Examining
Traditional, Better & Beyond Budgeting
In a Dynamic Era

A Case Study of Länsförsäkringar

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Abstract

Within the research field of management controlling systems, a contrasting debate has evolved about budgeting. The market environment has become more dynamic where traditional budgeting, better budgeting and beyond budgeting have received significant observation to establish what alternative that is mostly suitable for the current market situation. With rapid changes in the market environment, a traditional budget can quickly become obsolete. To help ground research in practice, we examine how the budgeting process is characterized from a short-term operational and long-term strategic perspective in modern organizations. Furthermore, we shed light on what functions the budget and/or its other management controlling system(s) fulfills. As researchers and practitioners claim that traditional budgets are among others static, inflexible and time-consuming, we investigate to what extent these corresponds to the views of the CFOs and Bank Directors interviewed for this study.

To fulfill our purpose, we conducted a multiple-case study. The data is obtained through a qualitative strategy with elements of a quantitative. Our empirical data is primarily collected through interviews. We complemented with a questionnaire where the interviewees provide their standpoints on the criticism against traditional budgeting. The analysis is carried out with a qualitative approach. The result from this thesis illuminates that traditional, better and beyond budgeting is present in the studied organizations. Nevertheless, the study concludes that the positive aspects of a traditional budget outweighs its downsides despite criticism and market environmental factors.
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List of abbreviations

BB  - Beyond Budgeting
BBG - Better Budgeting
BBM - Beyond Budgeting Model
BBRT - Beyond Budgeting Round Table
BSC - The Balanced Scorecard
CFO - Chief Financial Officer
EU  - European Union
KPI - Key Performance Indicator
LF  - Länsförsäkringar
MCS - Management Controlling System
RB  - Rolling Budgets
RF  - Rolling Forecasts
ROC - Return on Capital
ORSA - Own Risk and Solvency Analysis
SHB - Svenska Handelsbanken
TB  - Traditional Budget

Definitions

Criticism = The analysis and judgement of advantages and disadvantages of literary and real phenomena (Oxford University Press, 2018).

Function = The kind of action or activity associating to an individual, institution or organization; the purpose for which something is designed or exists (Dictionary.com, 2018).

Opinion = A view or judgment formed about something, not necessarily based on fact or knowledge (Oxford University Press, 2018).

Profitable = A business or an activity yielding profit or financial gain (Oxford University Press, 2018).

System = A set of methods, procedures and routines that are working together as part of a mechanism or an interconnecting network; a complex whole (Oxford University Press, 2018).
1. Introduction

The purpose of this section is to explain the background about Traditional Budgeting, Better Budgeting, Beyond Budgeting, it also introduces the problem discussion, case study companies, purpose and delimitations.

The traditional budget (hereafter TB) evolved in the 1920s as a system to enforce control over costs and cash flows in large organizations such as Siemens and DuPont (Hope & Fraser, 2003a). TBs have received academic attention since its inception where comprehensive research has been conducted to understand how the system is applied in organizations (Hartmann, 2000). TB is still prevalent as a management and controlling system (MCS) in modern businesses (Libby & Lindsay, 2010). A MCS is described as “everything managers do to help ensure that their organization’s strategies and plans are carried out” (Libby, 2013 p. 280). However, TBs have been subject of significant criticism (Hansen, Otley & Van der Stede, 2003) and regarded as an obsolete system to control an organization (Wallander, 1999). Some researchers argue that the system is destined to perish, “Out with the old, in with the new” (Newing, 1994) and “Bye bye budget... the annual budget is dead” (Gurton, 1999).

The first publication on the shortcomings of TBs was conducted by Argyris (1953) about dysfunctionalities caused by budgetary control. Since then, researchers and practitioners have supported his publication and expressed negative criticism about TBs claiming that developing budgets are costly, makes the organization to focus internally and impedes creativity (Bourmistrov & Kaarbøe, 2013; Heupel & Schmitz, 2015; Hope & Fraser, 2003a; Neely, Bourne & Adams, 2003). As a result of the negative criticism, research have focused on improving TBs with other MCSs such as better budgeting (BBG) to provide solutions to the shortcomings (Neely et al., 2003; Libby & Lindsay, 2007a).

Hope and Fraser (2003c) argue that TBs and BBG causes more problems than it suggests to solve. Therefore, the budget should be abandoned entirely (Hope & Fraser, 2003a). In the 1970s, a Swedish bank called Svenska Handelsbanken (SHB) was struggling economically and several key employees such as the CEO left the bank. Jan Wallander was elected the CEO of SHB. His first move was to implement radical decentralization of the banking operations and eliminate the TB (Wallander, 1999). After abandoning the budget, SHB has outperformed both its Scandinavian and European rivals on several cost efficiency measures such as cost-to-
income, cost-to-total assets (Hope & Fraser, 2003a). After eliminating the TB, Wallander (1999) published an article called “The Budget - An Unnecessary Evil” to describe the circumstance that triggered him to abandon the budget and move “beyond budgeting” (BB). The publication further became the beginning of the BB scholar which advocates organizations to abandon the budget (Hope & Fraser, 2003c).

The unilateral stance by proponents of BB (Hope & Fraser, 2003abc; Wallander, 1999) stimulated researchers to investigate the point of view on TBs in Finnish and North American firms and whether the organizations were considering to abandon the budget. The studies confirmed the opposite that managers find TBs indispensable in its nature, strategically focused and not as inflexible as some researchers claim (Ekholm & Wallin, 2000; Libby & Lindsay, 2007a; Libby & Lindsay, 2010). Sponem and Lambert (2015) argue that TBs consists of a package with several sub budgets that are accumulated into a final budget. Critical observers refrain from studying TBs as a package, which is a reason why shortcoming can be found; TBs should be studied as a set of dimensions that are linked together. Hence, the debate on what MCS (TB, BBG, BB) is superior to the other is still in on-going.

1.1 Problem Discussion

The market environment has developed to become more dynamic where organizations must be able to quickly adapt and absorb the rapid flow of information in order to maintain their competitive advantage (Neely et al., 2003; Heupel & Schmitz, 2015). Neely et al. (2003) argue that TBs are too static and inflexible to embrace the constantly changing environment, hence Bourmistrov and Kaarbøe (2013); Heupel and Schmitz (2015); Hope and Fraser (2003a); Neely et al. (2003) argues that constructing budgets only consumes time for the organization which could be spent on other activities. Uyar (2009) found that many companies are embracing BBG to grasp the challenges of the current market situation. Hope and Fraser (2001; 2003b) argue that BBG is not the solution to solve modern problems that the budgetary control causes, instead organizations should move BB.

Hansen et al. (2003); Samuelsson (1997) argue that TBs and BBG are better when forecasts can be made with some precision. In a more dynamic and unpredictable environment, BB is more suitable. According to Hansen et al. (2003), another related question in dynamic environments is whether abandoning the budget is a necessary move for the improvements the BB proponents suggests. Paradoxically, research has found that organizations can use TBs and BBG
successfully in dynamic environments. Therefore, it is suggested that field studies can help ground research in practice, as well as study TBs with other potential MCSs. Moreover, as existing research have displayed that there is a spectrum of opinions on TB, BBG and BB in practice, this indicates that there is a potential for continued scholarly research.

Libby and Lindsay (2010) believe that researchers studying MCSs should not take an “either/or” approach since there are examples of profitable companies applying each system. Instead, it would be more fruitful to understand the possibilities for each approach by studying MCSs in-depth in terms of application from an operational (short-term) and strategic (long-term) perspective. According to Becker, Mahlendorf, Schäffer and Thaten (2016), when conducting a study on the application of TBs and other MCSs, it must be taken into consideration that the correlated functions are applied differently in organizations. This signifies an opportunity for further attention to establish what functions that are prevalent in modern organizations and how they are utilized. For this thesis, we are given access to study four organizations that operates under the same brand which provides us with a unique opportunity to understand MCSs and its functions in practice.

1.2 Case Study Companies

Länsförsäkringar (LF) was established 1801 and currently serves approximately 3.8 million customers in Sweden. The organization consist of 23 regional, independent, customer-owned companies. The regional entities have a variety of products & services that it offers to their customers mainly insurance, bank and real estate. The geographical location of each regional entity is bound to its county. The banking operations are operated through a subsidiary called LF AB which is located in Stockholm, while the products & services are provided through the regional entities; the subsidiary is commonly owned by all regional entities. LF AB also holds all the legal certificates required to conduct banking activities in Sweden (Länsförsäkringar AB, 2018). This study will examine four regional entities, namely LF Jönköping, Skaraborg, Kalmar and Kronoberg.

1.3 Purpose

The main ambition of this study is to contribute to the on-going debate on TB, BBG and BB. Hence, the main purpose is to investigate and compare four independent regional entities within Länsförsäkringar to understand how the budgeting process is characterized from a short-term operational and long-term strategic perspective. It will also be studied what functions the TB
and/or its other MCS(s) fulfills. Furthermore, as researchers and practitioners have directed criticism against TB, it will be examined to what extent this corresponds to the views of the respondents. Consequently, our research questions are the following:

1. How is the budgeting process characterized at each regional entity from various time perspectives?
2. What functions are the budget and/or its other management controlling system(s) fulfilling?
3. What are the opinions on the criticism against traditional budgeting?

1.4 Delimitations

Since we are investigating four regional entities, the study provides a narrow view on the general debate of MCSs and the understanding of LF as there are 23 regional entities within the group. Moreover, this study will only focus on the banking and insurance operations at LF meaning that the real-estate business will be excluded.

2. Theoretical Framework

This section introduces an establishment of various time-horizons in relation to budgeting. It further explores the underlying concepts and theories within TB, BBG, BB and BBM; ultimately, its associated criticism will be presented.

2.1 Establishing the Short-Term Horizon – Operationalization

Shiem and Siegel (2009) argue that the operationalization or the budget is normally established for a one-year period. Hansen and Van der Stede (2004) argue that planning is one of the most important parts of budgeting from a short-term perspective as it sets the operating time period. Hence, the budget becomes a benchmark to control the results in the end of the twelve month time period (Horngren, Foster & Datar, 1994). Ekholm and Wallin (2000) argue that performance evaluation is the most important function of budgeting. Older research opposes this claim and argue that budgets are not constructed for evaluation (Otley, 1978). However, in practice, companies use the budget for evaluation purposes, they argue that without the annual budget (12-months), targets cannot be set to control and evaluate performance (Ekholm & Wallin, 2000).
2.2 Establishing the Long-Term Horizon – Strategic Planning

The budgeting is further described from a long-term strategic dimension (Hansen & Van der Stede, 2004; Merchant & Van der Stede, 2007; Horngren, Sundem & Elliott, 2010). The long-term orientation can cover a time-span of five to ten years (Horngren et al., 2010), it is also synchronized with the operational planning, since the operationalization is largely influenced by the strategic planning (Anthony & Govindarjan, 2001). Horngren et al. (2010) argues that the strategic dimension is the most forward-looking function of budgeting. Hansen and Van der Stede (2004) discuss the correlation between strategic planning through strategic budgeting; the strategy is partly formed by budgeting.

Nevertheless, Merchant and Van der Steede (2003) view budgetary control as synonymous with the implementation of the strategy which is in line with Anthony and Govindarjan’s (2001) stance. Budgets are the strategic implementation and an instrument to perform strategic planning (Horngren et al., 1994), hence, budgets can change and influence the strategic orientation (Hansen & Van der Steede, 2004). Simons (1994) argue that budgetary control may cause dysfunctional behavior in an organization, particularly when it is used in a diagnostic way; which means that the budgets serves as a function of traditional purposes of evaluating and delegating responsibility for outcomes to specific organizational functions or members (Abernethy & Brownwell, 1999). This increases the probability that strategic data becomes manipulated (Simons, 1995). For instance, manipulating budget estimates before the budget year has begun in order to obtain an easier target (Hansen et al., 2003).

In terms of strategic planning, budgets help managers with the information sharing within the organization (Horngren et al., 1994). Hansen and Van der Stede (2004) argue that budgets convert numbers into strategy. With the budget, managers are able to set the direction of the corporation for the future. Siem and Siegel (2009) argue that the long-term strategic planning most commonly involves capital budgets which are used for a longer horizon as it involves capital spending and future investments; such budget also provides the foundation for the enterprise’s long term strategy.

2.3 Main Features of Traditional Budgeting

TB is characterized by a top-down approach meaning that the management determines the budget and how the resources should be allocated. The planning is based on previous results and predictions of the future (Horngren et al., 2010). Frow, Marginson and Ogden (2010) argue
that TBs are characterized by a retroactive approach meaning that the actual performance are compared with the budget, and if there is any discrepancy, it has to be investigated, explained and corrected. Libby and Lindsay (2003) argue that TBs acts as a traditional tool where management command their employees what they should do, while controlling the outcome. Østergren and Stensaker (2011) claim that TBs are a constructed as a system to act reactive if something unexpected occur.

### 2.3.1 Budgeting and its Multifaceted Functions

Budgets are a major function of most MCSs and are used by management as a system for coordinating and communicating strategic orientations to lower-level managers in terms of what is expected in the accomplishment of reaching the objectives (Abernethy & Brownell, 1999; Ax, Johansson & Kullvén, 2009). This in turn involves members of an organization to why variances occurs, how it should be managed and what action that should be taken in response to the variance(s) (Simons, 1990). Historically, the congruence among some researchers for budgets and its functions is that it is a tool for allocating limited financial resources (Lewis, 1952; Wildavsky, 1986). Anthony, Dearden and Vancil (1972) argues that budgets can be used for managers to assure that the resources are used efficiently and effectively.

Bergstrand and Olve (1996) explains that the versatility of budgeting functions is related to its different purposes. Lagerstedt and Tjerneld (1991); Anthony and Govindarjan (2001) argues that one function of the budgeting process is to integrate the business idea of the organization, more specifically, “supporting the accomplishment of a company’s business idea” (Lagerstedt & Tjerneld, 1991 p. 15). Bergstrand and Olve (1996) provides an additional perspective, they argue that the budgeting process is more important than the determination of the actual budget. Since the budgeting process thoroughly elaborates the whole organization and provides guidance in terms of what is expected from each department. Horngren et al. (2010) claims that budgets are not mainly utilized to allocate resources as other researchers argue, it is also a tool for benchmarking the actual performance with the predetermined numbers. The table below illustrates additional perspectives of more modern multilateralism on budgeting functions:
2.3.2 Preparation of Budgets & Objectives

2.3.2.1 Forecasting

Budgets have an important role in guiding the organization during the determined timeframe and provide a clear guidance for management in translating the objectives to the employees (Bergstrand & Olve, 1996). Nevertheless, the market environment has become more dynamic. When dramatic changes occur in the market, the budget can quickly become obsolete, thereby lose its functionality (Neely et al., 2003; Heupel & Schmitz, 2015). Therefore, a company has to revise the budget or forecast the developments in the future. Forecasts are predictions of what will most likely occur; when the external environment changes, such as the price development of products, the forecast should be updated (Anthony & Govindarjan, 2001; Samuelsson, 1997). Consequently, it is important to understand the correlation between forecasting, the budgeting process and the budget. The forecasting is based on previous occurrences where top-management have the possibility to choose how many periods that should be taken into account when developing the forecasts. Forecasts usually have a shorter time horizon and should provide an explanation of predicted events in the near future (Samuelsson, 1997). The strategic orientation (long-term) of an enterprise is largely influenced by the forecasting, thus operationalization (short-term) becomes integrated in the forecasting procedure (Anthony & Govindarjan, 2001).

