

Rolling Forecasts in a Beyond Budgeting Environment

A case study on the use of rolling
forecasts as a management tool

Vivi Ton-Nu

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A case study on the use of rolling forecasts as a management tool

by

Vivi Ton-Nu

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Abstract

By adopting a case study approach this thesis aims to illustrate how rolling forecasts are implemented in a Beyond Budgeting environment. Through the use of qualitative research, the study takes a holistic view of analysing how rolling forecasts are evaluated and used by middle managers, and how the rolling forecasts affect managerial behaviour.

First, the study finds that the rolling forecasts are adopted in different speed by the various business units within the organization. The forecasting process and the use of the rolling forecasts vary across the business units. Some middle managers use the rolling forecasts as a decision making tool, while for others the rolling forecasts are just another reporting tool. Some of the middle managers still have the budget mind-set and perceive forecasts as something to be met. Second, the study finds that overall the managers have a positive attitude toward the rolling forecasts, and perceive them as enabling, rather than coercive. Not everyone has seen the value of the rolling forecasts, but no one seems to miss the budget. Finally, the findings indicate that implementation of rolling forecasts has mitigated the dysfunctional and gaming behaviour caused by the budgeting process. However, there have been some bias related to the rolling forecasts, but this seems to have swung the other way.

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Table of contents

ABSTRACT

ACKNOWLEDGEMENT

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1 REPORT BACKGROUND.....	1
1.2 PROBLEM STATEMENT.....	3
1.3 RELEVANCE AND PURPOSE.....	4
1.4 EMPRICIS	5
1.5 SHORTCOMINGS AND LIMITATIONS	5
1.6 STRUCTURE	6
2. THEORETICAL PERSPECTIVE.....	7
2.1 MANAGEMENT CONTROL.....	7
2.1.1 <i>Management control systems</i>	7
2.1.2 <i>Management accounting</i>	8
2.1.3 <i>Systems of control: formal and informal</i>	8
2.2 MIDDLE MANAGER'S PERCEPTION OF FORMAL CONTROL SYSTEMS	8
2.2.1 <i>Middle managers and their role in the management system</i>	8
2.2.2 <i>Control and flexibility – management challenges</i>	9
2.2.3 <i>Coercive and enabling formal control systems</i>	10
2.3 TRADITIONAL MANAGEMENT AND BUDGETING	11
2.3.1 <i>Traditional management</i>	11
2.3.2 <i>The role of budgets in the management control system</i>	12
2.3.3 <i>Criticism of traditional management and budgeting</i>	13
2.4 BEYOND BUDGETING AND ROLLING FORECASTS	18
2.4.1 <i>What is Beyond Budgeting?</i>	18
2.4.2 <i>Principles of Beyond Budgeting</i>	19
2.4.3 <i>The quality problem - targets, forecasts and resource allocation</i>	21
2.4.4 <i>Rolling forecasts</i>	22
2.4.5 <i>Beyond Budgeting criticism</i>	26
2.5 SUMMARY OF THEORETICAL PERSPECTIVE	27
3. RESEARCH METHOD	29
3.1 FIELD OF STUDY	29
3.2 RESEARCH PHILOSOPHY	29
3.3 RESEARCH DESIGN	30
3.3.1 <i>Purpose of the research</i>	30

3.3.2	<i>Research strategy</i>	31
3.4	COLLECTION OF DATA.....	33
3.4.1	<i>Data collection method</i>	33
3.4.2	<i>Data sources</i>	35
3.4.3	<i>Data analysis</i>	36
3.5	EVALUATION OF THE CHOSEN METHODOLOGY.....	36
3.5.1	<i>Quality of qualitative research</i>	36
3.5.2	<i>Reliability</i>	37
3.5.3	<i>Validity</i>	39
4.	EMPIRICS	41
4.1	COMPANY BACKGROUND.....	41
4.2	MANAGEMENT CONTROL AT NORDIC FINANCIAL GROUP.....	41
4.2.1	<i>Benchmarking and scorecards</i>	43
4.2.2	<i>Bonus and incentives</i>	44
4.2.3	<i>Culture and organization</i>	45
4.2.4	<i>Rolling forecasts</i>	45
4.3	ROLLING FORECASTS AT NORDIC FINANCIAL GROUP.....	45
4.3.1	<i>The purpose of rolling forecasts</i>	46
4.3.2	<i>The forecasting process</i>	47
4.3.3	<i>Focus on key drivers</i>	49
4.3.4	<i>Resource allocation in relation to forecasts</i>	50
4.3.5	<i>Targets in relation to forecasts</i>	50
4.3.6	<i>Best practice</i>	51
4.4	SUMMARY OF EMPIRES.....	52
5.	ANALYSIS	54
5.1	WHY BEYOND BUDGETING AND ROLLING FORECASTS?.....	54
5.2	THE USE OF ROLLING FORECASTS.....	57
5.2.1	<i>Increased business understanding</i>	58
5.2.2	<i>Decision-making tool</i>	61
5.2.3	<i>Scenario planning and risk assessment</i>	66
5.2.4	<i>Information system</i>	67
5.2.5	<i>New tool, old mind-set</i>	68
5.2.6	<i>Time-dimension and use of forecasts</i>	70
5.2.7	<i>Learning and reflection</i>	71
5.2.8	<i>Uncertainty of information in the use of forecasts</i>	73
5.3	PERCEPTION TOWARDS ROLLING FORECASTS.....	74

5.3.1	<i>Repair</i>	75
5.3.2	<i>Flexibility</i>	75
5.3.3	<i>Internal transparency</i>	75
5.3.4	<i>Global transparency</i>	76
5.3.5	<i>Development and implementation</i>	76
5.4	IMPACT ON MANAGERIAL BEHAVIOUR	77
5.4.1	<i>From biased numbers to realistic forecasts</i>	77
5.4.2	<i>Action-orientation</i>	80
5.4.3	<i>From reactive to proactive planning</i>	81
5.4.4	<i>From cost focus to value creation</i>	82
5.4.5	<i>Increased cost awareness</i>	83
5.4.6	<i>Continious improvement</i>	84
5.4.7	<i>Increased colloboration and focus on the big picture</i>	84
5.4.8	<i>New kinds of gaming behaviour?</i>	85
5.5	CHALLENGES AHEAD	86
5.5.1	<i>Changing the culture</i>	86
5.5.2	<i>Key management tool in all business units</i>	86
5.5.3	<i>Key management tool at all levels</i>	87
5.5.4	<i>Standardization</i>	87
6.	CONCLUSION	91
6.1	MAIN FINDINGS	91
6.1.1	<i>Research question 1</i>	91
6.1.2	<i>Research question 2</i>	92
6.1.3	<i>Research question 3</i>	93
6.1.4	<i>Concluding remarks</i>	94
6.2	SUGGESTIONS FOR FURTHER RESEARCH	96
	REFERENCES	97
	APPENDIX	102
	INTERVIEW GUIDE LINE	102

List of tables

Table 1: Leadership principles of Beyond Budgeting 19
Table 2: Process principles of Beyond Budgeting 19
Table 3: Interviews 35
Table 4: Meetings 35
Table 5: Main difference between budgeting and rolling forecasts 53

List of figures

Figure 1: The Twin Peaks of Beyond Budgeting (Hope and Fraser, 2003) 21
Figure 2: The quality problem (Bogsnes, 2009)..... 22
Figure 3: Traditional vs. rolling forecasts. (Hope, 2010) 23
Figure 4: Dynamic management 42
Figure 5: Dynamic management model 43
Figure 6: Breaking down long term goals 44
Figure 7: Elements of culture 45
Figure 8: Gap analysis..... 47
Figure 9: Comparison of forecasts 47
Figure 10: Bottom-up forecasting process 49
Figure 11: Forecasts as a decision making tool..... 63
Figure 12: Risk assessment (modified) 67

1. Introduction

This chapter aims to present the background for the study and introduce the problem statement as well as the purposes and relevance of the study.

1.1 Report background

Forecasting is a key pillar of an organization's performance management system, and getting realistic and accurate planning information is critical for executives to quickly adapt to changing business conditions. (PwC, 2011) Managing business performance in today's complex and rapidly changing business environment is crucial for any organization's success. In addition, the performance expectations from customers, shareholders, and other stakeholders have also increased. There is both high *need* and *expectations* for outstanding performance. (Bogsnes, 2009) This has generated the need for management control to shift concerns from detailed traditional accounting systems, to more flexible and strategically focused management control systems. (Bjørnenak, 2009)

The budget has been, and still is, the dominant instrument for management accounting and control. In recent years, the budget has been heavily criticized. The critics of the budget have claimed that the budget has lost its relevance in today's highly competitive environment. Budgets have been criticized for being too time consuming, constraining responsiveness, imposing a vertical command-and-control structure, creating centralized decision-making, stifling initiative, and focusing on cost reduction rather than value creation. (Wallander, 1999; Hansen, Otley, & Van der Stede, 2003; Hope & Fraser, 2003)

The budget is regarded as an important tool for management accounting, and an integral part of management control systems. It provides a framework for judging performance and motivating managers and other employees to reach organizational goals. (Horngren, Datar, & Foster, 2005) Accounting has both a role as a planning tool on one hand, and an instrument of control on the other. However, traditional budgets has in many ways proved to be inappropriate for these purposes.

