better, not taking into account the KVD/KPI of their businesses and thereby not paying attention to the tendency changes, with the RF, which forecasts KPI derived from the KVD present in the region BSC, these same managers are unable to defend or suggest their positions, because, in order to be credible, they have to resort to the rolling forecast information. Additionally, it is also important to note that all this process takes time, whereas with the new approach, where since the beginning it is well established that the market context/tendency has changed, the strategy reformulation and the consequent alteration of resources is done in a faster way and with a focus on the businesses deemed crucial for the organization. Furthermore, one of the first phases of the implementation process was the definition of the organization long-term strategy, which contributes to a faster adaptation process as the guidelines for the strategy reformulation have already been defined, such as profitability, consolidation and customer service.

The fact that business managers have new tools that allow them to have better information and critical analysis in regards to their businesses KPI/KVD also contributes to a faster and better definition of the new strategy.

The conclusion suggested by this researcher is that by abandoning the traditional budget, the Nors group was able to achieve superior integration between the different tools used to manage their businesses, thereby gaining

higher knowledge and capacity to react to the market. The information that is communicated in the monthly reports has higher quality and perceived as completely reliable, which constitutes a barrier to perverse behaviors. Furthermore, with the performance league, BSC and the use of RF the organization promotes a shift in the business manager's mindset, from the traditional budget focus on costs to the Beyond Budgeting focus on value creation, which can be seen with restructuring of their business within Angola and Brazil.

Following the same line of thinking stated above, it is equally suggested that with the single use of the rolling forecast and not the customized Beyond Budgeting approach used by the group, the organization wouldn't have performed the same actions and/or with the same speed. This is based on the fact that although the RF is one of the main drivers of change in the new management model implemented by the organization, it is part of a new integrated process, therefore being aligned with other tools/principles implemented by the group that also contributed to the group's ability to adapt, such as:

- The definition of the group's long-term strategy and consequent guidelines for management actions, aligned with the group new defined values and code of conduct;
- The implementation of the new performance league, which awards managers who focus on value creation and continuous improvement;
- Definition of guidelines for the resource allocation process, which provided better insight as to where the focus of the management actions should be;
- Transparency provided through the availability of the monthly reports to all business managers.

However, it is also suggested that with only the use of RF, the organization would still have been able to react better than with the traditional budget approach, as this management tool still constitutes one of the main drivers of change in business manager's mindset and improved business information within the studied organization. As Hope and Fraser (2003b) argue, despite the many cutting-edge tools and techniques a company embraces, as long as the budget process dominates business planning, a self-motivated and adaptable workforce is a fantasy. Furthermore, the authors defend that the RF is more accurate than the budget as it is constantly refreshed by the latest economic trends and customer demands. Additionally, as managers become more adept at preparing and interpreting RF, the CEO is able to anticipate performance changes sooner, thereby improving his ability to establish realistic expectations in the investment community (Hope & Fraser, 2003b). Player (2009) even suggested that the RF eliminates the need for an annual budget event as this tool represents continuous planning.

3. Advantages and Obstacles of Beyond Budgeting at Nors

The information system that supports the new management process was done with relatively low costs, and consisted of adapting the previous financial consolidation software to be able to collect the rolling forecasts data. This allowed the organization to make a fast and holistic implementation of the system in all the geographies where they operate. However, due to the lack of funds, Manuel Ferreira referred that a fourth level of reporting concerning the business operations of different businesses such as the different product margins and client margins could not be implemented. Thus, business

managers, along with their team, are in charge of analyzing these business indicators, but this information is not part of the group consolidated system. Another problem concerning the organization IT system is the fact that the RF variables are the same for different businesses. Thus, while in Brazil the % of used trucks sales divided by new truck sales is an important KPI with a 15% benchmark, this KPI is still present in Angola RF, where it is not part of the value of the business to return used trucks.

One of the main advantages pointed out by Manuel Ferreira is the reliability of information that the model provides, which he describes as “spectacular”. He defends that, contrary to the past, they now set intervals of action for their business activities. Thus, while their fixed costs structure in Angola could change around five hundred thousand dollars a month, which translates into a possible one million dollars difference from one month to the other, this change would only be flagged if the value was out of their interval of action, allowing managers to properly focus their attention, as they now have better understanding of the inherent volatile context of the business, which in turn allows them to differentiate deviations occurred due to business cycles from those due to poor performance. In order to set these intervals of action, they resort to graphics information, such as averages costs and peaks. This approach is clearly different from the budget one, where any deviation was communicated through the monthly reports to business managers, who then had to explain to the board each and every variation, no matter how insignificant it might be. However, the fact that year-end targets are compared to the RF historic values in order to assess the potential of business managers to achieve this target may induce deviant behaviors in the production of the RF, as they know that they will be questioned if relevant deviations are flagged.