2.3.2.2 The Budgeting Process

According to Bergstrand and Olve (1996), the budgeting can be separated into different areas, namely construction of the budget (ante budgeting) and budget monitoring (post budgeting).
Anthony and Govindarjan (2001) argues that a continuous dialogue between the departments are fundamental when constructing the budget. Without a transparent dialogue, there is a large probability of encountering problems when the budgets are consolidated, as the nature of business as well as the need for more or less resources varies between each department. To construct the budget, two alternatives can be used, the Bottom-up method or the Top-down method (Ax et al., 2009; Lagerstedt & Tjerneld, 1991).

The Bottom-up method (ante):
According to this method, the budgeting process starts locally at different departments. Each entity establish a budget proposal based on the directives from the central unit. The risks involved in this process is that the proposals might be unclear, thereby, rejected by the central unit. Therefore, the local department might have to construct several proposal before it becomes endorsed. The advantage with this method is that employees feel that they become more involved in the orientation of achieving the organization’s objectives (Ax et al., 2009; Lagerstedt & Tjerneld, 1991).

The Top-down method (ante):
This method starts from the top of the organization by constructing budget directives and a detailed proposal how the organization should be navigated. Subsequently, the directives are “broken” down into objectives for different functions and departments. The budget proposals are sent out to the local units to listen whether they demand more or less resources. Finally, the proposals are revised and endorsed by the central unit. This method is characterized by a centralized emphasis, which in turn makes local units less involved and may harm the motivation among employees. The advantages is that the process is quicker and demands less administration (Ax et al., 2009; Lagerstedt & Tjerneld, 1991).

2.3.2.3 Final Budget
When the budget is clarified, top management consolidates all budgets from each business unit’s (final budget) (Horngren et al., 2010). Consolidation of budgets allows management to pursue the most efficient allocation of resources (Anthony & Govindarjan, 2001).

2.3.2.4 Budget Monitoring (Post)
Ultimately, the budget creates a base for comparing and following up on predicted and actual results (Anthony & Govindarjan, 2001; Ax et al., 2009; Merchant & Van der Steede, 2003). Ax
et al. (2009); Merchant and Van der Steede (2003) accentuates on the importance of following up on the budget in order to analyze, discuss and learn what works well in the organization as well as what can be improved. Bergstrand and Olve (1996) summarizes the different purposes budget monitoring provides:

- Controlling - Investigate if the determined goals have been reached;
- Alarming - Alert the management if the budget is not fulfilling its purpose;
- Diagnosis - Understand why a deviation has occurred;
- Re-planning - Use the diagnosis and re-plan the operations;
- Rationalization - Identify what the organization can improve.

2.4 Main Features of Better Budgeting

Additional budgeting approaches have emerged to improve TBs with other MCSs (Hansen, 2011; Samuelsson, 1997). Hope and Fraser (2003b) consider these approaches as “better budgeting”.

2.4.1 Rolling Forecasts

Rolling Forecasts (RF) is a complementing system to TBs which is included in the BBG. Proponents of this method claim that it is better to review the budgeting procedure instead of abandoning it. RF is constructed on a monthly or quarterly basis usually oriented for fifteen months or more in the future (Uyar, 2009). The main advantages with RF is that it is flexible and does not rely on out of date figures which leads to a better seasonable allocation of resources (Gurton, 1999). RF is commonly combined with the annual twelve-month budget (Ekholm & Wallin, 2000). Anthony and Govindarajan (2001) argue that the distinctions between TB and a RF is that a budget must be submitted in monetary terms, whilst the RF do not. A budget is often constructed for the time period of six to twelve months, a forecast can be determined for any given time period.

2.4.2 The Balanced Scorecard

The majority of organizations’ MCSs are concentrated on financial measures and targets, while the Balanced Scorecard (BSC) translates the strategy into objectives and measures. The BSC connects the organization's long-term strategy with its short-term actions. Moreover, it links financial measures with three additional perspectives: 1. Customers 2. Internal business processes 3. Learning and growth. Using the BSC helps managers to not solely rely on short-term financial measures as the only index for the organization's performance (Kaplan & Norton,
According to Kaplan and Norton (1996a), it is essential to separate between long-term strategic planning from operational budgeting processes. With regards to the chosen strategy, the management is able to determine short-term actions which can be used as benchmark in order to understand the efficiency of the implemented strategy. Moreover, it is of great significance to interconnect strategic planning with the budgeting process to create an overview how well the strategic objectives are aligned with the budget.

Managers that uses the BSC has four management processes that contribute to combine long-term strategy goals with short-term actions. The first process 'Translating the vision' - helps the management to spread the vision and strategy to every component of the organization by aligning the long and short-term objectives as an integrated set to reach the long-term strategy. 'Communicating and linking' - management have to ensure that they communicate the strategy throughout all the units of the organization, making the whole organization coordinated with the long-term strategy. 'Business Planning' - In most organizations today, there are several different programs implemented for improvements and it can be hard for the management to acknowledge which programs that creates value to the organization. The BSC is a valuable tool for allocating resources and setting priorities, with the help of scorecard management, it becomes easier for management to locate which programs that adds more value which in turn illustrates programs that adds less value. 'Feedback and learning' is an evaluation and learning process where the organization assess whether the objectives have been accomplished or not, also the reason for not achieving them (Kaplan & Norton, 1996b).

![Figure 1, The Balanced Scorecard (Kaplan & Norton, 1996b p. 76)](image-url)
2.4.3 Benchmarking

The fundamental idea with benchmarking is to localize the best practices that the premier competitors apply and then replicate this practice in the organization. Historically, benchmarking was used as a way to solve problems, later it became more focused on reaching greater financial results. An important aspect within benchmarking is to constantly find ways on improving basic core processes. External benchmarking focuses on market centric factors in order to be more competitive and reach new ways of thinking. To sustain the competitive advantage, it is necessary for organizations to maintain an overview of their competitors. Benchmarking invokes competition on the market and sorts out those organizations that cannot keep up and maintain their competitiveness (Bhutta & Hug, 1999). There are seven different types of benchmarking:

- **Performance benchmarking** - Comparison of performance measures against other organizations.
- **Process benchmarking** - Methods and processes are compared in an effort to improve the processes in the organization.
- **Strategic benchmarking** - Focus on changing the strategy by comparison with other organizations.
- **Internal benchmarking** - Departments and divisions within in the same organization are compared.
- **Competitive benchmarking** - Comparisons are made with the premier organizations.
- **Functional benchmarking** - Technology and process are compared, in order to gain a more functional organization.
- **Generic benchmarking** - The focal point is to achieve better processes by comparison with other organizations (Bhutta & Hug, 1999 p. 257).

Organizations have different approaches how to execute their benchmarking, but there are five fundamental factors that usually are included:
2.5 Main Features of Beyond Budgeting & Beyond Budgeting Model

According to Hope and Fraser (2003c); Johnson and Kaplan (1987); Samuelsson (1997), companies should strive to eliminate the rigid budgeting process for planning and decision making and work to achieve a flexible and realistic budgeting process without absolute numbers. The Beyond Budgeting Model (BBM) evolved in 1998 as a response to the critiques on TB (Hope & Fraser, 2001). BBM stems from the organization Beyond Budgeting Round Table (BBRT) which was a research project to investigate the shortcomings of TBs (Hansen et al., 2003).

Compared to the TB, BB focuses on bottom-up approaches with strong focus on decentralizing the decision making (Uyar, 2009; Libby & Lindsay, 2007b). BB is about empowering employees to achieve a competitive advantage (Hope & Fraser, 2003c). With an implementation of the BBM model, companies are able to involve and motivate their employees in the hierarchy to a larger extent, thus become more innovative and continuously develop their business processes in order to reach the strategic goals (Libby & Lindsay, 2007b; Lindvall, 2001). According to Libby and Lindsay (2007b), a decentralized organization with BB is able to make rapid decisions, thus retain profitable and create loyal customers. Rewards are team-based, instead of basing it on individual performance, thereby promoting teamwork (Hansen et
al., 2003). BB helps organizations to control without traditional mechanisms (Hope & Fraser, 2003b), instead Key Performance Indicators (KPIs) are promoted. The KPIs are defined as: “Performance measures used to set goals and assess an organization’s performance based on its critical success factors” (Hope & Fraser, 2003c p.214).

Hope and Fraser (2003c) describes the BBM with twelve different principles that merges into six for organizations to operate BB. The first six describes the management principles “what do to” in order to operate BB with emphasis on performance management. The last six is complementing the first six by answering the question - “how to do it” with accentuation on the leadership principles.

![Figure 3, The Beyond Budgeting Model (Hope & Fraser, 2001 p.13)](image)

### 2.5.1 The Principles of the Beyond Budgeting Model

#### 1. Set Stretch Goals Aimed at Relative Improvement

According to Hope and Fraser (2003c), this principle is based on the idea that there does not exist an annually fixed performance contract (budget) agreed in advance. Goals should be relative and based on maximizing the short- and long-term performance potential. The relative
targets are based on external benchmarks where performance is continuously evaluated with
direct and indirect competitors. The most common instrument to evaluate competitors is by
using KPIs with additional ratios such as return on equity (ROE) and cost-to-income. Another
common approach is to base goals on relative performance against internal peers which means
that business units are competing against each other.

7. According to De Wall (2005), managers should be involved in the target setting process, this
in turn will enhance the motivating effect on employees at each department to reach the
objectives; beating the competition should be the primary priority, not using last year’s budget
as part of the target setting. Hope and Fraser (2003c) further argue that employees in
organizations need clear guidelines to know specifically what to do, which in turn enhances
empowerment, knowledge sharing and motivation.

2. Base Evaluation and Rewards on Relative Improvement Contracts

8. Create a High-Performance Climate Based on Relative Success

2. Hope and Fraser (2003c) argue that bonus and reward elements should be based on team
efforts achieving an acceptable performance compared to benchmarks over a certain period. De
Wall (2005) argue that it is better to reward teams as will stimulate teamwork. Hope and Fraser
(2003b) claim that individual rewards are contra-productive since the success for the
organization is based on how well teams are performing.

8. Without fixed contracts, managers become more flexible which in turn enhances the culture
of empowerment (Hope & Fraser, 2003c). The strategy development is a considered as a
bottom-up on-going process where changes in customer demand are shared from front-line
personnel to top-management, subsequently the strategy is adapted to the continuously
changing market environment (De Wall, 2005).

3. Make Action Planning a Continuous and Inclusive Process

9. Give People Freedom to Make Local Decisions

3. According to De Wall (2005), employees are responsible for achieving competitive results
as pre-set targets discourage employees from reaching higher results than the pre-determined
objective. Managers are evaluated on the actual performance compared to what they could have
achieved given the circumstances. Hope and Fraser (2003c) argue that strategy and performance
responsibility should be devolved to teams as they are closer to the actual customer. When
responsibility is delegated to teams and front-line personnel, there is a larger probability for
organizations to create value for their customers and achieve extraordinary satisfaction.
9. Hope and Fraser (2003c) argue that managers should challenge assumptions and risks by involving themselves in the strategy development process performed by teams, the role converts from being a business developer to a challenger; the emphasis is to involve everyone in the strategy development.

**4. Make Resources Available as Required**

*10. Place the Responsibility for Value Creation to Front-Line Teams*

4. According to Hope and Fraser (2003c), leaders should provide managers with financial guidelines that are based on KPIs ratios within which they can commit to the resources. Thus, managers are able to decide how to utilize the resources (De Wall, 2005). Resources can be allocated by internal markets, which means that resources are drawn from a central service to the local unit. Furthermore, when a business opportunity arises and resources are needed for a project, fast-tracks should be provided to avoid the annual cycle where profitable projects cannot be pursued as this was not part of the predetermined budget (Hope & Fraser, 2003c).

10. The objective with this leadership principle is to devolve responsibility to front-line personnel to promote rapid value creating decisions in response to local opportunities. An organization needs to create networks of small and customer-oriented teams as this will stimulate entrepreneurial mindsets (Hope & Fraser, 2003c).

**5. Coordinate Cross-Company Actions with Focus on Customer Demand**

*11. Make People Accountable for Customer Outcomes*

5. The budgets sets the foundation for financial commitments for the annual year. When organizations manage without budgets, no such plan exists. Therefore, managers must coordinate these commitments to the employees in accordance to customer demand. It is also imperative to respond to unanticipated customer requests. When recognizing customers, front-line personnel must also be able to access information about the customer and most importantly the overall profitability of that particular client (Hope & Fraser, 2003c).

11. Organizations should move towards a networked type of organization where independent units that possess specific expertise and capabilities are interconnected. In order to operate with a high speed and lower the costs, organizations must be able to combine expertise and work collectively to provide solutions for customers. To achieve this particular organization, managers must enable teams to respond to customer demand and encourage teams to share knowledge across the business (Hope & Fraser, 2003c); De Wall (2005) argues that it is imperative that knowledge is easy accessible for those who need it in the organization.
6. Base Controls on Effective Governance and Relative Performance Indicators

12. Support Open and Ethical Information Systems

6. “Control should be based on a multi-level basis to know what is going on, and only intervening when absolutely necessary” (Hope & Fraser, 2003c p. 85). Multi-level control means that the governance is supported by various controlling systems, such as trend-analysis, rolling forecasts and KPIs. Using this particular system provides an opportunity for all units to see the same information at the same time since all entities are measured equally (Hope & Fraser, 2003c).

12. Most managers believe that information should only reach employees that are authorized to see it. This principle argues that trusting all employees with information is necessary to be able to anticipate what will happen next to be one step ahead of its competitors. Therefore, information should flow fast and openly without restrictions with an emphasis that the information is handled with high ethical standards (Hope & Fraser, 2003c).