First, budgets has been accused of not producing relevant information for assisting managers in their decision making function. Second, the budgeting process typically results in a fixed performance contract between superiors and subordinates and is one of the primary drivers

of managerial behaviour. Budgets and fixed performance contracts are thus being used to drive and evaluate managerial performance. This can cause managers to behave in dysfunctional ways, particularly if they find they cannot meet these contracts. At best this result in “managing the numbers”, at worst it results in outright misrepresentation and fraud. (Hope & Fraser, 2003)

In recent years, alternative approaches to management control have been introduced. In order to meet today’s business challenges and stay competitive, many companies has seen it as necessary to change their management control systems. Hope and Fraser suggested to “drop the budget all together” and labelled their new approach to management control “Beyond Budgeting”. The Beyond Budgeting philosophy is a way of addressing management control challenges by replacing budgets and making organizations more adaptive to change. The initiative recognizes the weaknesses of traditional control systems of budgeting and accounting measures of performance. (Hope & Fraser, 2003)

Central for the Beyond Budgeting model is that it is a comprehensive management model and a new way of thinking rather than a particular tool or technique (Hope & Fraser, 2003). The main idea behind Beyond Budgeting is to abandon budgetary contracts and the *ex ante* performance targets that go along with them. As an alternative, the Beyond Budgeting model suggest that organizations follow a set of principles that releases them from what Hope and Fraser (2003) call “the annual performance trap” associated with budgeting. These principles include the use of relative goals and rewards, continuous planning and control and decentralisation of power and authority. (Hope & Fraser, 2003; Bogsnes, 2009; BBRT, 2013a)

Within Beyond Budgeting rolling forecasts are suggested as the main alternative to the traditional budgets. Unlike the budget, the rolling forecast is updated frequently, has a rolling horizon and is not limited to the fiscal year. Forecasting and planning are key activities in uncertain business environments. Rolling forecasts aim to deal with many of the weaknesses of the budget and enables the organization to response faster to environmental changes. (Bergstrand, 2009; Bogsnes, 2009)

Swedish Handelsbanken is by many seen as the pioneer of Beyond Budgeting. After abandoning the budgeting process in 1970, Handelsbanken started to outperform their

competitors by being more profitable than industry average, and they have continued to do so ever since. (Bogsnes, 2009) Some companies have followed Handelsbanken's example of abandoning the budgets, where a large share of these companies has been Scandinavian.

This empirical study is set in the context of a large Scandinavian banking group, hereafter called *Nordic Financial Group*, implementing Beyond Budgeting practices. Nordic Financial Group operates in an environment characterized by a high degree of unpredictability and fluctuations and found the traditional budgets to be out of kilter with the business environment. The company decided to abandon the budget and implemented a new management model inspired by the Beyond Budgeting concept. Rolling forecasts are an important part of this management model. By applying a case study approach this thesis aims to investigate how rolling forecasts are used as a management tool in Nordic Financial Group.

1.2 Problem statement

Based on the report background and by employing Nordic Financial Group as a case study, the following problem statement is formulated:

How do the middle managers in Nordic Financial Group experience and make use of rolling forecast, and what kind of actions do they derive from forecasts?

In order to answer this problem statement the following research questions are raised:

1. How are rolling forecasts used as a tool?
2. How do the middle managers perceive and evaluate the rolling forecasts as a management tool?
3. How does rolling forecasts as a management tool affect managerial attention and behaviour?

The study aims to investigate how the rolling forecast is used as an alternative to the budget as a part of a management model based on the Beyond Budgeting principles.

1.3 Relevance and purpose

The Beyond Budgeting concept is a relatively new concept which and has attracted the interest of the research community only in recent years. For that reason, the Beyond Budgeting ideas are relatively little explored by academic researchers, from both a general theoretical perspective and in particular settings. (Kaarbøe & Stensaker, 2011) This thesis focus on the practice of this new approach of management control in one large banking group, here called “Nordic Financial Group”, and contributes to a practical understanding of how rolling forecasts are used as an alternative to budgets in an organization. The study aims to investigate the practice of forecasting in Nordic Financial Group.

Many years have passed since the pioneering introduction of Beyond Budgeting in Svenska Handelsbanken in the 70s. (Wallander, 1999) However, we still know little about how Beyond Budgeting concepts function in practice and especially how replacement of the annual budget with other management tools has improved the abilities of decision-makers in facing increasing environmental uncertainty and complexity. (Bourmistrov & Kaarbøe, 2013) An alternative to traditional budgets are rolling forecasts, which have gain increasing relevance in practice.

In the management accounting and control literature there are many evidences of the shortcomings and challenges of traditional accounting and budgets. However, the practical implications of removing budgets are less investigated. Little attention has been given to in-depth studies of organizations that claim to have implemented Beyond Budgeting practices and for which Beyond Budgeting is a reality. There are some publications about experiences and models for how Beyond Budgeting is implemented in some organizations (Wallander, 1999; Bogsnes, 2009), there is however little research done regarding how introduction of Beyond Budgeting has changed the way information is produced and used by managers in the organization. (Kaarbøe & Stensaker, 2011) This thesis places emphasis on the middle managers’ situation and their changed situation as result of implementation of rolling forecasts as a planning tool as an alternative to budgets.

Within the Beyond Budgeting research project at NHH there have been several studies on the use of Beyond Budgeting and dynamic management as a foundation for management control. However, none of these focus on rolling forecasts. I would therefore like to investigate this practice deeper by studying it in a Beyond Budgeting environment. The

thesis aims to provide evidence for how rolling forecasts are used as an alternative of traditional budgets the practical implications of abandoning budgets. It focuses on a practical level at which the thesis tries to understand how forecasts are used as a management control tool.

1.4 Empricis

The thesis builds upon a qualitative field study conducted in a single organization. The study is conducted as a part of larger research project within NHH/SNF, which will last until the end of next year. Qualitative interviews were conducted with eight senior and middle level manager, with the focus on the Insurance company. In addition five meetings were observed. The study has also made use of available reports, documents, plans, procedures and presentations provided by Nordic Financial Group. The reason for choosing to focus on the Insurance company is that it is the business unit within the Group that has come the furthest in implementing rolling forecasts.

The qualitative interviews and the information gained through observation of meetings were used to provide the researchers with insight to the design, purpose and use of rolling forecasts in Nordic Financial Group. The interviews also served to identify important attitudes and opinion about the forecasting process. The discussion and analysis of the rolling forecasts are done in the light of various theories on management control systems, and the principles of Beyond Budgeting.

1.5 Shortcomings and limitations

The limitations of this thesis are mainly related to time and variation in the empirics. The time perspective concerns the timeframe of the master thesis, and implies that the study is conducted at one point of time. Findings from studies conducted at a different time, would possible give different results.

The variation perspective concerns limitations in the collected data. This study is only based on Nordic Financial Group, with a focus on one business unit. In addition, the number of

respondents might not be large enough to make assumptions about the middle manager's perception toward rolling forecasts.

As a case study, the main shortcoming of this thesis is the limited generalizability and applicability it has to other organizations. Even within an industry, the management control systems and planning processes are highly dependent on contextual and situational factors. However, the purpose of the research is not to generalize but to investigate how rolling forecasts are adopted in an organization. The may be found relevant for organizations that operate within similar context as Nordic Financial Group. To examine whether our findings are also applicable to other organizations and industries, further research is necessary.

Furthermore, the thesis is limited in that it will not focus on the technical aspects of forecasting, but will aim to investigate how rolling forecasts are used as a management tool. Finally, Nordic Financial Group is still in the early stages of implementing the dynamic management model and Beyond Budgeting. On this basis, it will be difficult to see if the new system has produced positive effects in terms of profitability at the present time. The report will be limited to investigate experiences informants have gained so far, not financial results.

1.6 Structure

The thesis is structured into five chapters. The first chapter is the introduction. The second chapter presents the theoretical frameworks that the thesis is built on. The third chapter outlines the research design and approach, and discusses the validity and reliability of the study. The fourth chapter contains the empirical data. The fifth chapter is an analysis and discussion of the findings. Finally, the sixth chapter includes a conclusion with the answers to the research questions and the problem statement, as well as some suggestions for future research.

2. Theoretical perspective

This chapter presents the theoretical foundation this thesis is built on, and introduces central concepts and definitions. Since management control represents an umbrella in form of being a universal term for the theoretical framework, a brief introduction to management control will be presented before theory on perception of management control follows. The chapter also discusses some aspects of traditional management and budgeting and their criticism. Finally, the Beyond Budgeting concept as well as the concept of rolling forecasts will be presented.