Thus, despite the fact that the implementation of beyond budget has been concluded and considered a success, there are still some obstacles that Nors needs to overcome in order to achieve decentralization.

According to Manuel Ferreira, the organization only aspired to implement an adaptive management process, something that could replace the budget. However, in his opinion, by implementing the principles concerning an adaptive management a cultural impact was due, as the purpose of implementing Beyond Budgeting was to change the traditional budget mentality of asking for numbers instead of reasons.

This lack of decentralization can be seen throughout the whole system. Business managers are still restrained by the approval of their respective administration board, which suggests that the model was mainly used to provide better information to top-management. Additionally, the organization still measures their businesses performance at the end of the year through the use of EBITDA, which shows that top management hasn't abandoned absolute measures of performance or the year-end mentality. Thus, the better information that the model provides about business operations is mainly directed for business managers to be able to prepare better management actions and forecasting KPI, but the final decision still rests within top-management level. This may suggest that the group's administration board hasn't really adopted the Beyond Budgeting principles, as they continue to focus on past performance and financial information, but the regional boards have effectively adopted this approach, which can be seen through the information present for the different levels of reporting. Therefore, it can be argued that the group preserves financial information for shareholder-related reasons, but the different businesses managers along with the regional boards started to use the new information provided by the model.

The new governance structure also allowed Nors to focus top-management attention throughout the different geographies, with each region administration board being responsible for all the management actions performed during the year.

According to Ostergren & Stensaker (2011), one of the problems that might arise when going Beyond Budgeting is the fact that while being managed in a more holistic way, a problem with one business unit might have greater consequences to the group as a whole. However, Manuel Ferreira defends that it is actually the opposite. In his opinion, when a business unit underperforms, the impact felt by the group is lower, as there is better information available which allows for a faster perception of when things start to go wrong, and consequently, a better reaction time.

Thus, while with the traditional budgeting process inefficiencies were masked until it was too late to act on them, the group now has the power and knowledge to properly answer to market changes. For example, the group made sales worth of eight hundred million dollars in 2014, which then translated into a net income of ten million. In 2015 the group sales fell three hundred million and the net income was negative seventeen million. Later, in 2016, the group sales were around the same five hundred million displayed in 2015 but the net income was a surprise positive ten million. Within a year, the group was completely restructured, by acting fast on the information of their businesses that the model provided. On the contrary, while using the traditional budget, Manuel Ferreira referred that there was a business operation that for three straight years the prediction was a net income of 0 while the EBITDA turned out to be negative three million, another sign of the traditional budget perverse behavior.

One other problem pointed out by Ostergren & Stensaker (2011) was the fact that business managers would not be prone to share their knowledge to other

business managers as there was a ranking comparing them. Manuel Ferreira argues that while they cannot guarantee that managers will willingly share information, that problem was still present in the traditional budget as business managers would keep valuable information as a bargaining chip for resources. Thus, the new ranking allows creating an ambience of competitiveness, which is in the interests of the group. As business managers are now compared to their peers, they will try to improve their business indicators. However, as they do not know how the others business managers are doing until the end of the league, they are required to be constantly improving in order to be awarded the prize of best manager.

Additionally, the authors question about whether the Beyond Budgeting model is for “good times” only. According to Manuel Ferreira the model is useful for all kinds of contexts, such as economy growth or retraction. His opinion is derived from the fact that while the group was able to rapidly adjust to severe market changes in both Angola and Brazil, the implementation of Beyond Budgeting also made top management more demanding of other geographies results, such as Portugal, because of the better market information that the model provides. Thus, the new reporting and planning routines allowed Nors to be able to not only adjust to significant market shifts, but also to get a better understanding of the different markets where they operate and consequently adapting their resources to the current market context. According to Axson (2010) this is a sign of a good management practices, as it is capable of functioning in different economic conditions, such as Brazil and Portugal.

The fact that several companies do not have good data or information about their relative performance was also pointed out as one of the potential problems with Beyond Budgeting (Hansen *et al.*, 2003). This is indeed the case of Nors, as Manuel Ferreira said:

“We do not have financial benchmarking for the group as there are not many groups that perform the same activities. The majority of these businesses are inserted in big economic groups, and consequently a public annual report is not published”.

However, they still have access to relative performance indicators, such as market share.

The benefits enjoyed by companies who implemented the Beyond Budgeting model (Leitch, 2003), such as greater responsiveness to market changes and improved status for the finance department, are also verified in the studied organization. As previous stated, the role of the controller within the organization suffered a profound change, with less time being spent on unpopular and unhelpful budget activities and more time spent on helping managers with decisions and analysis. Furthermore, as proposed by Leitch (2003), the internal control within the organization has been strengthened with the removal of the dysfunctional and sometimes dishonest behavior generated by the traditional budget, allowing top management to have a clearer picture of what is really happening in the company.