2.6 Criticism on Traditional, Better and Beyond Budgeting

Among many researchers and practitioners, it exists a consensus of opinion on the many shortcomings with TBs (Bourmistrov & Kaarbøe, 2013; Heupel & Schmitz, 2015; Hope & Fraser, 2003a; Neely et al., 2003; Wallander, 1999). Historically, TBs played an important role throughout the industrial age where it was used for controlling, commanding and hierarchical purposes. The dynamic environment has created challenges that the TB has failed to account for (Heupel & Schmitz, 2015; Neely et al., 2003) such as being too internally oriented, impede creativity, innovation as well as time-consuming (Bourmistrov & Kaarbøe, 2013; Heupel & Schmitz, 2015; Hope & Fraser, 2003a; Neely et al., 2003). Despite its vast application among companies, Hansen et al. (2003) argues that TBs have many defects that could create harm to the organizations. For instance, budgets creates dysfunctional behavior since resources are not allocated to its most significant use. Furthermore, it forms irrational decision-making and creates budget games. The problem can partly be related to TBs financial top-down command and control structure which influences the annual budget planning and performance evaluation (Bunce, Fraser & Woodcock, 1995; Hope & Fraser, 1997; 2003c; Wallander, 1999). Bourmistrov and Kaarbøe (2013) claims that one solution to handle the shortcoming of TB is to implement BBG in order to encounter its dysfunctional effects. The list beneath illustrates a summary of the criticism directed against TB by Hansen et al. (2003).
Table 2, Summary of Criticism against Traditional Budgeting (Hansen et al., 2003 p. 96)

- Budgets are time consuming to put together
- Budgets constrain responsiveness and are often a barrier to change
- Budgets are rarely strategically focused, and is often contradictory
- Budgets add little value, especially given the time required to prepare them
- Budgets concentrate on cost reduction and not value creation
- Budgets strengthen vertical command-and-control
- Budgets do not reflect the emerging network structures that organizations are adopting
- Budgets encourage gaming
- Budgets are developed and updated too infrequently, usually annually
- Budgets are based on unsupported assumptions and guesswork
- Budgets reinforce departmental barriers rather than encourage knowledge sharing
- Budgets make people feel undervalued

According to Hope and Fraser (1997; 2003c), the answer to the shortcomings of budgets is to implement a process-based management model where BBM is an optimal alternative; giving more authority to the front-line people of the organization, thereby creating an organization that is more accessible to quick changes in the surrounding environment. Hope and Fraser (2001) claims that improving the budget and move to a BBG-approach is not the answer on responding to the shortcomings of the TB, instead organizations should move BB (Hope & Fraser, 2003a).

Nevertheless, there still a lack of deeper understanding in the literature of the consequences when abandoning the budget and that might be a reason why most organizations have failed to either remove or replace budgets (Østergren & Stensaker, 2011). Bourmistrov and Kaarboe (2013) describes the use of TB as being in a “comfort zone” where decision-makers rely on the budget, thus operate with a feeling of being protected. It is further explained that the implementation of BB moves the “comfort zone” into a “stretch zone” which forms new information channels in the organization where the decision-making is decentralized to employees, without a budget. Studies have shown that organizations who pushes the “stretch zone” too far transforms it into a “danger zone” which is characterized by anxiety, discomfort and underachievement among employees. Becker (2014) conducted a study of four organizations which had abandoned their budgets. The results of the study showed that two of the organizations that abandoned the budget reintroduced it because these organizations underwent a state of emergency when key figures of the organizations was unacquainted with the new MCS. Moreover, studies by Ekholm and Wallin (2000); Libby and Lindsay (2007a;
2010) verified the opposite about the negative criticism on TBs. From the studies, it was explored that organizations find budgets indispensable, strategically focused and flexible.

3. Methodology

This section elaborates the selected methodological procedures and approaches of collecting data and using the collected data to obtain satisfactory results to answer the research questions.

3.1 Research Method and Design

The methodology is a fundamental part of a research since it aims to describe how the research will be conducted as well as how data can be obtained, subsequently analyzed to achieve satisfactory results (Bryman & Bell, 2011). When conducting research, there are three different methodological strategies that can be used, quantitative, qualitative or mixed methods (the latter is a combination of both quantitative and qualitative) (Bryman, 2016). According to Saunders, Lewis and Thornhill (2009), a quantitative method focus on collecting numeric data, for instance through questionnaires, afterwards the information is analyzed to find statistical significance in the data. In contrast, a qualitative method are “concerned with words, rather than numbers” (Bryman & Bell, 2011 p. 386). Qualitative strategies focus exclusively on non-numeric information such as data from interviews. A qualitative approach is most commonly used when researchers wants to collect in-depth information about a topic (Bryman, 2016; Saunders et al., 2009). We based our research method on a qualitative strategy with elements of a quantitative approach. The qualitative data was gathered through in-depth face-to-face interviews as we primarily wanted to accumulate words. However, because of time limits to interview the respondents, we wanted to be more time-efficient. Therefore, we complemented research question three (“What are the opinions on the criticism against traditional budgeting?”) with a questionnaire.

A research design is demanded for the planning as well as choice of methods in order to develop a steady foundation for the implementation of the research (Bryman, 2016; Bryman & Bell, 2011). A research design is defined as a “choice to reflect decisions about the priority being given to a range of dimensions of the research process” (Bryman, 2016 p. 40). In order to accomplish a satisfactory study connected to our purpose, a comparative and case study design was used for this thesis. A comparative design is defined as a “design that entails studying two or more meaningful contrasting concepts in order to allow for comparison between them” (Bryman, 2016 p. 64-65). According to Bryman (2016 p. 60), “a case study design is defined
as a study that entails detailed and intensive analysis of a single case”. The case study design can also take form of a multiple-case study, where several parties are involved (Bryman, 2016). Bryman (2016) argues that a comparative design can be applied in relation to a qualitative research strategy, when this occurs, it takes the form of a multiple-case study which helps researchers to improve theory building. The reason for applying a dual research design (comparative and case study) for this thesis originates from the fact that we conducted our study through the case study approach. As we investigated several organizations, it took the form of a multiple case study. Moreover, since we desired to illuminate similarities and dissimilarities between the regional entities, we also pursued the comparative design.

3.1.1 Case Study

“A case is defined as intensive examination of a location, such as community or organization to reveal unique features” (Bryman, 2016 p. 60-61). According to Yin (2012), a case study design entails an investigator to scrutinize real phenomena and use it as evidence to reinforce the study. Bryman (2016); Saunders et al. (2009) argues that a case study design may come in the form of a single case study or a multiple case study, as mentioned previously. We argue that the multiple-case study approach opened a window of opportunity to gain a deeper understanding of our purpose as we used the case studies for examination, comparison and analysis. Hence, the case studies provided a significant basis for the outcome of this study.

According to Yin (2009), there are five different types of case study approaches, the critical case, the extreme/unique case, the representative case, the revelatory case, or the longitudinal case. Our study is mostly characterized by the revelatory approach as literature argues that a case study of this form is considered as: “when an investigator has an opportunity to observe and analyze a phenomenon previously inaccessible to scientific investigation” (Yin, 2009 p. 48). Since we were given access to interview representatives that are in charge of the MCS(s) at each regional unit, specifically Chief Financial Officers (CFO) and no previous study has been given this opportunity; particularly to interview several CFOs that represents four different organizations under the same brand, we argue that our case study is revelatory in its nature (see 3.3 for further description about our selected participants).

3.2 Secondary Data

The analysis of secondary data is considered as “analysis of data by researchers who probably have not been involved in the collection of those data” (Bryman, 2016 p. 309). The information
we have accumulated is directly or indirectly associated with MCSs. The data we have selected are academic articles and books, both printed and online versions. The vast majority of the secondary information originates from Jönköping University library (printed & online), Google Scholar (online) and Web of Science (online). The data have been filtered to only illustrate articles that are peer-reviewed to enhance the credibility of our study.

3.3 Selection of Participants

The researcher needs to determine what factors that are important when choosing respondents, so that the research questions are likely to be answered (Bryman, 2016). This thesis has selected seven respondents, four CFOs and three Bank Director’s. The CFOs were the foundation of the data collection as they are in charge of the MCS on each regional unit. We argue that they possess the most comprehensive knowledge and expertise on this topic, both for the insurance and banking operations. This argument is further strengthened by the fact that all CFOs had working experience of four to six years on their position and additional working experience on other positions at LF ranging between 4-22 years. The Bank Directors were chosen mainly for their expertise and the position they possess as we hoped that this would add more perspectives and strengthen our data collection, particularly for the banking operations. These respondents have worked for their regional units on one or several positions between 2-32 years. Nevertheless, we were only given access to interview one participant from LF Kronoberg which can be considered as poor data collection. Most of their corporate governance has been outsourced to a subsidiary, which is the reason why only a few number of people would be relevant to interview. This participant is the CFO of that regional unit, therefore we argue that the primary data collection should be considered as partly sufficient.

3.3.1 Primary Data

Primary data is defined as “original data collected for a specific research goal” (Boeije & Hox, 2005 p. 593). For this thesis, the collection of primary data has been gathered through in-depth face-to-face interviews from single respondents at each interview session. According to Saunders et al. (2009), this method is described as a one-to-one approach meaning that only one interviewee is present. The aim with the collection of the primary data is to receive findings that have a significant theoretical meaning. When collecting primary data through a qualitative approach, it is imperative that the researcher documents how the primary data was collected and as well as the choices taken, in order to enhance a possible replication or reproducibility of the study (Boeije & Hox, 2005). A positive aspect of collecting primary data is that investigator
has control over the collection of data and the processing. In contrast, the disadvantage is that is rather time-consuming to collect and interpret the results, also it is more costly than collecting secondary data (Ghauri & Grønhaug, 2010). However, we argue that gathering primary data increased the probability to answer our research questions and contribute to the debate on TB, BBG and BB. As secondary data do not provide information for answering our research questions, the study would not be feasible by only applying this. The last research question has been complemented with 12 statements regarding the negative criticism on TBs which originates from Hansen et al. (2003 p. 96) where all respondents were sent the questionnaire before the interview session via e-mail. The respondents were provided with the possibility to agree, partly agree or disagree on each statement (Appendix 1, 2, 3 and 4). Lastly, the information about LF originates from their homepage.

### 3.3.2 Semi-Structured Interviews

Semi-structured interviews is performed by using an interview guide where the researcher has prepared a list of questions related to the research topic. The interviewee has the opportunity to speak freely and contribute with own thoughts on the subject. The questions asked do not have to be executed in a predetermined order, the researcher thereby maintains flexibility when conducting the interview (Bryman, 2016). Semi-structured interviews is formally known as a tool for receiving qualitative data (Bryman, 2016; Saunders et al., 2009; Wilson, 2014). This interview approach is fruitful when the researcher investigates research areas that demand complex questions to be asked since it promotes openness and free discussions. A semi-structured interview can vary in length due its flexible characteristic which normally remains within the interval of 30-120 minutes (Wilson, 2014).

This report has chosen to use the semi-structured approach for the interviews where we have predetermined 12 main and 9 sub questions (Appendix 5). Bryman (2016) argues that semi-structured interviews works idealistically when conducting a multiple case study since this allows for comparability between the cases. To strengthen the data collection, “it is of great significance to audio record and take notes of the material as this allows for more thorough examination of what respondents actually said and providing the possibility for other researchers to scrutinize the collected material” (Bryman, 2016 p. 479). We have taken this into consideration and followed the recommendation by Bryman (2016) to audio record and take notes. We argue that the strengths with a semi-structured interview approach was that it allowed us to ask questions that were relating to our research topic simultaneously giving the
respondent the possibility to add thoughts and ideas that were outside of the interview guide. Another positive aspect with this method is that we were able to tailor some of the questions, without major alteration to the interview guide but to receive answers that were pertinent to our research questions. In hindsight, we believe that this approach was well suited for this study as it gave us rich and detailed information.

The majority of the interviews were conducted at each entity’s regional headquarter (Jönköping, Skövde, Växjö) while the interviews for LF Kalmar were conducted in an office in Västervik. The interviews took place between 27th of March – 4th of April. Each interview varied between 40-55 minutes. The table below illustrates all specific information about the interviews and the respondents.

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Position</th>
<th>Location</th>
<th>Type of Interview</th>
<th>Duration</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magnus Lundqvist</td>
<td>Länsförsäkringar Jönköping</td>
<td>Chief Financial Officer</td>
<td>Jönköping</td>
<td>Face-to-face</td>
<td>51 min</td>
<td>04/4/2018</td>
</tr>
<tr>
<td>Katarina Wetterholm</td>
<td>Länsförsäkringar Jönköping</td>
<td>Bank Director</td>
<td>Jönköping</td>
<td>Face-to-face</td>
<td>52 min</td>
<td>04/4/2018</td>
</tr>
<tr>
<td>Johan Pettersson</td>
<td>Länsförsäkringar Kalmar</td>
<td>Chief Financial Officer</td>
<td>Västervik</td>
<td>Face-to-face</td>
<td>55 min</td>
<td>03/4/2018</td>
</tr>
<tr>
<td>Henrik Jonsson</td>
<td>Länsförsäkringar Kalmar</td>
<td>Bank Director</td>
<td>Västervik</td>
<td>Face-to-face</td>
<td>40 min</td>
<td>03/4/2018</td>
</tr>
<tr>
<td>Lena Eriksson</td>
<td>Länsförsäkringar Skaraborg</td>
<td>Chief Financial Officer</td>
<td>Skövde</td>
<td>Face-to-face</td>
<td>40 min</td>
<td>27/3/2018</td>
</tr>
<tr>
<td>Dag Wennlund</td>
<td>Länsförsäkringar Skaraborg</td>
<td>Bank Director</td>
<td>Skövde</td>
<td>Face-to-face</td>
<td>44 min</td>
<td>27/3/2018</td>
</tr>
<tr>
<td>Anders Bylin</td>
<td>Länsförsäkringar Kronoberg</td>
<td>Chief Financial Officer</td>
<td>Växjö</td>
<td>Face-to-face</td>
<td>53 min</td>
<td>28/3/2018</td>
</tr>
</tbody>
</table>

Table 3, List of Conducted Interviews. Source: Own

3.4 Data Analysis

All of the interviews were recorded on audio files and subsequently transcribed by both authors in order to eliminate the possibility of missing any significant information. To strengthen the data analysis, we wrote down all the spoken words. According to Patton (2002), spoken words are the most imperative data and this information cannot be substituted. The interviews were conducted in Swedish since this is the native language of both the researchers and respondents. This was mainly used to maintain fluency and collecting data where no language barriers existed. The weakness of using Swedish as the main language was that the translation might
have impacted the results. However, a detailed examination has been conducted to achieve an accurate data translation as possible.

From the transcription, we have extracted information that were relevant for our study into a narrative form, this approach is considered as narrative analysis (Bryman, 2016). According to Yin (2012), the idea of using a narrative analysis provides the researcher with the possibility to portray a general comprehension of the content from the interviews. In connection to the narrative analysis, Welman, Kruger and Mitchell (2005) recommends categorization of the data. We chose to categorize our primary data in accordance to our research questions; the secondary data was subsequently matched with the primary in the analysis section. Before the analysis was conducted, we gave ourselves enough time to thoroughly reflect upon the empirical findings to ensure that analysis would be of high quality.

3.5 Validity

Yin (1994) argues that the quality of research can be determined from its validity. According to Bryman, (2016); Cash et al. (2016), validity refers to the credibility of the findings acknowledged in a study, it also describes the degree to which research measured in reality determines what the investigator predicted them to assess (Yin, 1994). Validity can be separated into two different categories, internal and external validity. Internal validity is the synthesis between the findings of the report and the theoretical ideas developed by the researcher (Bryman, 2016). Cash et al. (2016) argues that internal validity is referred to the research design to prevent the collected data from becoming biased. External validity is determined by how generalizable the study is in relation to other studies (Bryman, 2016), more specifically, whether the results will hold true for other investigations (Cash et al., 2016).