2.1 Management control

2.1.1 Management control system

There are many definitions of management control and the term is often used differently in a wide variety of contexts. Anthony and Govindajaran (2007) define management control as the process by which managers influence other members of the organization to implement the organization's strategies. Management control systems are tools to aid management for steering an organization toward its strategic objectives and competitive advantage. (Anthony & Govindarajan, 2007) Horngren et al. (2005) define management control systems as means of gathering and using information to aid and coordinate the planning and control decisions throughout an organization and to guide the behavior of its managers and other employees. According to Maciariello and Kirby (1994), management control concerns coordination, resource allocation, motivation, and performance measurement in an organization.

All in all, management control system can be broadly defines as the techniques and mechanisms used in organizations for collecting and using information to motivate employee behaviour and to evaluate performance. Chenhall (2003) points out that there is no complete and comprehensive system for all organizations. Every organization needs their own system, which is unique for them, and is adjustable with structure and strategy.

2.1.2 Management accounting

Management accounting involves the provision and use of accounting information to managers within organizations, to provide them with the basis to make business decisions that will allow them to be better equipped in their management and control functions. (Burns, Quinn, Liz, & João, 2013). It refers to a collection of practices such as budgeting or product costing. Management accounting systems are an integral part of management control system and refers to the systematic use of management accounting to achieve goals. It also helps to ensure that plans are put into action, and monitored, so that the organization remains on track to achieve its goals. (Chenhall, 2003)

2.1.3 Systems of control: formal and informal

Management control systems consists formal and informal systems which help the management in driving the organization toward is goals. Formal control systems are laid down in writing by the management and include explicit rules, standard procedures and manuals, performance measures, and incentive plans that guide the behaviour of managers and other employees of the organization. Informal control systems on the other hand arise out of employees' behaviour. Informal control include shared values and norms, loyalties, and mutual commitments among members of the company, corporate culture, and unwritten norms about acceptable behaviour. (Horngren et al., 2005) Ideally, the two systems of control, formal and informal, should complement and reinforce each other in an effective management control system. (Cunningham, 1992) According to Chenhall (2003) specific elements of management control systems should not be studied in isolation, but as a "package". In order to understand the use of rolling forecasts as a management tool, the management system has to be studied as a whole.

2.2 Middle manager's perception of formal control systems

2.2.1 Middle managers and their role in the management system

A middle manager is a member of an organization who manages at least one subordinate level of managers, and reports to a higher level of managers within the organization. The duties of the middle-manager involves carrying out the strategic decisions of upper-level

managers at the operational level, supervising subordinate managers and employees to ensure that goals are reached. (businessdictionary.com, 2013)

Middle managers can be regarded as key members of an organization as they act as mediators between the top management and the rest of the organization. Through their exercise of authority and responsibility, determined by the management control system, they make an important part of the organization's management chain. The middle managers drive strategy, processes and culture within their business. They influence the organization's performance through their own behaviour and decisions, and by influencing employees' behaviour and decisions. Furthermore, they have an important role in the implementation of new management control system. (Floyd & Woolridge, 1992)

In this study middle-level managers are defined as managers at a lower level than the group chief executive and his or hers management team, and are the head of major departments and units; they hold titles such as director, assistant director and division manager. They spend most of their time developing and implementing strategic action plans needed to achieve the organizational goals set by top management. Also managers who does not manage one level of subordinate managers are defined as middle managers, such as Director of Accounting.

2.2.2 Control and flexibility – management challenges

A key challenge for many organizations in today's increasing environmental turbulence and organizational dynamics is to find a reasonable balance between the need for efficiency and control on the one hand, and flexibility and continuous adaption to changes on the other hand. (Simmons, 1995) While flexibility and control are not mutually exclusive *in principle*, they can easily come into conflict with each other *in practice*. (Jørgensen & Messner, 2009) According to several researchers, a balance between flexibility and control is required in order to achieve more flexible and dynamic control systems. (Simmons, 1995; Kolehmainen, 2010)

Flexibility can ensure that formal control system is seen as enabling rather than coercive. Yet, from the perspective of top management, too much flexibility may challenge the system's usefulness as effective instruments of control. Finding the balance between empowerment and control is therefore crucial if a company want to achieve more dynamic in control. On the one hand, management must be able to give up responsibility, but it must

also ensure that everyone is working towards a common goal. This balance will make organizations able to react quickly to changes occurring in the environment. (Jørgensen & Messner, 2009; Kaarbøe & Stensaker, 2011)

Adler and Borys' (1996) discuss how the features of a control system may affect employees' attitudes toward control, and distinguish between enabling and coercive formalization. This is a relevant issue because enabling forms of control allow organizations to better manage tensions between efficiency and flexibility. (Jørgensen & Messner, 2009) Adler and Borys' (1996) specify the features that formal systems should possess if they are to foster both efficiency and flexibility.

2.2.3 Coercive and enabling formal control systems

According to Adler and Borys (1996) formal control will be received positively if managers feel that the system enables them to better manage their work. If, on the other hand, managers feel that formalisation is an attempt by top management to coerce their effort and compliance, then formal control systems tend to be perceived negatively. Adler and Borys (1996) argue that enabling systems have four generic features: repair, internal transparency, global transparency, and flexibility.

Repair refers to the ease with which users can repair the process themselves rather than allowing the breakdown to force the work process to halt. Breakdowns and repairs signal to the organization problems with the formal procedures and become opportunities for improvement. An enabling system encourage workers to identify and propose improvements in methods. (Adler & Borys, 1996)

Furthermore, formal systems are enabling if they allow for some *flexibility* in terms of how they are used. Flexible systems encourage users to modify the interface and add functionality to suit their specific work demands, and thus better manage their work. (Adler & Borys, 1996) The degree of flexibility may be determined by system design or by the level of detail in the manual on how the system should be used, and by how strictly the executive management enforces compliance with such details. (Jørgensen & Messner, 2009)

An enabling systems exhibit *internal transparency* in the sense that managers are able to see through and understand the logic of the system. They provide users with an understanding of the underlying theory of the process by clarifying the rationale of the rules. For example, in

order for an output control system to be transparent, target values for performance need to be communicated to the managers. As well as assessable system logic, internal transparency also relates to the users' understanding of what constitutes best practice. (Adler & Borys, 1996)

While internal transparency refers to internal functioning of the equipment or procedures as used by the employees; *global transparency* refers to the intelligibility for employees of the broader system within they are working. It is to the extent to which managers understand the up- and downstream implications of their work. In the context of a budgeting process, for example, global transparency is achieved when this process increases managers' understanding of the firm's strategy and operations. (Adler & Borys, 1996)

Finally, a positive perception of formal systems also depends on the development and implementation of such a system, if it is organized in an enabling way. According to Adler and Borys, this is the case if such systems are designed with user involvement rather than exclusively by outside expert, and if the system is made to fit the organization. The literature on participative decision suggest that in some conditions, employee participation improves morale and performance. Depending on the relevance of the procedures to the employee, and assuming that the employees are given the appropriate training and resources, employee involvement in the formulation of procedures is likely to have a positive effect on both attitudinal and technical outcomes. (Adler & Borys, 1996)

2.3 Traditional management and budgeting

2.3.1 Traditional management

Traditional management is associated with top-down, hierarchical command and control and centralized bureaucracy. The traditional management system typically focus on efficiency and internal processes, division of labour and pay linked to performance and functional organizations. Accounting information in traditional management is developed on the basis of the historic cost principle, and this information is the foundation for decisions in the organization. (Kaplan, 1984; Otley, 1994) The budget has traditionally been, and still is, the dominant instrument for management accounting and control. The budgeting process typically operates within a top-down hierarchical "command and control" model. Decisions,

resources, and rewards flow down, and information flows back up. The tasks of front-line managers is simply to operate the established facilities, systems and personnel according to rules, regulations and pre-determined targets made by the top management. (Libby & Lindsay, 2003a)

2.3.2 The role of budgets in the management control system

A budget is a forecast and a quantitative representation of a company's business plan, normally for a year. Budgeting, which is the process by which companies prepares budgets, entails the projection of revenues, expenses, profits, and cash flows for the upcoming accounting periods. Thus, the budget shows the financial impacts of the plans for the period and aims to help the company to manage and dispose financial resources in the best possible way. (Anthony & Govindarajan, 2007; Bergstrand, 2009)

Budgets are regarded as an integral part of management control systems. The budget serves as a planning tool for implementation and as a controlling tool during and after implementation and is closely linked to the company's goals. (Horngren et al., 2005; Bergstrand, 2009). The purposes of budgeting are summarized below.