Thus, as suggested by Neely *et al.* (2003), with the adoption of a new management model, Nors was able to improve business management by improving the cost efficiency of planning; improving strategy formulation and execution, as the organization's medium-long term strategy was first defined with the implementation of the new model, leaving aside the short-term strategy focus; and by improving the accuracy of the forecasts that the company produces, which according to Manuel Ferreira, without significant market changes, the monthly rolling forecasts have a high degree of reliability, thus allowing business managers to have access to better information and confidence in their management actions. Additionally, compared to the best practices in planning and budgeting routines pointed out by the authors, we can verify that

Nors is on the path to practice all 5 of them. Forecasts are based on KVD and not “managers opinions”; the group started to use benchmarking practices, thus focusing on the competition; strategy reviews, which are conducted every three months, tend to talk about the following year, although some of the discussion is still around the year-end target; and the organization is growingly focus on strategy rather than financial targets, although the financial year-end targets remain.

However, Nors Beyond Budgeting approach is significantly different from what is recommended by the BBRT (2016). That is because only some of the principles were truly adopted by the group. One of the main cornerstones of the Beyond Budgeting model, the radical decentralization of organizational culture, has not been effectively achieved by the organization, as the command-and-control culture is still the predominant culture within the group. Thus, Nors is currently using the principles of adaptive management processes related to the Beyond Budgeting approach but with the inherent command-and-control culture of the traditional budgeting approach. This may suggest that Nors adapted the Beyond Budgeting principles to their organizational context, ultimately creating a hybrid management system. This is however in accordance with Hope and Fraser (2003a) as they argue that an organization is capable of achieving, although not with full benefits, an adaptive management process without the radical decentralization of the organization. The radical decentralization is the one that truly needs an adaptive management process to be achieved.

Therefore, Nors implemented an adaptive management process without the ideals of decentralization, although some of the principles of decentralization have already been defined. This may have brought up some problems to the organization flexibility and adaptability as the decentralization culture is used to promote higher agility in frontline manager’s ability to respond to market

changes (Hope & Fraser, 2003a). Thus, as they do not have the autonomy to move forward with significant strategic changes, it is suspected that the group took more time to interpret and adapt to the markets. This is consistent with their command-and-control culture, and the consequent accountability of top-management for the group's results.

The conclusion is that through the use of a new planning and reporting routine, based on the organization IT system, Nors was able to gather critical information that allowed detecting, in a more rapid manner, the need for restructuring their business operations in two different countries, Angola and Brazil. Thus, the model has promoted better management practices allowing the reduction of both Angola and Brazil resources by around 60% within 9 months. With the previous budget mentality, business managers would tend to be optimistic in their business recuperation, which in turn would lead the organization without acting. Later, when deviations from the budget were to be analyzed, a new budget process was in course, which would inevitably lead to a disregard of these deviations, thus creating a cycle of incorrect and value destroying budget numbers, where the resources were incorrectly allocated and the businesses environment wrongfully interpreted. With the new routines set in motion by the customized implementation of Beyond Budgeting, both top and middle management were able to gain a higher knowledge about their business activities and consequently making faster and better informed decisions in response to the market. Additionally, these new management practices were implemented holistically throughout the whole organization, which made top-management understand, through the availability of better business information, that they could be more demanding in the results of other geographies.

Therefore the conclusion of the present case study is that the customized Beyond Budgeting approach implemented by the Nors group contributed to a

better management of Nors international businesses Angola and Brazil, but also in the better management of their businesses present in other geographies.

3. Contribution to the Literature

The contribution of the present case study to the existing literature around the Beyond Budgeting model concerns four different topics:

- Why organizations decide to implement Beyond Budgeting;
- What benefits and obstacles companies may encounter when going Beyond Budgeting;
- How the model helps in managing business volatility;
- How organizations can implement a customized Beyond Budgeting approach.

In general, readers can benefit from this study as it not only discusses the organizational processes that changed with the adoption of the Beyond Budgeting model and why Nors opted for its implementation, but also how these new processes helped in managing businesses characterized by a high degree of uncertainty. Furthermore, some of the critics towards Beyond Budgeting are also discussed by comparison with the implemented model at Nors. Additionally, as the literature around partial Beyond Budgeting implementations is lacking, this case study may contribute to a better understanding of how organizations may partially adopt the Beyond Budgeting approach, customizing it to the needs and contexts of the organization.

Chapter 6

Conclusions

The traditional budget has been under heavy criticism for the past several years for being an unsuitable tool for today's constant changing environment. These critics have led organizations to search for new alternatives to the traditional budget process and even the traditional MCS altogether.