We sought to achieve internal validity by asking the same questions to the respondents, while taking into consideration on developing the interview guide without being biased towards any regional unit. In addition, Yin (2012) argues that there is a larger probability for a respondent to provide biased answers if the interview is conducted in group. We applied the one-to-one approach as Saunders et al. (2009) discuss; our ambition with this strategy is that it eliminated the possibility for respondents to influence each other and provide biased answers. It is difficult to speculate if we are able to achieve a certain degree of external validity in accordance to what the literature suggests. However, we argue that the study we have conducted is similar to other
academic studies of MCSs which we have sought inspiration from. Therefore, our ambition is that the study is replicable for further research.

One of the researcher’s works for the insurance department at LF Jönköping which may impact his objectivity. This fact could affect the collection of data as some of the respondents are formally co-workers with the researcher. However, the researcher is barely in any direct contact with the respondents at work and has refrained from any unnecessary contact during the writing process to avoid jeopardizing the results. Furthermore, we argue that this study would not have been feasible as the researcher has unique access to the CFO at LF Jönköping who provided contact details to the other CFOs and influenced them to participate in this study.

3.6 Methodological Criticism & Weaknesses

Qualitative research has been criticized for being too subjective and impressionistic, this means that qualitative findings depend on what the researcher interprets as important. The main criticism on multiple case study approaches are that researchers might pay little attention to the particular context and focus on how the cases can be contrasted. Moreover, qualitative research usually begins with a broad research field and then gradually narrows down to a specific research question or research field, without providing a satisfactory explanation for the choice of investigation and the exclusion of others (Bryman, 2016).

Another criticism is that studies of this caliber are hard to replicate since there are barely no standardized procedures. In qualitative research, a significant part of the data is dependent on how the researcher interprets the empirical findings. Thus, what is observed is depending on the creation of the investigators own preferences. Finally, qualitative studies have the tendency to lack transparency. In some cases it could be difficult to comprehend what the researcher conducted and how the conclusion(s) were drawn. For instance, there could be an insufficient explanation why certain individuals were chosen for observation or interviewing. Another flaw in terms of transparency is that it is difficult for an external investigator to understand how the analysis was performed in relation to the data (Bryman, 2016).

In conjunction with the stated criticism, the authors of this paper have tried to maintain a clear structure and detailed explanations on the choices throughout the writing process. For instance, we have sought to achieve a balance between the choices made by illuminating the weakness as well as providing argumentations in favor. Moreover, we attempted to provide thorough and
credible description for the choice of participants to overcome the criticism of insufficient explanation.

There are also some weaknesses with our study, the secondary data are composed by a second party and the authors of this paper have been unable to control any possible changes. TB, BBG and BB are topics of constant scrutiny, therefore the time frame when the data was collected might have influenced the information. Furthermore, we have selected some Swedish sources for the theoretical framework which can be considered as a weakness since these sources had to be translated, which might have resulted in mistranslation and/or misinterpretation. Ultimately, Hope and Fraser are members of an organization that is called BBRT which strongly advocates BB. Therefore, the data collected from these authors are inevitably biased as they wish to promote their organization. Hence, it was significant to have a critical mindset when reading their studies.

3.7 Limitations

One of the challenges was the unequal proportion of literature on TB, BBG and BB. The literature is rather scarce on BB and BBM, particularly in terms of criticism. Finally, as BBG includes other concepts such as Zero-Based Budgeting, the BBG section does not cover all concepts and models within this management controlling approach. The reason for this is that the theoretical framework would have been too extensive and cover concepts that we believed would be irrelevant for our study.

4. Empirical Findings

_In relation to our research questions, this part will provide the selected data from the conducted interviews that we regarded as significant for the progress of our study._

4.1 LF Jönköping

Recently, a new legal framework called Solvens Two, which is also called Own Risk and Solvency Analysis (ORSA) was implemented for organizations operating within the insurance sector in Sweden and the European Union (EU). This framework provides the foundation how the budget is established at LF Jönköping. The general idea with this framework was to enforce organizations to focus more on risk-oriented economic governance rather than result-oriented governance. With this regulation in mind, LF Jönköping must reflect upon best and worst case scenarios that could potentially occur on the market (K. Wetterholm, personal communication,
The short-term operations (one year), also referring to the budget is interconnected with the long-term strategy (five years) through ORSA. The first year’s budget is very similar to the first year of the long-term strategy, sometimes equivalent. To clarify, the purpose with this framework is to ensure that the organization has enough liquidity if the unpredicted would happen - capital versus risk (M. Lundqvist, personal communication, 2017-04-04).

The budgeting cycle (one year) initiates in May where the organization analyze macro factors such as the development of interest levels. This process is strongly correlated to each line of business, as the enterprise is affected by the fluctuations on capital markets. Subsequently, the process has reached a stage in the autumn where the products & services are priced and ultimately the final budget is reached in December (M. Lundqvist, personal communication, 2017-04-04). From an organizational point of view, the long-term strategy is more related to the top-management. In contrast, the operational plan is what lower management can influence, except for certain costs. The managers in each line of business are in charge of their own budget, which is sent back to the CFO for endorsement (K. Wetterholm, personal communication, 2017-04-04). After approving each proposal from each business line, the CFO accumulates all ‘smaller’ budgets into one complete budget (M. Lundqvist, personal communication, 2017-04-04).

LF Jönköping complements their TB with RF (12-months), evaluation of prior year’s performance, benchmarking with other regional entities and a model similar to the balanced scorecard, but it is called ‘scorecard’ instead. The RF focuses mostly on prediction of performance for the enterprise (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04). The reason for implementing a RF was because the organization wanted to become better at understanding trends, it also provides a comparative tool to understand how the industry is performing. By evaluating prior year’s performance on a monthly basis in accordance to the budget, the company is able comprehend where the organization was 12 months ago and where it currently is (M. Lundqvist, personal communication, 2017-04-04). Since LF as a group consists of 23 entities that have a similar structure, the competition between the regional entities are compared via benchmarking (K. Wetterholm, personal communication, 2017-04-04).
M. Lundqvist accentuates that it can be discussed whether the benchmarks are useful or not since the regional entities have a similar structure, but still differ significantly on various areas. The usefulness of benchmarking boils down to what you are comparing and what regional unit you are conducting this benchmark against. The largest value with a benchmark is that it gives every regional unit an idea of how the others are applying their processes and helps to continuously learn from each other (M. Lundqvist, personal communication, 2017-04-04). The scorecard has several purposes, it provides a guidance for how growth is to be achieved in terms of banking and insurance volumes which is narrowed down from each line of business into sales levels for each employee (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04). The scorecards do not provide a foundation for employees to receive bonus or rewards regardless of their sales volume as it depends on how the organizations as a whole is performing, thereby organizational-based (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04).

M. Lundqvist argues that their estimations are near to precise in the budget, particularly on the cost side (M. Lundqvist, personal communication, 2017-04-04). The reasons for achieving precision in terms of budgeting can be related to the fact that LF Jönköping has been in operation for many years. The development of insurances and the amount of damages are difficult to predict. The organization has collected statistics about insurance claims and follow trends to overcome the weakness of being unable to predict unexpected costs (K. Wetterholm, personal communication, 2017-04-04). On the income side, the organization has been deliberately cautious on predicting too large revenues. Since the company is experiencing large growth rates, especially the banking operations, the company has for many years performed above their budget in terms of revenues (M. Lundqvist, personal communication, 2017-04-04).

The budgeting process at LF Jönköping is mostly decentralized since no external party such as the commonly owned subsidiary LF AB can impact any decisions they make (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04). In terms of lower management, all managers for the different business areas are in charge of how they plan to collect revenues as well as the employee budget (M. Lundqvist, personal communication, 2017-04-04). They claim that the description of a decentralized organization depends on how you define it as lower management are not involved in the management of certain costs, such as investments and depreciations (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04).
From a market perspective, it can generally be described as dynamical (K. Wetterholm, personal communication, 2017-04-04), but it can also be discussed differently depending on the line of business. One can describe the insurance market as a mature and a less dynamical, while the banking operations are more dynamical and exposed to large growth rates where the organization claims that it is difficult to keep up with the pace and the large input (M. Lundqvist, personal communication, 2017-04-04). Hence, the budget provides a foundation to reflect upon the market situation and what the organization is doing and where it is heading by converting the numbers in the budget into strategic orientations. The budget also provides a handrail which can be considered as a tool to provide comfort if the environment changes. Thereby, you are able to control the operations and if the strategy is working well reaching the objectives (K. Wetterholm, personal communication, 2017-04-04).

The utterly most important with the final budget at LF Jönköping is the planning how to create revenues. With a solid plan, the organization knows how to “attack” the market in terms of strategy. When the revenues are set, the company is able to realize how much each product & service should cost and what profit marginal they can pursue (M. Lundqvist, personal communication, 2017-04-04). From the criticism that is directed on TB, K. Wetterholm and M. Lundqvist believes that it all boils down to how the budget is applied in the organization. The budget should be providing a comfort and support so that employees are updated whether they have performed accordingly and not be used as a tool to put pressure (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04). Whenever the budget is not functioning, it is not a matter of just the budget itself, it is rather the processes that are malfunctioning (M. Lundqvist, personal communication, 2017-04-04).

K. Wetterholm argues that a shortcoming with the TB at LF Jönköping is to follow up the budget on a monthly basis as the organization does not take seasonal differences into consideration, meaning that some months might indicate large discrepancies in estimated revenues. The reason for this is because customers mostly purchase their products & services during certain months. Whenever a large discrepancy occurs and it is not related to seasonal impacts, the underlying reason must be determined (K. Wetterholm, personal communication, 2017-04-04). If the discrepancy would cause them to not be aligned with long or short-term plan, there would be no drastic changes with the budget. Instead, there would be a thorough
methodological analysis to understand why it happened (M. Lundqvist, personal communication, 2017-04-04).

Furthermore, it can sometimes be difficult to combine the operationalization with the long-term strategy that is developed by the ORSA as top-management works more with the long-term objectives of the organization, which are subsequently intended to be translated from the top to the bottom of the hierarchy. Consequently, for lower management and employees, it can be difficult to comprehend how the long-term objectives is to be reached. The budget also makes the organization less inclined to adapt to changes as the budget guides the organization, thereby it can be difficult to grasp external variations and re-steer the organization to meet changes. Furthermore, the budgeting process is very time-consuming and regardless if something very drastic would happen where the budget becomes obsolete, it would still remain and not be updated to reflect the new circumstance(s) (K. Wetterholm, personal communication, 2017-04-04). However, M. Lundqvist argues that the budget must not become an administrative process where you are unable to pursue market opportunities as this was not part of the budget. In addition, when using the budget to control on a micro-level, it would be the evolvement of a vicious circle where you focus more on the internal side of the organization instead of directing your focus on the market (M. Lundqvist, personal communication, 2017-04-04).

4.2 LF Skaraborg

The budgeting cycle (one year) begins in the fall. The first activity on the insurance area is to evaluate the prices on premiums and the predicted amount of damages by comparing it with last year’s outcome, and if necessary make any adjustments. During this part of the cycle, the preferred growth is established, also what each employee must contribute with to achieve the desired growth rate. The banking operations have a similar process where last year’s numbers are evaluated and the preferred growth is established. The difference is the mutual contract with LF AB, which LF Skaraborg has undertaken to deliver a certain capital volume, this contract ranges until 2023. The contract agreement involves all entities in LF Group (D. Wennlund, personal communication, 2018-03-27). The short-term perspective (one year) is interconnected with the long-term strategy (five years) through ORSA. The long-term strategy is a written document of where the company wish to be in the future (D. Wennlund, personal communication, 2018-03-27; L. Eriksson, personal communication, 2018-03-27). Every year, a new ORSA report is constructed (L. Eriksson, personal communication, 2018-03-27).
In excess of the TB, the organization used the BSC for many years but two years ago it was decided to recast the BSC into what is referred to as a ‘scorecard’. The reason for converting the BSC into a scorecard was the experienced lack of connection between the four perspectives in the BSC. For instance, parts of the top-management were not in direct contact with the customers, hence the customer perspective was irrelevant and had no significance. The recently implemented scorecard has been adjusted to better suit the needs for the organization; objectives are set within the scorecard over the time horizon of one year. The final stage involves an accumulation of all departments’ scorecards into one document that is used to govern. Individually, the objectives to be achieved are referred to something called ‘rakmål’ which is translated to result, activity and quality in connection to objectives. These catchwords are interconnected with the scorecard and sets the foundation for how each employee at their department should work to achieve the objectives for their department and the organization (L. Eriksson, personal communication, 2018-03-27). It is emphasized that these objectives are not connected to any bonus or rewards if the employee would perform above their determined objective. If a bonus or reward would be given, it is based on how well the team has performed in accordance to the objectives in the scorecard (D. Wennlund, personal communication, 2018-03-27).

The amount of capital required for insurance claims are difficult to estimate due to its unforeseen nature, but the organization applies statistics that it has collected for several decades to overcome the inability of being unable to predict how much they need to budget. The budget usually corresponds with the estimations, particularly on the revenue side as the organization consider this as one of the most important aspects; if a department would fall behind in sales, the enterprise accumulate strength by involving employees from other departments to make all the activities and sales required to accomplish the objective (D. Wennlund, personal communication, 2018-03-27; L. Eriksson, personal communication, 2018-03-27). If the budget and the estimations should deviate significantly, then a thorough investigation must be conducted to find the reason (L. Eriksson, personal communication, 2018-03-27). If the deviation is located to an employee that is falling behind to meet the predetermined objectives, support is provided to help him/her to fulfill the requirements. However, it does not necessarily have to relate to a single individual, sometimes the market environment changes drastically and whenever that occurs, the objectives should be revised to suit the new market environment (D. Wennlund, personal communication, 2018-03-27).
For the banking operations, the organization applies an approach where employees receive instructions from top-management of what they are expected to deliver in sales (centralization) (D. Wennlund, personal communication, 2018-03-27). The insurance area receives directives from top-management, but it is characterized by a more decentralized structure where employees are intended to achieve their objectives determined by their own capabilities in accordance to the market situation (L. Eriksson, personal communication, 2018-03-27).

It is argued that the sales budget is the most important of the final budget for banking operations, more specifically sales objectives determined on a business area/individual level. The primary objective with the sales budget is to determine how much the company should deliver in sales. Subsequently, the sales objectives are “broken” down into line of businesses and later to specific individuals to determine how much each individual has to contribute with to reach the overall goal of the organization. The sales budget also works as an assessment tool where every individual is assessed whether they have met the predetermined target. In general the budget is a valuable tool to act as an intermediary between employees and the organization; to engage the employees by using the sales budget to measure their performance in relation to the overall results of the organization, which creates a form of community that strives for the same objectives (D. Wennlund, personal communication, 2018-03-27).

“The sales budget is important to know where we are heading and what each employee needs to contribute with to reach the final destination” (D. Wennlund, personal communication, 2018-03-27).