First, budgeting is used as a *planning tool*. The budgets provide a plan for the total activities of the company during a period to come, to give top management a complete overview and make it possible for decision makers to make sure that the company is moving in the right direction. They are aimed to ensure that companies act in the best way to reach their goals. (Bergstrand, 2009)

Second, budgeting *promotes coordination and communication* between the units of the organization. Through the budgeting process the units have to cooperate and compromise concerning limited resources, in order to make the budget for the whole organization complete. Problems and other interesting issues are discussed during the budgeting process to make all managers fully aware of their own position in the company processes. For managers, the budget is useful for communicating and explaining the company's strategies and goals to the employees. (Horngren et al., 2005; Bergstrand, 2009)

Third, budgets aim to *facilitate resource allocation*, to make sure that the resources are being used effectively and that the right amount is being distributed to the different units. If there is

a shortage of resources, the budget will be a useful tool to prioritize between expenditure. (Bergstrand, 2009)

Fourth, budgets function as a basis for *performance evaluation*. By setting budget targets, the accountable are held responsible for reaching objectives. The budget constitutes an important starting point for follow up and variance analysis during and after the budget period. By investigating the reasons why the variations occur, actions can be taken. (Anthony & Govindarajan, 2007; Bergstrand, 2009)

Fifth, the budget functions as a tool for *delegation of responsibility*. The budget is used to delegate and confirm delegation of authority and to identify who is responsible for what. The budget authorize responsibility centre managers to spend specified amounts of money for certain designated purposes without seeking the approval of higher authority. It is a tool to make managers responsible for their actions and to work in the best interest of the organization. (Anthony & Govindarajan, 2007; Bergstrand, 2009)

Sixth, *goals are established and communicated* through the budget. The objectives indicate what is important in the organization and what it is trying to achieve. In the budget different objectives are developed for divisions and profit centres which aim to show what is expected from them. This makes it possible for managers to work in a decentralized way without consulting top management on all the details of the activities. (Bergstrand, 2009)

Seventh, the budget *creates motivation* by identifying goals of ongoing activities. By setting clear and defined targets based on the budget, employees understand what is expected of them, which can make them more motivated. Furthermore, when employees are involved in the budget and target setting process, they are often more motivated and committed to achieve the goals. (Bergstrand, 2009)

Despite the advantages offered by budgets as a tool of management, both practitioners and academics have expressed their concern about the possible disadvantages and dysfunctioning of traditional management and budgeting.

2.3.3 Criticism of traditional management and budgeting

Across almost all businesses, the operating environment has become radically more dynamic, unpredictable, and turbulent, mainly as a result of technological development, increased competition and globalization. (Johannessen, Kristoffersen , & Tufte, 1999; Butler,

2009) In the management accounting and control literature, the concern with uncertainty and rapidly changing business environment has motivated a stream of research that considers the role and functioning of accounting and control systems under these conditions.

In the late 80s the American professors Thomas H. Johnson and Robert S. Kaplan initiated the so-called Relevance Lost debate. Essentially they argued that management accounting had lost its relevance as it was inappropriate for the modern accounting environment. The challenges of the competitive environment should cause the traditional cost accounting and management control systems to be re-examined. Johnson and Kaplan stated that the information generated by management accounting was *“Too late, too aggregated and too distorted to be relevant for managers’ planning and control decisions”*. In addition, the systems were unsuitable to communicate what should be emphasized, and to evaluate business performance. (Bjørnenak, 2009)

In the wake of the debate followed several management accounting innovations. Among the survivors the most prominent are Activity Based Costing (ABC), Economic Value Added (EVA), Target Costing (TC), Balance Scorecards (BSC) and Strategic Management Accounting (SMA). The purposes of these tools were to support strategic choices and to better evaluate business performance. (Bjørnenak, 2009)

The main focus of the second part of the Relevance debate is the criticism of traditional budgeting initiated by the Beyond Budgeting movement (Bjørnenak, 2009). In a very short period, the budget has gone from playing centre stage in management control systems in most organization’s to being the subject of considerable criticism. (Libby & Lindsay, 2003a)

Reviews of budgets actually started before Johnson and Kaplan’s Relevance Lost debate, but has not received the same attention until the last five to ten years. (Bjørnenak, 2009) Argyris (1952) and Wildawsky and Hopwood (1974) were early to point on the weaknesses of budgeting. In the 1970s the CEO of the Swedish Handelsbanken, Jan Wallander, stated that budget should be abolished because it was *“an unnecessary evil”*, and paved the way for *“Beyond Budgeting”*. (Wallander, 1999; Bergstrand, 2009) He stated that governing with the budget as a tool gives management a reduced chance of handling changes and gaps in market trends. The alternative was to *“keep it simple”* and eliminate the budget. The solution chosen by Svenska Handelsbanken, was to focus on relative performance measurement and long-term bonus scheme for employees. (Wallander, 1999). With this system, the bank achieved

extremely good results and have had a return on equity well above the industry average. (Bjørnenak, 2009)

Today's edition of Beyond Budgeting is far more refined and is expressed in the books "Beyond Budgeting: How managers can break free from the annual performance trap" by Jeremy Hope and Robin Fraser (2003) and "Implementing Beyond Budgeting" (2009), by Bjarte Bogsnes. Bogsnes is the chairman of European Beyond Budgeting Roundtable and has been a key player in the implementation of Beyond Budgeting in two large Norwegian firms. Their criticism of the budget is far broader and is not only concerned about the inability of budgets to predict the future, but also behavioural aspects of budgeting. Most importantly, however, is that the budget contributes little to value-added management, and to realising the full potential of the organization. Especially, the finance function and controllers add little value. The solution is far more extensive than just removing the budget. (Bjørnenak, 2009)

It is important to note that Johnson and Kaplan focused their criticism toward how cost calculations were performed and how external reporting was conducted, not towards the budgets themselves. The clear similarity between the first and the second part of the Relevance Lost Parts debate is that the starting point is to criticize the existing. Who has initiated the need for change, however, is different. (Bjørnenak, 2009)

In the first Relevance Lost debate, the initiative came from academia. The solutions presented by academics were new techniques and a bigger tool box, as well as the dynamics of choosing the right tools. (Bjørnenak, 2009) Beyond Budgeting, on the other hand was driven by practitioners and consultants. The suggested solution is not improvement, but elimination of budgets. (Hansen et al., 2003). In Wallander's Beyond Budgeting, the problem is simple: the budget is misleading. The solution is equally simple: focus on costs and financial results. This gives more time and resources to interactivity between levels and to continuously adapt to changes in their environment. Today's Beyond Budgeting is based on a broader critique and emphasizes the budget's inherent problems related to opportunism and lack of motivation to find good solutions. The tools are more advanced, but most important it is not *what* tools are used, but *how* they are used. (Bjørnenak, 2009)

According to Bogsnes (2009), some of the problems of traditional budget are directly linked to budgets and budgeting while others are indirectly linked to the budget mind-set of command and control. The main criticism of budgets are summarized below.

First, budgets are criticised for being *time consuming and costly* to put together. The budget is formulated at a high level of details. With an increasingly dynamic environment, these details are uncertain as they are estimates and expectations for the future. For many companies, the budgeting process is an annual ritual that is deeply embedded in the corporate calendar. It absorbs huge amounts of time for an uncertain benefit. In many circumstances, the budget process creates a great deal of work relative to its usefulness. (Otley, 2003; Bogsnes, 2009; Bergstrand, 2009)

Another aspect of budgets that has been criticised is that budgets become *quickly out-dated*. The budgeting process is taking too long compared to the movements in the environment and budgets become rapidly out-dated during the course of a budget year. (Otley, 2003; Bergstrand, 2009)

Furthermore budgets are accused for *encouraging rigid planning and lacking flexibility*. The fixed annual budget does not allow for the identification of new risks and opportunities due to its fixed and unchanging representation of the business plan at the time the budget is set. (Leon, Rafferty, & Herschel, 2012) This may not be appropriate in a fast moving business environment. Budgets prevent managers from responding quickly to changes and are often a barrier to change. (Bergstrand, 2009) In addition planning is often made more rigid by tying performance bonuses to budget achievement. (Hope & Fraser, 2003)

Another argument is that budgets are *decoupled from strategy and focus on cost reduction, rather than value creation*. The budget stress the financial dimension and not the strategically important issues, which often lead to a focus on short term cost reduction instead of value creation. The problem with the budget and its focus on fixed targets is their often narrow and misleading way of describing performance. It is not necessarily always good performance to hit the budget number. Use of budget as a basis for evaluating performance may lead to turning down of value-creating opportunities to avoid budget overrun. The budget thus ignores key drivers of shareholder value by focusing on short term financial performance. (Hope & Fraser, 2003; Bogsnes, 2009)

Another critique is related to the *conflicting purposes* of the budget. The budget have mainly three very different purposes: target setting, forecasting and resource allocation. All three purposes are expressed through the same set of numbers. The budget numbers represent a set of targets, a forecast of what the future might look like as well as the approved funding. Combining these three purposes in one process lead to biased numbers. (Hope & Fraser, 2003; Bogsnes, 2009)

Furthermore budgets are criticised for *strengthening vertical command and control and centralized decision making*. Budget is often the mandate by senior managers in order to plan and control all resources and activities in the organization. The budgetary process becomes a tool to exercise the mandate, which may lead to stifling initiative discouraging employees in innovative thinking rather than to stimulate them. (Hansen et al., 2003; Hope & Fraser, 2003)