The Beyond Budgeting model is presented by the BBRT as the best substitute for the traditional budget. By implementing the Beyond Budgeting principles, organizations will be able to create an adaptive and decentralized management process, thus being able to rapidly adapt to market changes.

This is indeed the case of Nors. After a sharp market decline in the year of 2015 in two of their main geographies, Angola and Brazil, Nors was able to react to this market change by acting fast on the information provided by the new planning and reporting routines. This allowed the organization to adjust their structures and resources in both these geographies by around 60% in only 9 months. Furthermore, according to Manuel Ferreira, "The year of 2016 will have better results than those presented in 2014 and with less 300 million worth of sales", which suggests higher efficiency in their business operations.

Additionally, the new management model also gave top-management better market information about their other geographies, which led them to be more demanding of the results presented in those geographies.

However, although having implemented an adaptive management process, the management model implemented at Nors is still on the path to achieve decentralization as the command-and-control culture is still predominant in the group, thus suggesting a customized approach to the Beyond Budgeting model.

The conclusion is that through the use of a customized Beyond Budgeting approach based on the principles of adaptive management, the Nors group was capable of effectively reacting to the sharp market declines felt in both Angola and Brazil. Furthermore, this new management model also promoted better management practices within the group's other geographies.

Case study limitations and suggestions for future research

One of this study's limitations concerns the generalization of the findings, due to the fact that it is based on a singular case study, thus creating the opportunity to present facts that relate exclusively to the studied organization. Additionally, some bias could be unconsciously included when interpreting the gathered evidence as it was mainly based on the conducted interviews, thus creating the possibility of bypassing relevant information.

As this dissertation focus the analysis on the Beyond Budgeting model and the processes that helped in managing uncertainty within Angola and Brazil, it could be interesting for future research to explore how Nors manages their other businesses that operate within similar geographies.

Additionally, it would be interesting to study if Nors effectively changed their benefits and compensation model, aligning it with organization strategy, which was still in fault when the data collection procedures were conducted.

One last suggestion is to study the concept of partial Beyond Budgeting implementations, which is lacking in the Beyond Budgeting literature, as the focus is the study of organizations that have effectively implemented the model.

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Appendixes

Appendix I – Interviews script

Interview – 1

Interviewee: Dr. Manuel Ferreira

Role: Director of Planning and Performance Management

Date: 24-10-2016

Time: 10:00 Hours

Duration: 1:15 Hours

Questions

1. Why adopt Beyond Budgeting?
2. What phases did you define for the implementation process? Why?
3. Have you performed any adaptation to the system regarding the different markets I which you operate (Angola, Brazil, ...)?
4. What is the role of the IT system in supporting the model?
5. What planning routines have changed?
6. What reporting routines have changed?
7. What information is privileged by managers? Drivers? Results?
8. Was the year-end completely abandoned in favor of rolling? Why?
9. How is the reliability of information guaranteed?
10. What tools were abandoned? Why?
11. How do you guarantee the reliability of external benchmarking practices?
12. How do you share internal performance?
13. How are the resources allocated to the different projects? What are the criteria for selection?

14. How is the reward system composed? Is it aligned with the group's strategy?

15. How is conducted the performance evaluation? Is it related to the reward system?

16. How is the target-setting process done? Is it separated from the planning process?

17. What autonomy is given to middle and lower level management in the achievement of their targets? Has it changed with the adoption of Beyond Budgeting?

18. How do you guarantee that low-level employees are prepared to deal with a higher degree of responsibility?

19. How do you guarantee that the targets defined using external benchmarks are appropriate to the organization?

20. What is the impact felt by the organization when a business unit underperforms? Is it higher or lower after the adoption of Beyond Budgeting?

21. What decisions are taken when a project turns out to be not as valuable as expected?

22. How do you guarantee that managers from different businesses are motivated to share their knowledge when there is a ranking that compares them?

Interview – 2

Interviewee: Dr. Manuel Ferreira

Role: Director of Planning and Performance Management

Date: 29-11-2016

Time: 11:00 Hours

Duration: 1 Hour

Questions

1. After the first interview, the idea that remained is that the system is transversal to the whole organization, having no adaptation between different geographies. Is this idea correct?
2. In your opinion, Angola and Brazil are characterized by a volatile environment? Why?
3. To what degree can you make forecasts in Angola? And in Brazil?
4. In your opinion, is it possible to predict sales in these geographies? Why?
5. In your opinion, does the Beyond Budgeting model allow a better volatility management of Nors businesses in Angola? And in Brazil?
6. Nors use Beyond Budgeting as corporate command-and-control tool – applying the principles of adaptive management processes but not the principles of decentralization. What is your opinion about this statement?