On the insurance side the main objective is to establish an overview of the outcomes for the upcoming annual cycle. The main idea is not to create a detailed budget defined on an account level basis, instead KPIs are used to establish an overview for the budgeting. From a short-term perspective on a monthly basis, fluctuations constantly occurs due to the nature of operating within insurance business. When analyzing the whole annual cycle, these variations usually disappear. With this in mind, a detailed budget evaluated on a monthly basis would be of no use as and only time-consuming as it does not take these fluctuations into consideration. Hence, the budget is applied on a monthly basis to provide an overview of the future performance and what the company strives to achieve in the end of the annual cycle. Moreover, it is argued that the budgeting procedure is more flexible in the area of insurance; if something unexpected occurs, the budget is adjusted to suit the new situation. The reasoning behind this is that
insurance operations are dynamic and unpredictable, hence flexibility is required for the budgeting (L. Eriksson, personal communication, 2018-03-27).

In terms of criticism on TB, it is argued the budget takes significant time to establish and it is questioned if the time spent on the budget is worth the effort. Nonetheless, the time and resources spent on the budget is still necessary as it creates a solid foundation to allocate resources and determine the potential incomes (D. Wennlund, personal communication, 2018-03-28). L. Eriksson argues that the budget at LF Skaraborg is not strictly used to govern the organization, whenever something unexpected occurs, the organization adjust to meet these changes. Hence, the budgeting does not reflect the criticism as they consider it as flexible (L. Eriksson, personal communication, 2018-03-27).

Moreover, the budget has a direct connection to the corporation’s strategy where the organization steers to reach its key objectives, namely financial and sales objectives; these objectives are fundamental to ensure survival. It is also an important MCS to motivate employees in the pursuit of the organization’s objectives. Without a budget, there would be nothing to compare the results with, meaning that it is impossible to understand whether the organization has performed well or not. It is argued that employees wish to know how well they are aligned with their individual objectives. It also provides a measure to understand how much the organization has grown each year (D. Wennlund, personal communication, 2018-03-28).

4.3 LF Kalmar

The final budget consist of a cost and sales budget. The sales budget is mainly constructed by utilizing a forecast approach. The budgeting procedure is strongly influenced by the legal framework ORSA, it sets the foundation where the company wish to be within five year’s. The budgeting cycle (one year) initiates in May when top-management sets the strategic assumptions about the future which usually involves the board of directors as well. In August, each line of business has their own kick-offs where forecasts are developed in terms of sales volumes, predictions about market evolvements and determination if more employees must be hired. Subsequently, interaction between the budget proposals conducted by each line of business is discussed with top-management. In October, top-management gathers together with the board and the final budget is set (J. Pettersson, personal communication, 2018-04-03). The budget or the operationalization is building on the long-term strategic planning. Each year’s result in accordance to the budget is evaluated to ensure that the long-term objective can be
achieved (H. Jonsson, personal communication, 2018-04-03). In addition, for the banking operations the long-term strategic planning is set five years forward, more specifically until 2023, this strategy is set in collaboration with LF AB (J. Pettersson, personal communication, 2018-04-03).

LF Kalmar uses a form of BSC as an additional MCS, however it is considered as ‘scorecard’ instead. Each employee has their own written objectives in a contract form which are evaluated by performance. More specifically, how much each individual is required to contribute with to reach the overall objective. The purpose of establishing a contract is to create an overview of the groups within the organization to ensure that each group is working coequally towards the same objective. It is accentuated that the idea of having a scorecard is not to control employees, rather to help them reaching their full potential (J. Pettersson, personal communication, 2018-04-03). The organization also utilize benchmarking towards other regional entities within LF Group. Sales volumes and overall economic performance are the primary benchmarks used by LF Kalmar. The sales benchmark is measured how well each sales employee has performed in comparison to employees at other regional units.

Nevertheless, H. Jonsson emphasizes that the relevance with a sales benchmark can be discussed as the other regional units operate in unique markets. This means that employees at LF Kalmar do not have the same prerequisites as individuals on other regional units. For instance, the market in Kalmar is smaller than in Jönköping which affects the sales possibilities. The overall economic benchmark is also related to the unique environments, what impacts this benchmark mostly is that every regional entity has their unique business structure. Therefore, the benchmarks can sometimes be misleading (H. Jonsson, personal communication, 2018-04-03). The organization does not provide any rewards or bonus for employees that have performed above their scorecards since it is based on how well the team has performed (J. Pettersson, personal communication, 2018-04-03); the underlying reasoning behind this was that the organization wanted to incentivize employees to work for the overall objectives of the organization (H. Jonsson, personal communication, 2018-04-03).

The main objective with a budget or the operationalization (one year) is to steer the company in the right direction; by involving all employees, the company is able to enhance the operationalization as lower management must also understand where the company is heading. It also provides an overview for top management and the board of director’s to determine a
consensus of opinion on the direction. However, when establishing the budget, there is always an unforeseen circumstance that something unexpected would occur. If that occurs, the budget is revised by top management to reflect that circumstance. Whenever something larger occurs that would make the budget lose its function and become obsolete, top management would have to involve the board and explain why the deviation occurred (J. Pettersson, personal communication, 2018-04-03).

H. Jonsson claims that the budgeting process is decentralized as LF Kalmar is a sovereign corporation meaning that the decision-making cannot be impacted by any external parties such as LF AB. This commonly owned subsidiary sets the capital growth volumes for the banking operations towards all regional entities, but as this is conducted in collaboration with each regional entity, the final decision is always made by LF Kalmar for their own organization (H. Jonsson, personal communication, 2018-04-03). Moreover, the budgeting process is established together with all employees which is conducted because they wish to enhance involvement, thereby increase the cost awareness among employees (J. Pettersson, personal communication, 2018-04-03).

The environment can be described as in constant change, particularly due to digitalization. Every month, new challenges arise and this impacts the organization’s ability to forecast the future which subsequently affects the budgeting. Hence, it can be difficult to construct an optimal budget that resembles the pursuit towards the strategic objectives. Nonetheless, the TB still fills an important function, which is to control the operations. With the budget, the organization is able to steer it towards the right direction, also to communicate the objectives internally and externally (J. Pettersson, personal communication, 2018-04-03). From an employee perspective, the budget provides a foundation to engage and involve by ensuring that their objectives are achieved and to keep them updated on their performance (H. Jonsson, personal communication, 2018-04-03). As mentioned previously, the budget consist of two budgets, namely the cost and sales budget. The functions of the sales budget boils down to an idea of always striving to exceed the aims by selling the right products that are mutually beneficial for the customer and the organization. Whilst the cost budget helps the organization to be more restrained as there are limited amounts of capital to be used (J. Pettersson, personal communication, 2018-04-03).
In terms of criticism directed against TB, it is argued that the budget can quickly become obsolete if the market changes. Subsequently, the budget becomes a defective document that still must be evaluated which only consumes time and provides no value to the organization (H. Jonsson, personal communication, 2018-04-03). On the contrary, it is still necessary to establish a budget because without this, it would be impossible to evaluate, control and analyze the operations to ensure that the organization is steering towards the right direction. When the market drastically changes, the budget provides a supporting pillar for the organization. The budget also provides a tool for top-management to lean against (J. Pettersson, personal communication, 2018-04-03).

However, it should not be neglected that the budgeting process takes resources and consumes time from the organization as a whole which could be spent on other activities (H. Jonsson, personal communication, 2018-04-03). According to J. Pettersson, the budgeting approach at LF Kalmar can be considered as static; the organization consists of several subunits where each manager must understand the reasoning behind the budget. Therefore, the budget and the processes cannot be continuously changed to reflect new circumstance(s) as this would potentially confuse managers of each subunit which in turn impacts the translation to other employees in the hierarchy. Moreover, if the budgeting procedures would be changed too often, managers and employees would have a difficulty to understand what they are measured and compared with (J. Pettersson, personal communication, 2018-04-03).

4.4 LF Kronoberg

The budgeting is a small part of a whole process as the organization operates under the newly implemented framework called ORSA. This framework helps the enterprise to understand if they have enough capital when the unexpected happens on the market. In conjunction with the introduction of this legal framework, LF Kronoberg integrated their long-term strategy with the ORSA. The ORSA must be revised on a yearly basis, hence the long-term strategy is revised in accordance to the legal framework. At the moment, the organization works towards a long-term objective that ranges until 2023. The long-term strategic planning is “broken” down to strategic activities and the strategic activities are among others the budget. It is accentuated that the budget or the operational planning (one year) plays a less significant role as it is built on the long-term strategic planning (A. Bylin, personal communication, 2017-03-28).
When determining all the factors that are taken into consideration to reach the long-term objective, the organization elaborates on predictions how the market will evolve and what products & services that will be demanded in the future. Subsequently, the organization starts investing externally and internally to successfully reach their aims. For instance, if more digital services are required in the future, the organization must revise if they have employees that possess that knowledge, if not, individuals possessing this must be hired. This part is considered as the operating and investment budget. When the estimations are set and the organization has determined potential future outcomes, a cost analysis is conducted to understand if the pricing for their products & services are aligned with the strategy (A. Bylin, personal communication, 2017-03-28).

LF Kronoberg is sovereign as every other regional entity, when the business contract is established with the commonly owned subsidiary LF AB for the banking operations, a determined capital volume is given to LF Kronoberg. This volume is “broken” down to each employee how much they must contribute with to achieve the determined volume. This process is also integrated in the budgeting process as there is a continuous dialogue with the commonly owned subsidiary before the final budget is set (A. Bylin, personal communication, 2017-03-28).

In excess of the TB which is more related to the actual numbers, the organization applies an alteration of the BSC. This tool is utilized for each line of business where four perspectives are integrated, namely financial, employee, customer and sustainability aspects; these four aspects are correlating with each other. The reason for implementing this MCS was because the organization wanted to become better at focusing on the whole pyramid since financial numbers represents one aspect but the other aspects are equally important. Thus, a budget is just a small part of a whole process; if the organization cannot fulfill the BSC, the short or the long-term objectives will not be achieved. In addition, the organization benchmarks towards other regional entities within LF Group. The positive aspect with a benchmark is that it provides an indication of how the organization is performing. On the other hand, it can be negative for entities that are on the top of these benchmarks as they might relax and be comfortable with their position. From a bonus and reward perspective, the enterprise applies something called company-based performance bonuses when the budget or the long-term strategic objective(s) is achieved. This bonus/reward is equally distributed to all employees, except for top-management and the board (A. Bylin, personal communication, 2017-03-28).
On the insurance area, there is a difficulty to predict the unexpected, hence how much capital that should be budgeted for. This gap is solved by utilizing statistics that goes back nearly 200 years, with this information, statisticians calculate correlations and probabilities to understand how much the organization can expect to have in damage costs. The organization also tries to understand patterns and see trends of how the market evolves. For instance, nowadays vehicles are more equipped with electronics which means that the cost for repairing increases. Hence, adjustments are made for the premiums to reflect the new circumstance. Nonetheless, it is accentuated that the costs for this area cannot be calculated precisely, the organization rather measure this in terms of what interval they believe that they will stay within. In relation to this, if the budget would indicate a discrepancy and the operational planning would be uncoordinated, the organization seeks to understand what caused the deviation. Whenever a larger variance occurs, the board is involved where top management must explain why the budget is not aligned. However, it is argued that the environment is constantly changing and the budget is only a violation of direction, a large or small discrepancy is considered as something that belongs to its nature (A. Bylin, personal communication, 2017-03-28).

LF Kronoberg does not hold the majority of the functions related to its corporate governance as this has been outsourced to a subsidiary which is owned by LF Kronoberg, Blekinge and Göinge-Kristianstad. The reason for outsourcing these functions was because the organization wanted to optimize its costs. Hence, the budgeting process is a combination of centralization and decentralization. The latter is elaborated since the organization strives to involve every employee in the budgeting and the strategic process. The idea is that the foundation for the budget should start from the bottom of the hierarchy and move to the top of the organization. The intention is that each employee should understand the red thread and how their contribution leads to the overall objective for the organization. Having a combination of a centralized and decentralized structure boils down to what you are defining. The top-management have a strong say in the strategic orientations, hence it can be considered as centralized (A. Bylin, personal communication, 2017-03-28).

Depending on the line of business, the market environment on the insurance side can be described as static, while the banking operations are currently exposed to large growth meaning that it is a very dynamic market. As the market in general is constantly changing, one could describe it as unpredictable also. It is also argued that the budgeting process is characterized by
the uniqueness of its environment. It is a large difference to operate business in Stockholm compared to Kronoberg. In Kronoberg, the majority of customers are farmers which impacts the governance, hence the budgeting. Another reason is also the size of each regional entity, LF Kronoberg is considered as a small entity while LF Jönköping is considered as a big entity which also impacts the organization (A. Bylin, personal communication, 2017-03-28).

The most important aspect with a TB is that it shows a direction of volition as LF Kronoberg is owned by its customers, meaning that the owners must understand what the company is striving towards; this also enhances the credibility among its owners. A. Bylin accentuates that another important function with the budgeting process is that it provides pedagogical tool as managers are required to thoroughly assess and understand the upcoming operations; this process provides an awareness of the cost drivers and also to understand how the long-term strategic objectives are to be achieved. Additionally, it provides an overview to the board what activities that are planned. It is emphasized that the budget helps the organization to make calculations of various strategic activities, but the budget is not a mechanism that would stop the organization from pursuing sudden business opportunities that are positive from a long-term perspective, regardless if this was budgeted for or not. Hence, the budget is considered as a “living materia” and when the budget is set, it should not be considered as the only governing tool since the market is constantly changing (A. Bylin, personal communication, 2017-03-28).

In terms of the criticism on TB, A. Bylin argues that if the budget is used from a narrow perspective meaning that it is the only instrument that is applied to govern the organization, then the criticism is justified. The budget can also be considered as a snapshot of the current circumstance meaning that when the budget is set in December, an unexpected circumstance may appear in January and the budget becomes obsolete. Therefore, the budget acts as an instrument for prognosis of what the organization intends to achieve in the end of the annual cycle, but it is merely based on predictions and expectations. It is time-consuming to construct a budget but it also provides a “handrail” for managers to understand the organization, particularly what they are expected to perform and the planned operations. Moreover, it satisfies employee’s basic needs, which are among others comfort and safety (A. Bylin, personal communication, 2017-03-28).
5. Analysis

In this section, we apply a combination of the empirics and our theoretical framework. Consequently, we seek to answer our research questions by interpreting the results from our findings.

5.1 How is the budgeting process characterized at each regional entity from various time perspectives?

According to Shiem and Siegel (2009), the operationalization or the budget is established for a period of one year. Anthony and Govindarjan (2001) argue that the long-term strategic planning provides the foundation for the operationalization. The long-term strategic planning can cover a time horizon of five to ten years and it is the most future-oriented aspect of budgeting (Horngren et al., 2010). We argue that previous research is congruent with what the empirics have illustrated. The operationalization (one year) which is also referred to the budget is interconnected with the long-term strategic planning. It ranges five years through the recently implemented legal framework called ORSA (Solvency Two). With this framework, organizations must according to law enable a future-oriented approach in their budgeting process where the focus is more on risk-oriented governance (short/long-term) instead of result-oriented governance (short-term) (A. Bylin, personal communication, 2017-03-28; L. Eriksson, personal communication, 2018-03-27; H. Jonsson, personal communication, 2018-04-03; M. Lundqvist, personal communication, 2018-04-04; D. Wennlund, personal communication, 2018-03-27).