Moreover, it is claimed that budgets lead to *dysfunctional behaviour and “gaming” with numbers*. According to Neely et al. (2003, cited in Bjørnenak, 2013, p. 60), budgets and the budgeting process can make room for, and even encourage, dysfunctional behaviour that result in actions and decision making that do not add value for the organization. Hope and Fraser (2003) state that the budget serves as a “fixed performance contract” between superiors and subordinates, and is one of the primary drivers of managerial behaviour. Budgets are being used to drive and evaluate managerial performance. This can cause managers to behave in dysfunctional ways, particularly if they find they cannot meet these contracts. Hope and Fraser (2003) claim that at best this results in “managing the numbers”, at worst it results in “outright misrepresentation and fraud”. Thus budgets often lack incentives that encourage employees and departments to act in the best interest of the company. Insetad employees or departments propmote their own interests. Typical examples of dysfunctional behaviour includes negotiating budget targets that can easily be reached, overestimating resources needed - expecting to cut back to what you really need, or always spending the budget even when not necessary to guard against next year’s budget. Other examples involve deferring revenues or expenses in order to achieve budgetary targets. These problems are often related to as budgetary gaming. (Hope & Fraser, 2003, cited in Bjørnenak 2013, p. 61)

In relation to dysfunctional behaviour, budgets are criticised for *reinforcing departmental barriers rather than encourage knowledge sharing*. The existence of departmental budgets and targets may have a negative impact on cooperation and knowledge sharing within the organization. The managers will try to achieve their own budgets and targets and will keep useful information to themselves as it may harm the pursuit of their own targets. The budgeting process leads to a competition between divisions, business units, and department, all trying to achieve their budget targets and obtain a higher share of the central resource pool. (Hope & Fraser, 2003; Bergstrand, 2009; Bjørnenak, 2013)

2.4 Beyond Budgeting and rolling forecasts

Many companies today operate in environments that are, more than before, characterized by complexity, rapid changes and uncertainty. (Butler, 2009) Recently, organizations have tried to respond to the volatile environment by introducing a more dynamic management. As a response to the criticism against traditional budgeting, and the need for a more dynamic management two alternative approaches have emerged. One approach is to *improve* budgeting by changing the budgeting methods or supplement is with alternative management tools, whereas the other approach is to *abandon* the budget. (Hansen et al., 2003)

2.4.1 What is Beyond Budgeting?

Inspired by Jan Wallander and Svenska Handelsbanken, Hope and Fraser (2003) suggested to drop the budget all together and labelled their new approach to management control “Beyond Budgeting”. Hope & Fraser (2003, p. 212) define Beyond Budgeting as:

“a set of guiding principles that, if followed, will enable an organisation to manage its performance and decentralise its decision-making process without the need for traditional budgets. Its purpose is to enable the organisation to meet the success factors of the information economy (e.g. being adaptive in unpredictable conditions.)”

In short, Beyond Budgeting is about replacing command-and-control with a management model that is more empowered and adaptive. (Hope & Fraser, 2003; Bogsnes, 2009)

2.4.2 Principles of Beyond Budgeting

The Beyond Budgeting philosophy is a way of addressing management control challenges, replacing budgets and making organizations more adaptive to change. The Beyond Budgeting Roundtable (BBRT), founded by Hope and Fraser in 1997, is a shared network constituting practitioners of Beyond Budgeting. The members discuss the use of Beyond Budgeting and share their experiences. The BBRT has agreed upon 12 principles that are the true Beyond Budgeting; these are often viewed as the core of Beyond Budgeting. The first six principles are referred to as “leadership principles”, while the last six is called the “process principles”. These principles are listed in tables 1 and 2 (BBRT, 2013a).

Table 1: Leadership principles of Beyond Budgeting

Leadership Principles	
<i>Governance and transparency</i>	
1. Values	Bind people to a common cause, <i>not a central plan.</i>
2. Governance	Govern through shared values and sound judgement, <i>not detailed rules and regulations</i>
3. Transparency	Make information open and transparent, <i>don't restrict and control it</i>
<i>Accountable teams</i>	
4. Teams	Organize around seamless network of accountable teams, <i>not centralized functions.</i>
5. Trust	Trust teams to regulate their performance, <i>don't micromanage them.</i>
6. Accountability	Base accountability on holistic criteria and peer reviews, <i>not on hierarchical relationships.</i>

Table 2: Process principles of Beyond Budgeting

Process Principles	
<i>Goals & rewards</i>	
7. Goals	Set ambitious medium-term goals, <i>not short-term fixed targets.</i>
8. Rewards	Base rewards on relative performance, <i>not on fixed targets.</i>
<i>Planning & controls</i>	
9. Planning	Make planning a continuous and inclusive process, <i>not a top-down annual event.</i>
10. Coordination	Coordinate interactions dynamically, <i>not through annual budgets.</i>
11. Resources	Make resources available just-in-time, <i>not just-in-case</i>
12. Controls	Base controls on relative indicators and trends, <i>not on variances against plan</i>

According to BBRT (2013b), companies will benefit in several way when adopting the Beyond Budgeting principles. It enables them to react faster to conditions in both market and customer changes, and avoid constrained plans and instead encourage an endless improving process. Moreover, a creative atmosphere at workplace will attract and motivate employees. (BBRT, 2013a).

The leadership principles provide a framework for the devolution of responsibility to middle managers, thus enabling them to response quickly to emerging events and making them accountable for improving customer outcomes and relative performance. The process principles support a more adaptive set of performance management system that enables middle managers to be more responsive to the competitive environment and to customer needs. The two sets of principles support each other in a holistic model and are interdependent. Process drive behaviour, and vice versa. The way the management processes are set up must support and drive the desired behaviour. However, different organizations will place different emphases on different elements at different times. (BBRT, 2013a) Central for the Beyond Budgeting model is that it is comprehensive management model and a new way of thinking rather than a particular tool or technique. (Hope & Fraser, 2003)

Hope and Fraser (2003) refer to the principles as the two peaks of Beyond Budgeting – as shown in figure 1. The processes principles are about reducing the costs of budgeting and making the management process more relevant to its users where uppermost in their minds. This result is only sustainable if they are supported by leadership principles that are more in tune with a decentralized organization. Consequently, climbing both peaks should result in an adaptive and decentralized organization.

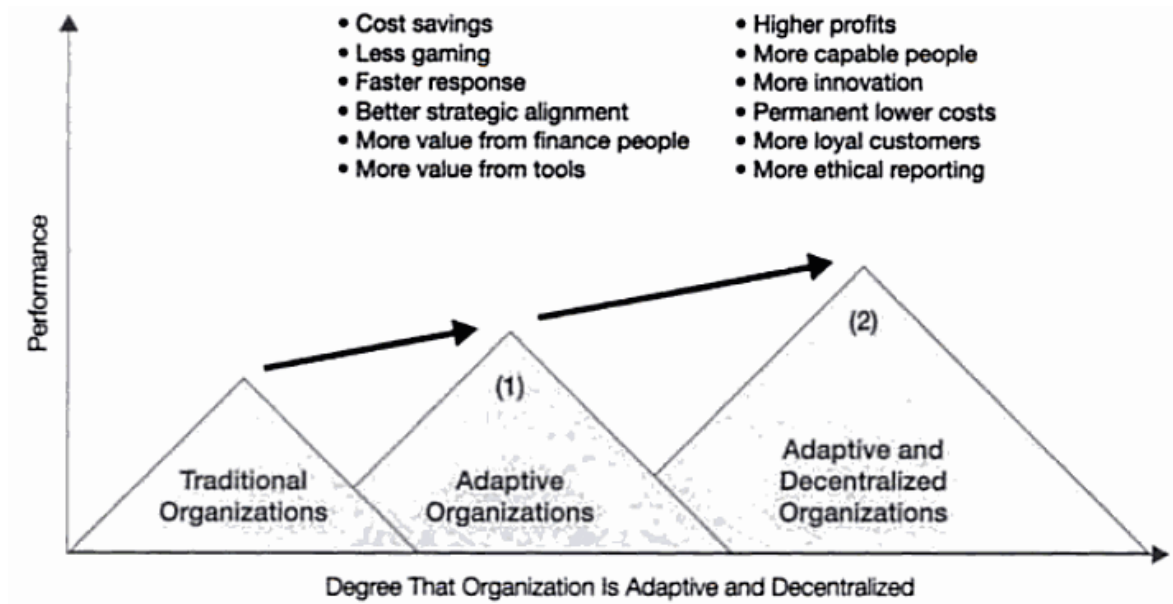


Figure 1: *The Twin Peaks of Beyond Budgeting* (Hope and Fraser, 2003)

2.4.3 The quality problem - targets, forecasts and resource allocation

As mentioned earlier, one of the problems with budgets concerns its conflicting purposes: target setting, forecasting and resource allocation. These are all important elements in a good performance management model. The main problem, according to Bogsnes (2009), is that these three elements are not working well together combined in a process that shows one number, which is the usually the case with traditional budgeting processes. Bogsnes (2009) claims that such a process influence the quality of all of the three elements. In order to deal with the problem they make combined, the three elements should be broken down into three separate processes. This is shown in figure 2.