The researched regional entities apply the same approach for their short and long-term planning in terms of budgeting. The difference is that some of the studied regional entities have integrated ORSA to a larger extent in their operations. Furthermore, the long-term strategic planning for the banking operations at LF (all entities) are set in collaboration with their commonly owned subsidiary LF AB. This also involves the process where each regional entity is given the capital volume they must contribute with to achieve the long-range plan for the bank, which ranges until 2023 (D. Wennlund, personal communication, 2018-03-27; H. Jonsson, personal communication, 2018-04-03; A. Bylin, personal communication, 2017-03-28).

5.1.1 LF Jönköping

The budgeting cycle at LF Jönköping (one year) begins in May with a forecasting of macro factors such as developments of interest levels. This process is conducted since the enterprise is affected by fluctuations on capital markets (M. Lundqvist, personal communication, 2017-
and that the market in general has become more dynamical (K. Wetterholm, personal communication, 2017-04-04). This stance is supported by research who argues that the market environment has become more dynamic (Neely et al., 2003; Heupel & Schmitz, 2015), therefore an organization should forecast the developments in the future (Anthony & Govindarjan, 2001; Samuelsson, 1997). Anthony and Govindarjan (2001) argues that the strategic orientation of an enterprise is largely influenced by the forecasting, hence operationalization becomes integrated in the forecasting approach. Subsequently, the managers in each line of business at LF Jönköping constructs their own budget, which is sent to the CFO for approval (K. Wetterholm, personal communication, 2017-04-04). The positive aspect with this approach is that it enhances involvement to a larger extent, while the negative point is the budget proposals might be rejected multiple times by the central unit (Ax et al., 2009; Lagerstedt & Tjerneld, 1991). Ultimately, the CFO consolidates all budgets into one final budget in December (M. Lundqvist, personal communication, 2017-04-04); this process in line with the definition of a final budget by Horngren et al. (2010). We argue that the whole process is resembling what the literature by Ax et al. (2009); Lagerstedt and Tjerneld (1991) considers as the Bottom-up method. When the budget is set at LF Jönköping, it is monitored monthly and the actual performance is also evaluated by comparing it with last year’s performance for the same period (M. Lundqvist, personal communication, 2017-04-04).

In excess of the budget, we also argue that LF Jönköping has complemented their TB with BBG. More specifically with RF, which focuses on performance measures on a monthly basis of 12-months forward (K. Wetterholm, personal communication, 2017-04-04). Ekholm and Wallin (2000) argues that is common that RF is combined with the TB. As LF consists of 23 regional entities that have a similar structure, the performance at LF Jönköping is also measured with benchmarking (K. Wetterholm, personal communication, 2017-04-04). Bhutta and Hug (1999) explains this as performance benchmarking. Moreover, the organization applies a form of BSC, however it is called ‘scorecard’. The scorecard provides guidance for how growth is to be achieved in sales which is narrowed down from each line of business to sales for each employee (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04). The literature describes BSC, or in this case the scorecard as a tool of translating the long-term strategy into objectives and measures (Kaplan & Norton, 1996b).
5.1.2 LF Skaraborg

At LF Skaraborg, the budgeting cycle (one year) initiates in the autumn. The first activity in the insurance business is retroactively compare last year’s outcome in terms of insurance claims and then use this to estimate the predicted amount of claims for the upcoming year. Hence, adjustments correlated to the insurance premiums are conducted to adjust it, if necessary. This approach is in line with Horngren et al. (2010) who claims that planning is based on previous results and predictions of the future. Moreover, the process on the insurance area of budgeting involves evaluation of statistics that has been collected for several decades which are used to forecast how the market will evolve and how much the organization should expect to budget for in terms of insurance claims (L. Eriksson, personal communication, 2018-03-27). Neely et al. (2003); Heupel and Schmitz (2015) argues that dramatic changes on the market can quickly make the budget obsolete. Hence, an organization has to revise the budget or forecast how the market will evolve. D. Wennlund claims that whenever unexpected circumstances occur, the objectives should be revised to reflect the new market environment which in turn impacts the budget. Furthermore, during this part of the cycle, the preferred growth rate is established, also what each individual must contribute with to achieve the desired growth for both the insurance and banking operations (D. Wennlund, personal communication, 2018-03-27). In relation to the determination of how much each individual must contribute with, LF Skaraborg applies elements of BBG. More specifically a tailored version of the BSC which is called ‘scorecard’ instead. The scorecard is similarly constructed as LF Jönköping’s meaning that each individual in the organization is given a scorecard for sales volumes (L. Eriksson, personal communication, 2018-03-27).

In terms of budgeting for the banking business, the approach is similar compared to the insurance process, where evaluation of previous year’s outcome is used to determine the preferred growth for the end of the annual cycle. Both operations use the determined growth rate and break it down to how much each individual is required to contribute with to achieve the objectives, as mentioned previously. For the banking area, the organization applies an approach where employees receives instructions from top management of how much they are expected to deliver in sales (D. Wennlund, personal communication, 2018-03-27). Consequently, we argue that this approach should be considered as a Top-down method. Ax et al. (2009); Lagerstedt and Tjerneld (1991) claims that this method starts from the top of the organization by constructing directives and a detailed proposal how the organization should be
navigated. Afterwards, the directives are translated into objectives for different functions and departments.

Moreover, we argue that the insurance operations are characterized by a Top-down method similarly as the banking operations, but the difference is that this business area consists of BB and BBM elements. According to L. Eriksson, employees in the insurance business are intended to achieve their objectives determined in the scorecard based on their own capabilities in accordance to the market situation. The objective for the insurance operations in terms of budgeting is to establish an overview of the outcomes for the upcoming annual cycle. The main idea is not to create a detailed budget on an account level-basis, instead KPIs are applied to establish an overview for the budgeting. The reasoning behind this approach is that insurance operations are dynamic and unpredictable, hence flexibility is required in terms of budgeting (L. Eriksson, personal communication, 2018-03-27). Hope and Fraser (2003c); Johnson and Kaplan (1987); Samuelsson (1997) argues that companies should operate with a flexible and realistic budget without absolute numbers. Within the BBM principles, Hope and Fraser (2003c) argue that principle number one (Figure 3) is based on the idea that there does not exist an annually fixed performance contract agreed in advance. Goals should be relative and based on maximizing the short and long-term performance potential. The most common instrument to evaluate performance is by using KPIs.

5.1.3 LF Kalmar

LF Kalmar begins the budgeting cycle (one year) in May where top-management and the board sets the strategic assumptions about the future. In August, each line of business has their own kick-offs where forecasts are developed in terms of sales volumes, predictions about market evolvements and determination if more employees must be hired. This process is conducted as the organization wish to increase the involvement of employees, which also leads to enhanced cost awareness. The developed budget proposals stemming from the kick-offs are discussed with top-management and in October the proposals are consolidated, subsequently a final budget is set (J. Pettersson, personal communication, 2018-04-03). Anthony and Govindarjan (2001) argues that a continuous dialogue between the departments are fundamental when constructing the budget. Consolidation of budget proposals allows management to pursue the most efficient allocation of resources. According to Bergstrand and Olve (1996) budgets have an important role in guiding the organization during the determined timeframe and provide a clear guidance for management in translating the objectives to the employees. We argue that
this process is in line with the Bottom-up method described by Ax et al. (2009); Lagerstedt and Tjerneld (1991). When the final budget is set at LF Kalmar, there is always an unforeseen circumstance that something unexpected occurs, if this would happen, then the budget is revised to reflect the new circumstance (J. Pettersson, personal communication, 2018-04-03). Neely et al. (2003); Heupel and Schmitz (2015) argues that whenever unexpected circumstances occur, the budget should be revised.

In addition to the TB, LF Kalmar uses a form of BSC as an additional MCS, however it is considered as ‘scorecard’. The scorecard is applied as in LF Jönköping and LF Skaraborg. The organization also utilizes benchmarking toward other regional entities, primary by benchmarking sales volumes and overall economic performance (H. Jonsson, personal communication, 2018-04-03). We argue that this exemplifies performance benchmarking by Bhutta and Hug (1999), similarly as LF Jönköping. Therefore, we argue that LF Kalmar applies BBG.

5.1.4 LF Kronoberg

In comparison to the previously elaborated entities, LF Kronoberg argues that constructing a budget (one year) plays a less significant role for the organization as they solely focus on the long-term strategic planning through ORSA. The long-term strategic planning is “broken” down to strategic activities and the budget is considered as a strategic activity (A. Bylin, personal communication, 2017-03-28). Horngren et al. (1994) argues that budgets are the strategic implementation and an instrument to perform strategic planning. The budgeting process at LF Kronoberg begins with a forecasting how the market will evolve and what the organization expects that customers will demand in the future (A. Bylin, personal communication, 2017-03-28). Anthony and Govindarjan (2001) argues the strategic orientation of an organization is largely influenced by the forecasting. For the insurance operations, it is difficult to predict the unexpected, hence how much capital that should be budgeted for. The organizations complements their forecasting with statistics and trend-analysis to understand how much they can expect to have in insurance claims. Moreover, LF Kronoberg strives to integrate every employee in the budgeting and the strategic process. The philosophy is based on the foundation that budgeting process should start from the bottom and then process to the top (A. Bylin, personal communication, 2017-03-28). The whole procedure is resembling what Ax et al. (2009); Lagerstedt and Tjerneld (1991) describes as a Bottom-up method.
In excess of the budget, the organization applies an alteration of the BSC which includes financial, employee, customer and sustainability aspects. The original model by Kaplan and Norton (1996b) consists of four perspectives, namely, financial, customer, internal business processes and learning & growth. We argue that the application LF Kronoberg uses for their BSC should be considered as close to the original. The only difference is that they have changed some perspectives in the model, compared to the other regional entities that have moved from a BSC to a scorecard instead. Moreover, the organization benchmarks towards other regional entities within LF Group (A. Bylin, personal communication, 2017-03-28). According to A. Bylin, the positive aspect with a benchmark is that it provides an indication of how the organization is performing (A. Bylin, personal communication, 2017-03-28). We argue that this is what Bhutta and Hug (1999) considers as performance benchmarking, which is applied by LF Jönköping and LF Kalmar as well. Consequently, we argue that LF Kronoberg applies BBG. The table below illustrates how the budgeting process is characterized at each regional entity and what MCSs we identified.

<table>
<thead>
<tr>
<th>LF Jönköping</th>
<th>LF Skaraborg</th>
<th>LF Kalmar</th>
<th>LF Kronoberg</th>
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</thead>
<tbody>
<tr>
<td>✷ Traditional Budgeting</td>
<td>✷ Traditional Budgeting</td>
<td>✷ Traditional Budget</td>
<td>✷ Traditional Budgeting</td>
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<tr>
<td>✷ Forecasting</td>
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<tr>
<td>✷ Bottom-up Method</td>
<td>✷ Top-down Method</td>
<td>✷ Bottom-up Method</td>
<td>✷ Bottom-up Method</td>
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<tr>
<td>✷ Budget</td>
<td>✷ Budget</td>
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<tr>
<td>✷ Better Budgeting</td>
<td>✷ Better Budgeting</td>
<td>✷ Better Budgeting</td>
<td>✷ Better Budgeting</td>
</tr>
<tr>
<td>✷ Rolling Forecasts</td>
<td>✷ Scorecard (BSC)</td>
<td>✷ Scorecard (BSC)</td>
<td>✷ BSC</td>
</tr>
<tr>
<td>✷ Scorecard (BSC)</td>
<td>✷ Beyond Budgeting</td>
<td>✷ Beyond Budgeting</td>
<td>✷ Benchmarking</td>
</tr>
<tr>
<td>✷ Benchmarking</td>
<td>✷ KPIs</td>
<td>✷ KPIs</td>
<td>✷ Benchmarking</td>
</tr>
</tbody>
</table>

Table 4, Characteristics of Each Regional Entity’s Budgeting Approach. Source: Own
5.2 What functions are the budget and/or its other management controlling system(s) fulfilling?

Simons (1990) argues that budgeting serves as a function of interaction between top-management and lower levels of management. At LF Jönköping, the managers (lower management) in each line of business are in charge of their own budget, which is sent back to the CFO for approval (top management). Another function with the budget is that it is a fundament to reflect on the market situation, hence the contemporary aspect and its future orientation; when the budget is established, the numbers are converted into strategic orientations (K. Wetterholm, personal communication, 2017-04-04). Hansen and Van der Stede (2004) argue that budgets convert numbers into strategy. With the budget, managers are able to set the direction of the corporation for the future. Furthermore, to overcome the inability of predicting the amount of insurance claims, the organization applies statistics that they have collected for several decades. This becomes an integral part of the planning (K. Wetterholm, personal communication, 2017-04-04). Horngren et al. (2010) argues that the budget serves for planning purposes. K. Wetterholm further accentuates that the budget also provides a “handrail” for the organization if the environment changes. Thereby, the organization enables control, and evaluation can be conducted if the strategy is functioning properly in the pursuit of achieving the objectives (K. Wetterholm, personal communication, 2017-04-04). According to M. Lundqvist, the absolutely most important function with the budget is the planning how the create revenues. When this plan is set, the organization is able to price the products & services and predict its profit marginal (M. Lundqvist, personal communication, 2017-04-04).

In relation to the BBG elements which serves as other MCS’s in excess of the TB, M. Lundqvist argues that the implantation of the RF helps the organization to understand trends, it is also a comparative tool to understand how the industry is performing (M. Lundqvist, personal communication, 2017-04-04). According to Gurton (1999), the main function with a RF is that it provides flexibility, relies on up to date figures which ultimately leads to better seasonable allocation of resources. K. Wetterholm argues that the market in general has become more dynamic (K. Wetterholm, personal communication, 2017-04-04), which could be a reason why they have implemented RF as it helps the organization to remain updated on changes in the market environment.
In addition, LF Jönköping applies performance benchmarking towards other entities within LF Group. The use of a benchmark boils down to what you are comparing and to what regional unit the comparison is conducted towards (M. Lundqvist, personal communication, 2017-04-04). According to the Benchmarking Wheel by Bhutta and Hug (1999 p. 258), this argument is congruent as the first stage consists of “determination what to benchmark” and thirdly “identify which organizations to benchmark”. M. Lundqvist summaries the use of benchmarking that it helps the organization’s within LF Group to continuously learn from each other but as each regional entity significantly varies on some areas, the use of a benchmark is sometimes narrow (M. Lundqvist, personal communication, 2017-04-04). We further argue that the scorecard that LF Jönköping applies can be connected to the one of the management processes in the original BSC. The scorecard provides guidance for how growth is to be achieved which the organization translates from each business line to each individual (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04). The original BSC is describing this as a process of translating the vision where management spreads this to “every component” within the organization to align short and long-term strategies (Kaplan & Norton, 1996b). Another function with the scorecard is that bonus and rewards are based on how well the organization has performed meaning that individual rewards are excluded (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04).