The separation of forecast and targets are crucial in order to receive early warnings regarding gaps between plans and targets. Hence the improvements are unlikely to appear until the tree purposes are separated. This is because targets should be ambitious and forecasts realistic.

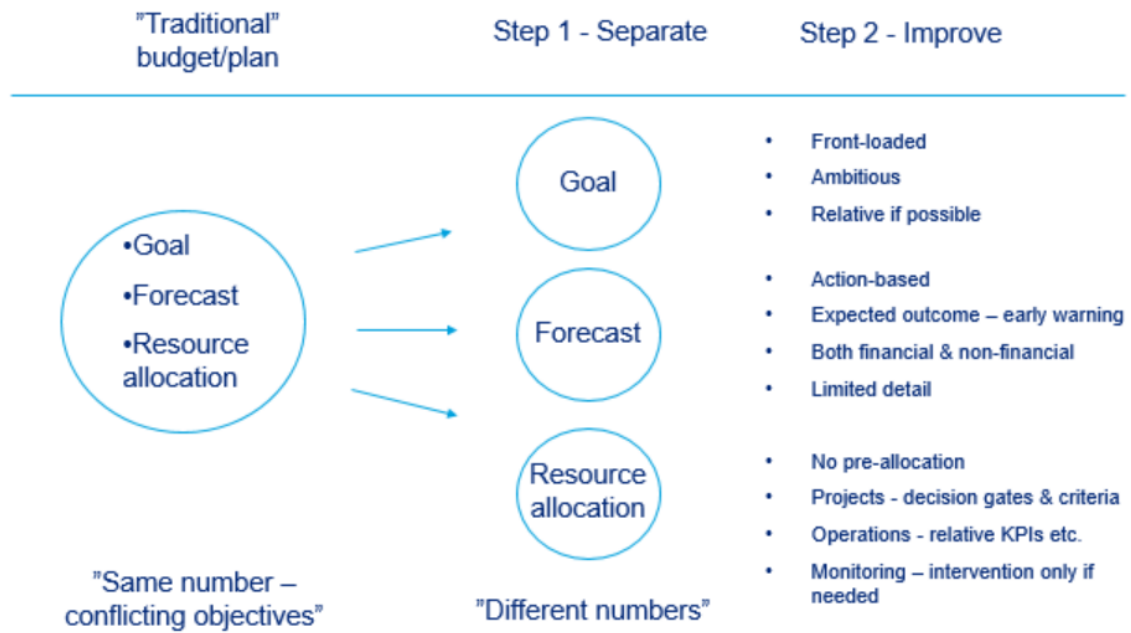


Figure 2: The quality problem (Bogsnes, 2009)

2.4.4 Rolling forecasts

The total sum of the criticism aimed at the annual budget seems to be that what are needed are more anticipation, monitoring and empowerment, and less rigid planning and control. Within a Beyond Budgeting concept, rolling forecasts are suggested as an alternative to the annual budget. (Hope & Fraser, 2003) According to Bogsnes (2009), only making the budget rolling will not solve the serious conflict between the three objectives of the budget. The solution is to replace the budget with rolling forecasts.

Bergstrand (2009) defines rolling forecasts are projections of a small number of key variables that are updated on a rolling basis. As opposed to budgets, rolling forecasts aims to represent an unbiased, expected outcome; they typically have less line items, shorter time horizon, and more frequent updates. (Goyagina & Valuckas, 2012)

The rolling forecast approach differs from the traditional fixed budget in that it eliminates the constraints of a set forecast period with a defined and unchanging end point. (Leon et al., 2012) The forecasts are frequently updated, typically each quarter or month and the updates consist of re-forecasting for at least the upcoming year. (Libby & Lindsay, 2003b). As one month or quarter ends, it is simply dropped from the forecast and a new month or quarter is

added. (Leon et al., 2012) The rolling forecast end period is constantly projected forward, as shown in figure 3 (Hope, 2010)

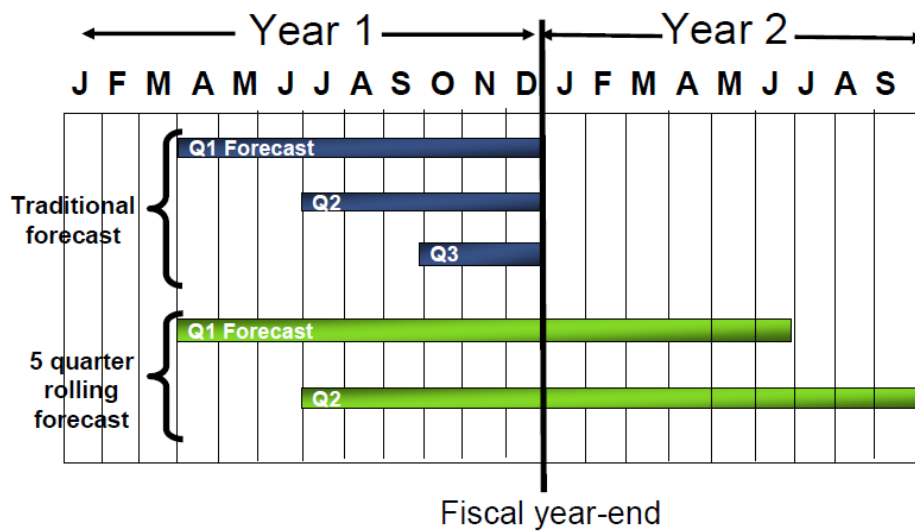


Figure 3: Traditional vs. rolling forecasts. (Hope, 2010)

Unlike budgets, rolling forecasts provide managers with a moving window of the future. They enable managers to anticipate short-term outcomes and thus influence them. (Libby & Lindsay, 2003b; Hope, 2010; Leon et al., 2012) The rolling forecast process requires managers to review business operations more frequently and strategically than is in a fixed annual budget process. Instead of looking at historical budget data, the rolling forecast force managers to look forward, enabling them to respond quickly if performance gaps occur or new business opportunities arise. (Leon et al., 2012)

The forecasts are prepared quickly, often at the corporate level, and provide a broad-brush picture of key numbers that are useful for managers in making decisions about operations. (Libby & Lindsay, 2003b) Furthermore, rolling forecasts are not as inflexible as budgets and are aimed to allocate resources more timely and effective. By reducing the number of variables, frequent revision is possible without too much work. (Bergstrand, 2009)

Hope and Fraser (2003) emphasize that rolling forecasts should be primarily used to improve strategic management and learning within organization and to empower employees; they are not targeted for control purposes. According to these authors managers do not tend to report totally honest information if rewards are linked to the forecast or if the information can be used against them. Rolling forecast results should thus not be related to performance

evaluation and rewards; therefore they should be free from bias and show objective projections for key performance indicators. (Hope & Fraser, 2003)

According to Tabatai (2009), a forecast is considered reliable if it is actionable, unbiased and gives an estimation of the risk involved. Actionable means that it is relevant, specific and reasonably accurate for the decision being made and unbiased means that it has equal chances to underestimate and overestimate the actual numbers.

Lorain (2010) argues that organizations use rolling forecasts to manage weaknesses of traditional budgeting. Rolling forecasts allow companies to advance financial and operational management, speed up decision-making process and devote more time to value-added activities. Rolling forecasts encourage continuous learning, flexibility, communication inside and outside the company, improved corporate culture and corporate vision.

Sivabalan (2011) points out that successful implementation of rolling forecast requires skilled accountants who understand the environment within the organization operates, technical systems that allow saving time on the preparation process, and the ability of employees to analyse the forecast information and predict future trends. Bergstrand (2009) points out that trust inside the organization is expected for the system to work effectively. Thus, not all companies necessarily succeed in implementing rolling forecasts. On the contrary, it can be harmful to implement the technique in a company that is not able to handle it.

Clarke (2007) emphasizes that companies are willing to adopt rolling forecasts since they are more accurate than budgets, they assist in achieving company objectives and supplying useful information for the effective risk-management. Rolling forecasts allow companies to discover new business opportunities, develop negotiation effectiveness and assist in budgeting creation

Most publications on rolling forecasts state only the benefits of using rolling forecasts; however some authors also state the limitations of their use. Preparation process can be costly and time consuming if not automated, since a forecast is reviewed and updated several times per year and it is too complex for accountants without sufficient training (Lorain, 2010)

Bergstrand (2009) points out that quite possible, the total load work of planning might increase compared to budgeting, because planning will be done several times a year instead of only the budget time. Furthermore, rolling forecasts are changed constantly, which can introduce a feeling of uncertainty among managers. The follow up of management decisions may be difficult, and managers that are not committed to make a good job can be hard to detect.