According to Ax et al. (2009); Merchant and Van der Steede (2003), it is imperative to monitor the budget as this serves as a function to analyze, discuss and learn what works well in the organization and what can be improved. M. Lundqvist claims that another MCS is that they evaluate prior year’s performance in accordance to the budget on a monthly basis. This is conducted since they desire to understand where the company was 12-months ago, and where they currently are (M. Lundqvist, personal communication, 2017-04-04). Older research opposes the claim that budgets are constructed for evaluation purposes (Otley, 1978), while Ekholm and Wallin (2000) argue that performance evaluation is the most important function of budgeting. Ultimately, if the budget at LF Jönköping would indicate a large discrepancy, there would be a thorough methodological analysis to understand the underlying reason for this (M. Lundqvist, personal communication, 2017-04-04). Bergstrand and Olve (1996) explains this process as a diagnostic assessment, which is part of the budget monitoring.

The budgeting at LF Skaraborg initiates by evaluating last year’s outcome for both the insurance and the banking operations and use this as a foundation for the budget. Within this process, the
desired growth is established by top management and what each individual must contribute with to achieve this (D. Wennlund, personal communication, 2018-03-27). According to Abernethy and Brownell (1999); Ax et al. (2009), the budget serves as an interaction between top-management and lower management of what is expected to achieve the predetermined objectives. Libby and Lindsay (2003) explains this process where management command their employees what they are expected to deliver while controlling the outcome (top-down approach). The budget also serves as a function for planning purposes (Horngren et al., 2010) where LF Skaraborg integrates statistics that they have collected for several decades about insurance claims as the nature of business is unpredictable; with this statistics, the organization is able to plan how much capital they need to budget for (L. Eriksson, personal communication, 2018-03-27).

LF Skaraborg complements their budget with a MCS called scorecard (a form of BSC) (L. Eriksson, personal communication, 2018-03-27). We argue that the scorecard is similarly applied as in LF Jönköping. The difference is that the scorecard is based on catchwords called “rakmål” which is translated to result, activity and quality in connection to the objectives (L. Eriksson, personal communication, 2018-03-27). According to Kaplan and Norton (1996b), a BSC helps managers to not solely rely on short-term financial measures as the only index for the organization’s performance. We argue that regardless if the organization is not using the original BSC, it is still partly congruent with Kaplan & Norton’s (1996b) argument as LF Skaraborg considers quality as part of their scorecard, which is not a pure financial measure. Moreover, when the objectives in the scorecard are achieved, the bonus and reward system has a direct connection to how well the team has performed (D. Wennlund, personal communication, 2018-03-27). Number two within the BBM model by Hope and Fraser (2003c) argue that bonus elements should be based on team efforts.

As part of the budget monitoring, if the budget would deviate significantly, then a thorough investigation must be conducted to find the reason (L. Eriksson, personal communication, 2018-03-27). Bergstrand and Olve (1996) describes this process as diagnosis. When the discrepancy has been diagnosed, it should be used to re-plan the operations. D. Wennlund exemplifies this by elaborating on two examples, firstly if the discrepancy is related to a single individual falling behind, support is given. The deviation can also be related to the market environment, and whenever the environment changes drastically, the budget should be updated to reflect the new circumstance(s) (D. Wennlund, personal communication, 2018-03-27). Neely et al. (2003);
Heupel and Schmitz (2015) accentuates that when dramatic changes occur in the market, the budget can become obsolete and lose its functionality. Hence, we argue that this process is considered as a controlling procedure. The functions that are mostly prominent at LF Skaraborg is planning, controlling and evaluating which is in line with Henttu-Aho and Järvinen’s (2013) argument about budgeting and its correlated functions (Table 1). We further argue that one function is resembling what Ekholm and Wallin (2000) describes as motivation (Table 1) since D. Wennlund elaborates that the budget serves as a function between employees and the organization to motivate people to work for the same objectives (D. Wennlund, personal communication, 2018-03-27).

At LF Kalmar, the budgeting process begins in May where top-management sets the strategic assumptions about the future. In August, each line of business are involved in the budget setting (J. Pettersson, personal communication, 2018-04-03). According to Horngren et al. (1994), the budget functions as the strategic implementation and an instrument to perform strategic planning. H. Jonsson argues that each year’s result is evaluated to ensure that the long-term objectives can be achieved (H. Jonsson, personal communication, 2018-04-03). This is in line with the argument by Hansen and Van der Steede (2004) who argues that the budget impacts the strategic orientation. According to J. Pettersson, the budget fills several important functions which is to control the operations, steer the organization towards the right direction and to communicate the objectives internally and externally. With the budget, employees are able to understand whether they have performed accordingly. Finally, the budget becomes a foundation to communicate to the owners (J. Pettersson, personal communication, 2018-04-03).

LF Kalmar complements their budget with a form of BSC but it is called ‘scorecard’ which is similarly applied as in LF Jönköping and Skaraborg. However, it is emphasized that the scorecard is not utilized as a tool to control employees, rather to motivate and help them reaching their full potential. If an employee would perform above their given objective, there would be no individual bonus or rewards as this is based on how well the team has performed, similarly as in LF Skaraborg (J. Pettersson, personal communication, 2018-04-03). Hope and Fraser (2003c) argue that bonus elements should be based on team efforts. The organization further complements their budget with a MCS called performance benchmarking. In accordance to LF Jönköping’s standpoint on what the performance benchmarking serves as a function, LF Kalmar provides a similar argument that the use of a benchmark can questioned as the regional entities differ. However, the benchmark provides a possibility to measure how well each
employee has performed in sales compares to other regional entities (H. Jonsson, personal communication, 2018-04-03).

J. Petterson argues that there is always a possibility that something unforeseen occurs externally and whenever that happens, the budget is updated to reflect the new circumstance(s) (J. Pettersson, personal communication, 2018-04-03). We argue that the diagnostic and re-planning approach is conducted similarly as in LF Jönköping and Skaraborg. The difference is that when something larger occurs and the budget starts losing its function, the board has to be involved (J. Pettersson, personal communication, 2018-04-03). Bergstrand and Olve (1996) describes this budget monitoring part as “alarming”, which means that the board must be alerted as the budget is not fulfilling its purpose.

At LF Kronoberg, the budget or the operationalization is considered as a strategic activity to reach the long-term objectives (A. Bylin, personal communication, 2017-03-28). According to Anthony and Govindarjan (2001), the operationalization is largely influenced by the strategic planning. According to A. Bylin, the budget provides a foundation for planning, allocation of resources and pricing the products. As a strong emphasis is to understand how the market will evolve, planning becomes an integral part in this. This further involves a determination whether more employees must be hired (allocation of resources) and lastly if the product & services are priced correctly with the strategic objectives. Moreover, the organization integrates statistics for planning purposes in the insurance operations (A. Bylin, personal communication, 2017-03-28), similarly as LF Jönköping and LF Skaraborg. According to A. Bylin, one important function with the budget is that it shows a direction of volition. It is further accentuated that the budget itself is not the most important aspect, rather the process as it provides a pedagogical tool for managers to understand the planned activities, cost drivers and how the objectives are to be achieved (A. Bylin, personal communication, 2017-03-28). This is in line with the stance by Bergstrand and Olve (1996) who argues that the budgeting process is more important than the determination of the budget. The budgeting process thoroughly elaborates the whole organization and sets the foundation for what is expected from each department. A. Bylin further argues that the budget provides comfort and safety for employees as they become aware of what they are expected to deliver (A. Bylin, personal communication, 2017-03-28).

In excess of the budget, LF Kronoberg applies an alteration of the BSC. We argue that this is similar to the original BSC developed by Kaplan and Norton (1996ab), as mentioned earlier.
The reason for implementing this MCS was because the organization wanted to become better at focusing on all the perspectives (financial, employee, customer and sustainability) and not only the financial perspective (A. Bylin, personal communication, 2017-03-28). The BSC helps managers to not solely on short-term financial measures as the only index for the organizations performance (Kaplan & Norton, 1996b). The benchmarking is similarly applied as in the other investigated organization. The bonus and reward system is applied as in LF Jönköping where this is based on how well the organization has performed. In terms of budget monitoring, this procedure works as in LF Kalmar where the board has to be involved when something larger occurs and the budgets starts losing its function (A. Bylin, personal communication, 2017-03-28). The list on the next page summaries the function we have identified for all the studied entities:
<table>
<thead>
<tr>
<th>LF Jönköping</th>
<th>LF Skaraborg</th>
<th>LF Kalmar</th>
<th>LF Kronoberg</th>
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<tbody>
<tr>
<td><strong>TB Functions</strong></td>
<td><strong>TB Functions</strong></td>
<td><strong>TB Functions</strong></td>
<td><strong>TB Functions</strong></td>
</tr>
<tr>
<td>- Interaction between top management and lower levels of management</td>
<td>- Establish growth divided on an individual basis (sales budget)</td>
<td>- Instrument to perform the strategic planning</td>
<td>- Strategic activity to reach the long-term objectives</td>
</tr>
<tr>
<td>- Fundament to reflect on the market situation</td>
<td>- Predicting the amount of insurance claims by using statistics (part of planning)</td>
<td>- Control the operations</td>
<td>- Planning</td>
</tr>
<tr>
<td>- A “handrail” if the environment changes</td>
<td>- Interaction between top management and lower levels of management</td>
<td>- Steer the organization</td>
<td>- Allocation of resources</td>
</tr>
<tr>
<td>- Convert numbers into strategy</td>
<td>- Planning</td>
<td>- Communicate the objectives internally and externally</td>
<td>- Pricing the products</td>
</tr>
<tr>
<td>- Set the direction of the corporation for the future</td>
<td>- Control</td>
<td>- Evaluation (part of budget monitoring)</td>
<td>- Predicting the amount of insurance claims by using statistics (part of planning)</td>
</tr>
<tr>
<td>- Predicting the amount of insurance claims by using statistics (part of planning)</td>
<td>- Evaluation (part of budget monitoring)</td>
<td>- Budget monitoring</td>
<td>- Direction of volition</td>
</tr>
<tr>
<td>- Planning how to create revenues</td>
<td>- Motivation of employees</td>
<td>- Diagnostic assessment</td>
<td>- A pedagogical tool for managers</td>
</tr>
<tr>
<td>- Price the products and services</td>
<td>- Budget monitoring</td>
<td>- Re-plan the operations</td>
<td>- Comfort and safety for employees</td>
</tr>
<tr>
<td>- Control</td>
<td>- Diagnostic assessment</td>
<td>- Alarming</td>
<td>- Evaluation (part of budget monitoring)</td>
</tr>
<tr>
<td>- Evaluation (part of budget monitoring)</td>
<td>- Re-plan the operations</td>
<td>- Balanced Scorecard: Focusing on all the perspectives within the organization. Rewards and bonuses are organizational based</td>
<td>- Budget monitoring</td>
</tr>
<tr>
<td>- Budget monitoring</td>
<td>- Alarming</td>
<td>- Benchmarking: Improve performance by comparison of other LF entities</td>
<td>- Diagnostic assessment</td>
</tr>
</tbody>
</table>

**BBG Functions**
- Rolling Forecast: Understand trends and how the industry is performing
- Benchmarking: Improve performance by comparison of other LF entities
- Scorecard: Determine growth per individual. “Rikmål” connected to the scorecard.
- BBM Functions
  - Rewards and bonuses are team-based (Related to the Scorecard)

**BBG Functions**
- Scorecard: Determine growth per individual. Motivate the employees.
- Benchmarking: Improve performance by comparison of other LF entities
- BBM Functions
  - Rewards and bonuses are team-based (Related to the Scorecard)

**BBG Functions**
- Balanced Scorecard: Focusing on all the perspectives within the organization. Rewards and bonuses are organizational based
- Benchmarking: Improve performance by comparison of other LF entities

Table 5, Summary of the Identified Functions. Source: Own
5.3 What are the opinions on the criticism against traditional budgeting?

At LF Jönköping, the budgeting process ranges for several months, more specifically May until December (M. Lundqvist, personal communication, 2017-04-04). M. Lundqvist at LF Jönköping agreed that the budget is time consuming to put together while K. Wetterholm partly agreed about this (Appendix 1). Bourmistrov and Kaarboe (2013); Heupel and Schmitz (2015); Hope and Fraser (2003a); Neely et al. (2003) claims that a budget takes time and resources to create. K. Wetterholm further responded partly that “Budgets constrain responsiveness and are often a barrier to change” and agreed that “Budgets are developed and updated too infrequently, usually annually” (Appendix 1). Firstly, we argue that this can be connected to what K. Wetterholm refers to that the budget guides the organization and makes the organization less inclined to adapt to changes and re-steer the organization to grasp external changes. Secondly, The organization do not take seasonal differences into consideration meaning that customers normally purchase products & services during certain months, which might indicate large discrepancies in the budget (K. Wetterholm, personal communication, 2017-04-04). We argue that this can be considered what Hansen et al. (2003) refers to be dysfunctional behavior meaning that resources are not allocated to its most significant use. As LF Jönköping has implemented RF (K. Wetterholm, personal communication, 2017-04-04; M. Lundqvist, personal communication, 2017-04-04) which is supposed to lead to figures that are up to date and better seasonable allocation of resources (Gurton, 1999); we argue that it is paradoxical that one respondent argued that seasonable allocation is an issue as RF is supposed to fill this gap.

Bunce et al. (1995); Hope and Fraser (1997; 2003c); Wallander (1999) further argues that another dysfunctional behavior with TBs is that it strengthens vertical command-and-control which influences budget planning and performance evaluation. M. Lundqvist responded that he agrees with this statement while K. Wetterholm answered that she partly agrees with this (Appendix 1). We argue that this can be connected to what K. Wetterholm refers to that it can be difficult to combine the operationalization with the long-term strategy as top-management through ORSA sets the long-term objectives which are supposed to be translated from the top of the hierarchy to the bottom (K. Wetterholm, personal communication, 2017-04-04). We argue that this stance further supports her answer that “Budgets reinforce departmental barriers rather than encourage knowledge sharing” which she agrees about (Appendix 1).
In contrast to the negative criticism on TB, the questionnaire illustrates a result where the CFO, M. Lundqvist are positive to the budget *(Appendix 1)*. We argue that this can be related to the fact that M. Lundqvist expressed that LF Jönköping is able to achieve precision on the cost-side of the budget simultaneously as the organization is performing above their budget on the income side (M. Lundqvist, personal communication, 2017-04-04). Moreover, Bourmistrov and Kaarboe (2013) argues that the use of TB helps organization to operate with a feeling of comfort as they rely on the budget. K. Wetterholm argues that the budget provides comfort to the organization, particularly employees as they become updated whether they have performed accordingly (K. Wetterholm, personal communication, 2017-04-04). M. Lundqvist summaries the use of a budget that it all boils down to how the budget is applied in the organization and that it should not be a MCS to control employees on a micro level nor hamper potential business opportunities that evolve a continuous basis (M. Lundqvist, personal communication, 2017-04-04). Therefore, we argue that the positive aspects of a TB outweighs its possible downsides, which is also supported by their positive stance in the questionnaire, particularly by the CFO’s responses *(Appendix 1)*.