Tanlu (2007) has examined the consequences of the adoption of a rolling forecasting system, and find evidence consistent with reduced sandbagging, or building of slack into the budget. However, this effect is isolated to the forecast for the subsequent quarter, forecasts that are made for periods further away seem to show signs of being slack forecasts. The reduced sandbagging seems to be driven by the constant updating of forecasts rather than the decoupling of incentives from the forecasts. Furthermore, Tanlu (2007) finds some indication that the bias may have swung the other way, particularly in the forecast for the most immediate quarter. Because managers' forecasts are no longer explicitly tied to compensation, they may have the incentive to overstate their one forecasts for the next quarter in order to potentially secure more resources. Test of forecast efficiency shows that forecasts are positively auto correlated, which is consistent with the conjuncture that managers are overoptimistic in making their forecasts. The results show overreaction to positive news and underreaction to negative news. Finally, Tanlu (2007) finds that the accuracy of forecasts improved under conditions of low uncertainty seems to have negatively impacted forecast accuracy if demand and environmental uncertainty is high.

In their literature review of rolling forecasts Golyagina and Valuckas (2012) find that academic articles on rolling forecasts is rather small. Furthermore the study finds rolling forecasts have not been central in any of the academics articles. Most of the publications related to rolling forecasts is published practitioner journals, with the majority written by journalist and consultants. Golyagiana and Valuckas (2012) conclude that rolling forecasts as an issue in accounting research is insignificant and conventional wisdom about this topic as such has not yet emerged.

2.4.5 Beyond Budgeting criticism

Hope and Fraser (2003) presents Beyond Budgeting as a virtually universal model that can fit all businesses regardless of industry, size, etc., according to several authors, this is not necessarily the case.

Rickards (2006) criticize the Beyond Budgeting model to be built on principles that are too generally formulated, which makes it difficult to convince businesses to adopt the management model. Furthermore, he claims that Beyond Budgeting does not offer anything new, but "Merely combine already familiar management maxims in a thin wrapper conceptual and market them as bundled goods". Another problem with Beyond Budgeting mentioned by Rickard (2006) is that the model is only suitable for a small group of potential users. In addition, he points out that managing without budgets can cause a variety of challenges and that the cost of implementing the model may exceed the benefits. He also argues that there is little empirical evidence that Beyond Budgeting helps to improve companies' financial performance.

Kaarbøe and Stensaker (2011) also point out that we still have limited knowledge about the potential challenges and weaknesses of Beyond Budgeting. However, these authors mention that possible challenges might include that the model is best suited for good times, that one gets too short-term focus, that old "game of numbers" are replaced with new ones that have greater ambiguity associated with authority and decision making, as well as the link between responsibility and control weakened. The authors emphasize, however, that these suggestions are only speculations, which so far has not been documented or specifically related to the Beyond Budgeting method.

Hansen et al. (2003) point out several issues related to the Beyond Budgeting model. First, the Beyond Budgeting model calls for evaluating organizational performance by comparing their performance competitors on key performance dimensions. According to these authors, it can be difficult for many businesses to compare relative measure because they simply do not have good relative performance data. Access to information is often limited because of the highly competitive and rapidly changing industries. Second, the Beyond Budgeting model addresses issues related to the use of budgets as a fixed performance contract. This criticism concerns the problem related to that once the budget is achieved, there is no

incentive to go beyond it. On the other hand, if the budget is not met, adverse consequences follow regardless of the reasons for deviation, resulting in manipulation and gaming with numbers, as well as preventing long-term orientation and potentially stifling innovation. Research has suggested that variable incentive plans can mitigate these issues by including non-financial performance measures, long term performance measures or performance thresholds in the incentive plan, or by relying on alternative performance evaluation methods without necessarily abandon budgets completely. Finally, the last issue concerns the need for radical decentralization. The literature suggest that a firm's choice of an organizational structure is context-specific, thus the need for decentralization may vary for different organizations. Contextual factors include market structure, the organization's strategy, information asymmetry and the products or services supplied by the organization.

Despite the criticism towards the budget, studies show that the use of budget is still extensive in organizations today. (Eckholm & Wallin, 2000; Libby & Lindsay, 2010) I a study conducted by Libby and Lindsay (2007) on North-American organizations, the majority of the respondents agreed or strongly agreed that budgets are indispensable and that it would be impossible to manage without them. A previous study by Eckholm and Wallin (2000) made on European companies support these findings. These studies provide evidence that the reality is not as clear cut as Hope and Fraser (Hope & Fraser, 2003) claim. The findings suggest that many (but not all) of the assumptions and criticism underlying Hope and Fraser's argument are over-generalized in terms of their applicability to the average firm. The respondents to the surveys agree that the budget has many disadvantages, but the majority of the respondents stated that they could not manage without a budget, they would rather improve the budgeting process than going Beyond Budgeting. The control purpose of the budget is what Libby and Lindsay (2010) found to be one of the reasons why budgets are perceived as useful by managers. However, the study by Eckholm and Wallin (2000) that many companies view more flexible instruments, such as rolling forecasts and balanced scorecards, as necessary complements to the budget.

2.5 Summary of theoretical perspective

A challenge for many organizations in today's turbulent business environment is to balance between the need for efficiency and control on the one hand, and flexibility continuous

adaption to changes on the other hand. Formal control systems has to possess four generic features if they are to foster both flexibility and control. These features are: repair, internal transparency, global transparency, and flexibility. Budget has been and still is the dominant management accounting tool in organizations. However, in recent years the traditional budget has been accused of being incapable of meeting the demands of the increasingly volatile and uncertain business environment. Budgets have been criticized for being too time consuming, constraining responsiveness, imposing a vertical command-and-control structure, creating centralized decision-making, stifling initiative, and focusing on cost reduction rather than value creation. In addition, the annual budget leads to a fixed performance contract that encourages dysfunctional behaviour and budgetary gaming. Hope and Fraser suggested to drop the budget altogether and labelled this approach “Beyond Budgeting” The Beyond Budgeting philosophy aims for addressing management control challenges, replacing budgets and making organizations more adaptive to change. Within Beyond Budgeting rolling forecasts are suggested as an alternative to the budget. The rolling forecasting process requires managers to review business operations more frequently and strategically than in a fixed annual budget process. Instead of looking at historical budget data, the rolling forecast force managers to look forward, enabling them to respond quickly if performance gaps occur or new business opportunities arise.

3. Research Method

This chapter describes the research design, research approach, and the information gathering techniques used in this study. The chapter also discuss the reliability, validity and generalizability of the research findings. Finally some general challenges with the data collection process will be discussed.

3.1 Field of study

As a research objective, Nordic Financial Group has been chosen. Nordic Financial Group is a provider of financial product and services in the Scandinavian market. The group operates in a business environment characterized by rapid changes and a high degree of uncertainty, and has realized the shortcomings of the traditional budget. Nordic Financial Group is one of several major companies who have tried to respond to the volatile environment by introducing a more dynamic management control system. The group's new management system is based on Beyond Budgeting principles, and a consequence of this change is that the group has discontinued the traditional budgetary process and implemented rolling forecasts. As the study aims to investigate how rolling forecasts are implemented in practice, Nordic Financial Group is a suitable object of study. The study focuses on the middle managers use of and evaluation of the forecasting process and how it affects their behaviour. Data was mainly collected from group level and one of the business units within Nordic Financial Group.

3.2 Research philosophy

Today social scientists identify several research philosophies. Saunders, Lewis and Thornhill (2009) broadly identify three research philosophies, depending on the way of viewing development of knowledge. First, positivism claims that general laws do exist in social science, as in physical science, and focuses on observations in order to discover and confirm these laws. Second, interpretivism argues that the social world is too complex to be defined entirely by laws and generalizations. Interpretivism argues that generalization is of less importance due to the constantly changing environment, and that the aim is to discover the

details in a situation in order to understand reality. Third, realism is the idea that large-scale social forces and laws do affect people without their necessarily awareness. Realism is to some degree similar to positivism; however, realism states that social science is not to be studied in the same manner as natural science. (Saunders et al., 2009)

This study will have the view of interpretivism, and thereby seek to understand the subjective reality of the research participants in order to understand their actions, intentions and their perceived reality.

3.3 Research design

The research design is a description of how an investigation should be carried out from start to finish. (Johannessen, Kristoffersen, & Tufte, 2004; Saunders et al. 2009). Deciding on a research design is important to ensure that the initial research questions are answered in a credible and clear way. Crucial to the layout of the design is what is required to be studied, the objectives of the research and how it will be implemented. (Saunders et al., 2009)

The formulation of the problem statement drives the process of the research and the research process will be characterized by how the research question is formulated. (Johannessen et al., 2004). The problem statement previously outlined is:

How do the middle managers in Nordic Financial Group experience and make use of rolling forecast, and what kind of actions do they derive from forecasts?

In the following sections, the research design of the thesis will be described.