L. Eriksson at LF Skaraborg responded that the budget is partly time-consuming to construct *(Appendix 2)*. According to Bourmistrov and Kaarboe (2013); Heupel and Schmitz (2015); Hope and Fraser (2003a); Neely et al. (2003), budgets consumes time for organizations to develop. In addition, L. Eriksson agreed that “*Budgets add little value, especially given the time required to prepare them*” and partly agreed that “*Budgets concentrate on cost reduction and not value creation*” *(Appendix 2)*; Hansen et al. (2003) argues that budgets forms irrational decision making, which we argue can be related to the last response on value creation. Furthermore, both respondents agree and partly agrees that “*Budgets strengthen vertical command-and-control*” *(Appendix 2)*. Bunce et al. (1995); Hope and Fraser (1997; 2003c) claims that TBs are characterized by a top-down structure which strengthen vertical command-and-control. We argue that the respondents opinions can be related to D. Wennlund’s argument that the budget works as an assessment tool for the banking operations where each individual is controlled whether they have met the predetermined target (D. Wennlund, personal communication, 2018-03-27), also as we established that the organization applies a top-down approach. Heupel and Schmitz (2015); Neely et al. (2003) regards budgets for controlling, commanding and hierarchical purposes as obsolete. Simons (1994) argue that budgetary control may cause dysfunctional behavior in an organization; particularly when it is used for traditional purposes of evaluating and delegating responsibility to employees (Abernethy & Brownell,
Libby and Lindsay (2003) argues that TBs acts as a system where management command employees what they should do, while controlling the outcome.

However, it is argued that regardless if the budget takes time to establish, the resources and time spent is still necessary as this creates a solid foundation to allocate resources and establish potential revenue sources (D. Wennlund, personal communication, 2018-03-27). According to Ekholm and Wallin (2000); Libby and Lindsay (2007a; 2010), managers find TBs indispensible in its nature, strategically focused and flexible. The latter is supported by L. Eriksson who argues that the budget is not strictly used as a governing tool for LF Skaraborg. When something unplanned occurs, the budget is updated to reflect the circumstance(s). This is particularly prevalent for the insurance operations as this business area is dynamic and unpredictable, consequently flexibility is required for the budget (L. Eriksson, personal communication, 2018-03-27). Contrary to the answer by D. Wennlund that “Budgets make people feel undervalued” (Appendix 2); he emphasized that the budget is directly connected to the organization’s strategy, helps motivate and control employees. Without the budget, there would be nothing to compare the actual results with, meaning that it is impossible to understand whether employees have performed accordingly (D. Wennlund, personal communication, 2018-03-27). Ekholm and Wallin (2000) argues that without the budget, target cannot be set to control and evaluate performance. With this said, it can be argued that D. Wennlund considers the positives aspects of a budget to outweigh its possible downsides. To summarize, we argue that the budget is indispensable for the banking operations while it plays a less significant role for the insurance area at LF Skaraborg.

The budgeting process at LF Kalmar initiates in May and the final budget is reached in October (J. Pettersson, personal communication, 2018-04-03). Both respondents agrees that “Budgets are time-consuming to put together” (Appendix 3). According to H. Jonsson, the budgeting process consumes resources from the organization which could be spent on other activities (H. Jonsson, personal communication, 2018-04-03). Research supports their standpoints that budgets are time-consuming to put together (Bourmistrov & Kaarboe, 2013; Heupel & Schmitz, 2015; Hope & Fraser, 2003a; Neely et al., 2003). The respondents opinions can be further related to their answer that “Budgets adds little value, especially given the time required to prepare them” which they partly agrees about (Appendix 3); H. Jonsson and J. Petterson argues that there is always an unforeseen circumstance that the market changes and the budget quickly becomes obsolete (H. Jonsson, personal communication, 2018-04-03; J. Pettersson, personal
communication, 2018-04-03). Subsequently, the budget becomes a defective document with no value that still must be evaluated (H. Jonsson, personal communication, 2018-04-03). J. Petterson claims that the environment is in constant change, therefore it can be difficult to construct a budget that resembles the pursuit towards the long-term strategic objectives (J. Pettersson, personal communication, 2018-04-03). According to Neely et al. (2003); Heupel and Schmitz (2015), the market environment has become dynamic and when dramatic changes occur, the budget can quickly become obsolete and lose its function. This can further be related to their response that “Budgets are developed and updated too infrequently, usually annually”, which one respondent agrees about while the other party agrees about this (Appendix 3). The problem can be related to TBs top-down command-and-control structure which influences the annual budget, planning and performance evaluation (Bunce et al., 1995; Hope & Fraser, 1997; 2003c; Wallander, 1999). Both respondents agree that “Budgets strengthen vertical command-and-control” (Appendix 3).

Moreover, both participants answered that “Budgets are based on unsupported assumptions and guesswork”, which they partly agree about. We argue that this can be related to J. Pettersson’s claim that the budgeting process at LF Kalmar is characterized by a strong emphasis on forecasting (J. Pettersson, personal communication, 2018-04-03). Moreover, Hansen et al. (2003) argues that budgets creates dysfunctional behavior in an organization such as budget games which increases the possibility that strategic data becomes manipulated. For instance, manipulating budget estimates before the budget year has begun to obtain an easier target. Both respondents partly agrees that “Budget encourage gaming” (Appendix 3). J. Petterson claim that the budget process at LF Kalmar can be considered as static as the organization is unable to update the budget and the processes on a continuous basis. The organization consists of several subunits where managers of these must understand the reasoning behind the budget and the processes. If these would be changed too often, it could potentially confuse managers of the subunits which in turn impacts the whole organization (J. Pettersson, personal communication, 2018-04-03). This argument supports J. Petterssons responses in the questionnaire that “Budgets constraints responsiveness and are often a barrier to change” and “Budgets do not reflect the emerging network structures that organizations are adopting”, which the respondent partly agrees about (Appendix 3).

In contrast, it is still necessary to establish a budget because without this, it would be impossible to evaluate, control and analyze the operations to clarify that the organization is steering
towards the right direction (J. Pettersson, personal communication, 2018-04-03). This argument is partly in line with how D. Wennlund at LF Skaraborg considers the budget (D. Wennlund, personal communication, 2018-03-27). Hansen and Van der Stede (2004) argues that the budget helps the organization to set the direction for the future. Each year’s result at LF Kalmar is evaluated to ensure that the long-term objectives can be achieved (H. Jonsson, personal communication, 2018-04-03). Siem and Siegel (2009) claims that budgets sets the foundation for the long-term strategic objectives. From an employee perspective, the budget provides a foundation to engage and involve by ensuring that their objectives are achieved and to keep them updated on their performance (H. Jonsson, personal communication, 2018-04-03). Finally, as the market environment has become more dynamic, the budget provides a supporting pillar if the market would drastically change (J. Pettersson, personal communication, 2018-04-03). To summarize, we argue that the budget is useful for certain purposes at LF Kalmar, but it can be argued that the downsides outweighs the upsides, our argument is also supported by their critical stance in the questionnaire (Appendix 4).

A. Bylin at LF Kronoberg argues that the budget is time-consuming to establish (A. Bylin, personal communication, 2017-03-28). As mentioned in LF Jönköping, Skaraborg and Kalmar, research supports that budgets are time-consuming to put together (Bourmistrov & Kaarboe, 2013; Heupel & Schmitz, 2015; Hope & Fraser, 2003a; Neely et al., 2003). Moreover, A. Bylin agreed that “Budgets add little value, especially given the time required to prepare them” (Appendix 4). We argue that this is connected to the fact that LF Kronoberg operates in a dynamic and unpredictable environment (A. Bylin, personal communication, 2017-03-28). A dynamic market environment can quickly make the budget obsolete (Neely et al., 2003; Heupel & Schmitz, 2015). A. Bylin explains that when the budget is set in December, an unexpected circumstance may appear in January and the budget becomes obsolete (A. Bylin, personal communication, 2017-03-28), which further strengthen our argumentation. Finally, A. Bylin partly agreed that “Budgets concentrate on cost reduction and not value creation” and that “Budgets strengthen vertical command-and-control” (Appendix 4). The idea in LF Kronoberg is that the foundation for the budget and the strategic objectives should start from the bottom of the hierarchy and move to the top of the organization, however top-management have a strong say in the strategic orientations (A. Bylin, personal communication, 2017-03-28). We argue that this can be related to A. Bylin’s response as this may enhance vertical command-and-control. To conclude, A. Bylin argues that if the budget is the only instrument to govern the
organization then the criticism that has been directed against TB is justified (A. Bylin, personal communication, 2017-03-28).

Nevertheless, the TB must still be constructed as it show a direction of volition for the owners and the board. Although the budget is considered to be time-consuming to develop, it still provides a “handrail” for managers to understand the organization, particularly what they are expected to perform, and the planned operations. It also helps managers to understand how the long-term strategic objectives are to be achieved (A. Bylin, personal communication, 2017-03-28). This is line with research that managers find TBs strategically focused (Ekholm & Wallin, 2000; Libby & Lindsay, 2007a; 2010). Moreover, the budget creates comfort and safety for the employees (A. Bylin, personal communication, 2017-03-28). Bourmistrov and Kaarbøe (2013) describes this as the “comfort zone”. We argue that the budget is useful for several purposes at LF Kronoberg, particularly for employees and managers; the positive aspects with a budget outweighs the negative aspects. Our argumentation is further supported by the positive stance by A. Bylin in the questionnaire (Appendix 4).

6. Conclusion

The result from this study illustrates that there are similarities and dissimilarities how TBs and other MCSs are applied in modern organizations. One of the most apparent findings is that we have found strong connections between the cases and the new legal framework Solvency Two, which is also called ORSA. We conclude that ORSA has changed the landscape about budgeting for businesses operating within the insurance sector in Sweden and EU. The short-term operational and long-term strategic perspective have evolved to become more interconnected. The focus has changed from result-oriented governance (short-term) to risk-oriented governance (short and long-term).

The respondents expressed awareness that the market environment is in constant change and that a TB can quickly become obsolete if something unexpected occurs externally. However, all four investigated regional entities have remained their TB and complemented with BBG to enhance the operations. One enterprise has moved further in their insurance operations and runs the business with characteristics of BB to embrace continuous flexibility. We conclude that the TB fulfills several functions but the common denominators falls back to planning, controlling,
evaluation and communication while the BBG serves for sales objectives per employee (BSC/Scorecard) and performance improvements (Benchmarking).

From the criticism, we have identified that there are contrasting views on TBs, both from the questionnaire and the interviews. We can conclude that budgets are time-consuming to put together and that it strengthens vertical command-and-control. Nonetheless, it is still argued that TBs are necessary to establish and that the use of a TB boils down to how it is applied in the organization. Despite negative criticism and market environmental factors, we can conclude the vast majority regards the positive aspects of a TB to outweigh its downsides.

7. Discussion

7.1 Limitations of the Study

This thesis has been subjected to limitations which will be elaborated in this section. By sharing the limitations, it is our ambition to show a fair and accurate picture of the thesis. As we found strong connections between the cases and the new legal framework ORSA (Solvency Two), we discovered a potential limitation from searching on this framework online. The framework is developed specifically for organizations operating within the insurance sector in Sweden and EU. However, we interpreted the empirical data that the framework applies for the banking operations as well. Consequently, we argue that there is a possibility that we misinterpreted the use of ORSA if it potentially does not apply for the banking operations. Another limitation was that only one respondent were interviewed in LF Kronoberg, which only provides one perspective. There were also some differences in expertise among the respondents, which might have impacted the empirical data. Moreover, we had no control over the responses from the interviewees, meaning that we had to accept the empirical data as true and legitimate. Ultimately, we only investigated four organizations, including more companies could have enhanced the credibility and added more value to the study.

7.2 Implication for Practice

Our study gave us a unique opportunity to investigate four out of twenty-three regional organizations within LF that operates under the same brand, but with different budgeting approaches. Consequently, it is our ambition that the study can provide new perspectives into the debate on MCSs which are applicable for organizations within LF and beyond. As the BB proponents suggest that the budget should be abandoned, our study provides empirical data that
TBs in combination with BBG works successfully. Our study also provides organizations with the possibility to gain insight about their own budgeting process from an operational and long-term strategic perspective and secondly what functions their MCS(s) fulfills. Finally, our results will contribute to the discussion about the criticism that has been directed on TBs by displaying that there exists multifaceted opinions. As the vast majority regard the positive aspects to outweigh its downsides, our study further contributes to the discussion about spending extensive resources and time on developing budgets.

7.3 Suggestions for Further Research

Throughout the writing process as we received more knowledge about TB, BBG and BB, we identified some further research that could be investigated. In all the examined regional entities the market environment has been described as dynamical and all of the entities have complemented their TBs with other MCS. As research suggests that TBs has failed to respond to the dynamical market environment. It would be interesting to conduct a study where the aim is to isolate if the environment is the only contributing factor to why organizations complements the budget with other MCS. As we found that the positive aspects with a TB to outweigh its downsides, it would be interesting to conduct a quantitative study to establish the point of view on budgets in other Swedish companies. Furthermore, since we came across that the all of the studied organizations applies BBG, it would be fruitful to understand the criticism about this particular MCS as we illuminated that there exists weaknesses that the BBG is supposed to fill.
8. Reference list


Hope, J. & Fraser, R. (1997). *Beyond budgeting... breaking through the barrier to ‘the third wave’*, Management Accounting, December: 20–3.


9. Appendix

9.1 Appendix 1 – LF Jönköping

<table>
<thead>
<tr>
<th>Criticism against the budget</th>
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<td>11. Budgets reinforce departmental barriers rather than encourage knowledge sharing</td>
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<td>12. Budgets make people feel undervalued</td>
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Description

A= Agree  
B= Partly agree  
C= Does not agree

Magnus (CFO) = Left  
Katarina (Bank Director) = Right

9.2 Appendix 2 – LF Skaraborg

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**Description**

A= Agree  
B= Partly agree  
C= Does not agree

Johan = Left (CFO)  
Henrik = Right (Bank Director)
9.4 Appendix 4 – LF Kronoberg

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**Description**

A= Agree  
B= partly agree  
C= does not agree

Anders Bylin (CFO)

9.5 Appendix 5 – Interview Template

**General information about the respondent**

- What are your job assignments?  
- How long have you worked for the company?

**General information about the environment**

- How would you describe the environment in which the company operates?

**Questions about the budget**

- From an overview perspective, can you describe the budgeting processes?  
- Are there any other management control systems (MCS) implemented in your operations in excess of the budget?  
  - If yes, what is the purpose of the implementation of that particular MCS?  
  - What functions do the MCS fulfill?
• How do you work with the budget from a short-term perspective?
  o Are there any short-term objective(s)? If yes, how do you evaluate the objective(s)?
  o Do the objective(s) usually correspond with the outcome?
  o What are the consequences if the outcome is unaligned with the objective?
• How do you work with the budget from a long-term perspective?
  o Are there any long-term objective(s)? If yes, how do you evaluate the objective(s)?
  o Do the objective(s) usually correspond with the outcome?
  o What are the consequences if the outcome is unaligned with the objective?
• How is the short and long-term perspective in a budget connected?
• Have you experienced any difficulties to combine the short and long-term perspective?
• Would you describe your organization as centralized or decentralized?
• What are your opinion(s) on the criticism that has been directed towards budgeting?
  o Can you relate the criticism on budgeting to your own organization?
• What are the advantages and disadvantages with the budget and/or its complemented MCS in your organization?