3.3.1 Purpose of the research

The classification of research purpose most often used in the research methods' literature is the threefold one of exploratory, descriptive and explanatory. (Saunders et al., 2009). These categories are not mutually exclusive, they are a matter of emphasis. As any research study will change and develop over time, more than one purpose may be identified. (Saunders et al., 2009)

An exploratory study aims to find out “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light” (Robson, 2002, as cited in Saunders et al.,

2009 p. 139). It is particularly useful for clarifying an understanding of a problem. There are three principal ways of conducting exploratory research: a search of the literature; interviewing 'experts' in the subject or conducting focus group interviews. (Saunders et al., 2009)

The purpose of a descriptive research is 'to portray an accurate profile of persons, events or situations' (Robson 2002:59, as cited in Saunders et al., 2009). This may be an extension of, or a forerunner to, an exploratory or explanatory research. Saunders et al. (2009) point out that it is necessary to have a clear picture of the phenomena on which you wish to collect data prior to the collection of data.

Finally, the purpose of an explanatory study is to establish causal relationships between variables. The emphasis here is on studying a situation or a problem in order to explain the relationships between variables. (Saunders et al., 2009)

The purpose of this study is to examine practices of rolling forecasts in a real life context, with specific interest in the perspective of middle managers and their evaluation and use of rolling forecasts as a management tool. The study is descriptive in the way that it aims to describe the current practices of rolling forecasts within Nordic Financial Group. However, the study is also exploratory as there is little research on the subject to be studied. It seeks to explore, access and seek new insight to how rolling forecasts are used as a management tool in a Beyond Budgeting context.

3.3.2 Research strategy

The research strategy concerns how the research should be implemented and is guided by the research questions and purpose, the researcher's existing knowledge, the amount of time and resources available, as well as the research philosophy (Saunders et al., 2009).

This thesis adopts a case study approach. In studies of management control and accounting case studies are increasingly used. (Scapens, 1990). Yin (2009) defines case studies as an empirical inquiry that investigates a contemporary phenomenon within its real life context using multiple sources of evidence. According to Cooper and Morgan (2008, p. 160) a case study is "*an in-depth and contextually informed examination of specific organizations or events that explicitly address theory*". The unique strength in case study method is that it

can collect data from different sources: documents, interviews and observation (Yin, 2009). According to Kaplan (1986) case studies provide a good opportunity to study accounting systems in their context.

Yin (2009) points out some key components that are particularly important when conducting case studies. First, case studies are best suited to answer “how” and “why” questions. Second, further investigations should be based on theoretical assumptions that the researcher has made prior to the study. Thirdly, the findings should be interpreted against already existing theory in the relevant area. By following these components existing theory can be retained, modified or developed. Yin (2009, p.24) suggests a six-step process for conducting case study research, which is: Designing, preparing, data collection, collecting evidence, analysing and reporting.

Based on Yin’s (2009) components, a case study approach is well suited for the purpose of this study. The problem consists of “how” questions and theoretical assumptions described in chapter two make the basis for further investigation. A case study provides a good opportunity to study rolling forecast practices in their context. The study follows the six-step process suggested by Yin (2009)

Yin (2009) describes two dimensions in the design of case studies. The first dimension deals with the number of cases or objects of study involved, while the other is concerned with whether a holistic (single unit of analysis) or analytical approach (multiple units of analysis) is applied. In this thesis a single case study method has been used. This is due to limitations of resources, particularly in terms of time and literature related to the topic. In addition, given that a descriptive and exploratory case study approach has been chosen, and the aim is to get a deeper understanding, a single object of study is better suited than several. By going in-depth on one object of study one can get a better picture of the contexts where rolling forecast is practiced. With several objects of study this image can easily become blurred. Furthermore, I have chosen to collect data mainly from one unit of the organization.

3.4 Collection of data

3.4.1 Data collection method

There are mainly two approaches for collection of data for research purposes: quantitative method and qualitative method. (Johannessen et al., 2004). The terms quantitative and qualitative are used widely in business and management research to differentiate both data collection techniques as well as data analysis procedures. Quantitative method involves collecting numerical data and analysing them using mathematical based methods. Qualitative methods are used mainly for data collection techniques that generate or use non-numeric data. Examples include interview and observation. (Saunders et al., 2009)

According to Bloomberg and Volpe (2008), qualitative research is the most appropriate approach to promote an advanced understanding of social settings or actions from the viewpoint of the researchers. The qualitative method emphasizes exploratory and descriptive research. Thus, the qualitative approach fits well with the purpose and design of this study.

With the aim to understand the management control system of Nordic Financial Group and how the rolling forecasts are used as a management tool in a specific context, a qualitative approach for collecting data is chosen.

Qualitative interviews

According to Yin (2009), interviews serve one of the most important sources of information in case studies. Qualitative research interviews can be conducted in different ways. In structured interviews, the questions are prepared in advance. This type of interview allows for little social interaction and typically generate pre-coded answers. (Johannessen et al., 2004; Saunders et al., 2009) Unstructured interviews, on the other hand include open questions tailored to the individual interviews. Between these extremes there are semi-structured interview based on a pre-made interview guide. The interview guide will be an overview of the topic and general questions, setting the tone for dialogue. (Johannessen et al., 2004)

In early stages of research less structured interviews are most appropriate as they allow interviewees to focus on what they think is most relevant to the question, providing the broadest set of perspectives. This approach can be valuable in contexts where little is known about the topic, making it difficult to develop testable hypotheses and suggesting that more

information-gathering is required. More structured interviews on the other hand, ensure that all the interviewees address the same questions. In this way the interviewee's responses can be compared. More structured interviews increase the likelihood that the findings of the research will be generalizable and/or can be used to test specified hypotheses. (Kvale, 1996)

In this study, semi-structured interviews were used and prepared through an interview guide line. The interview guide were to a certain extent adapted to each interviewee and they were improved along the way according to the previous interviews. Through the use of semi-structured interviews a balance between flexibility and standardization was achieved.

As the research is descriptive and exploratory, and little is known about the topic studied, being flexible when conducting the interviews was seen as valuable. During the interviews the interviewers attempted to establish a dialogue with the interviewee. The interviewers had the opportunity to change the structure of the interview, cutting issues, follow up with additional questions and open up for comments from informants along the way. The interview guide lines were used to make sure that desired information was gathered. Furthermore, a certain standardization and structure was important to be able compare the responses.

The selection of respondents was done by snowball sampling, which involves starting with a small sample of initial respondents, and then these were asked who else they think might have relevant information (Johannessen et al., 2004). In total, eight semi-structured interviews were conducted. The interviewees were management accountants and managers on group and company level, who have central roles in the forecasting process.

The interviews were conducted by two interviewers with one interviewee at a time. All interviews, except for one were in English. The one interview conducted in Norwegian was transcribed and translated to English. The interviews took place at the headquarters of Nordic Financial Group and lasted between 30 and 90 minutes, dependent on how much the respondents had to tell. All interviews were recorded and transcribed shortly after they were completed. There was also a possibility to contact the informants after the interviews for follow-up questions. A summary of the interviews conducted is shown in table 3.

Table 3: Interviews

	Respondent	Date	Length
Respondent 1	CFO, Group	27.09.2013	00:55:29
Respondent 2	Head of Controlling, Group, previously Project Manager	27.09.2013	01:01:15
Respondent 3	Head of Forecasting, Group	27.09.2013	01:13:10
Respondent 4	Head of Controller, Insurance	27.09.2013	00:48:09
Respondent 5	Controller, Group	11.11.2013	01:15:28
Respondent 6	Head of Facility Management	11.11.2013	00:33:56
Respondent 7	Director of Accounting, life-insurance	12.11.2013	00:60:40
Respondent 8	Head of Insurance Portfolio	12.11.2013	01:20:36

Direct observations

Data collection by direct observation is about being present in situations that are relevant to the study, and carried out by experiencing, looking and listening. In direct observations there is no interaction between the researcher and the objects being studied, and there is also no intervention. Through direct observation social phenomena are studied in their natural context, thus bias can be reduced. (Gummesson, 1991) In this study the total of five meetings have been observed in order to experience directly the way in which rolling forecasts are used. The meetings were in Norwegian. All the meetings were recorded and transcribed, first in Norwegian, and then translated to English. Notes were also taken during the meetings.

Table 4: Meetings

Type of meeting	Participants	Date	Length
First Glance meeting Insurance	Controller Insurance and management team Insurance	24.10.2013	18:03
First Glance meeting Group	Head of Forecasting, Management team Group	28.10.2013	25:37
Business Review meeting Insurance	Management team Insurance	29.10.2013	60:13
Business Review meeting Group	Management team Group	11.11.2013	02:03:57
Board meeting	CFO, Board members	20.11.2013	13:34

3.4.2 Data sources

An important distinction in data sources is made between primary and secondary data. Primary data refers to data gathered by the researcher for that specific purpose, while secondary data are data that already exists. (Saunders et al., 2009) For a case study, the most common sources include interviews, documents, archival records, participant observation,

direct observations and physical artefacts. (Yin, 2009) This study makes use of interviews and direct observation as sources of primary data to acquire an understanding of how rolling forecasts are used as a management tool. The study make use of different sources in term of different respondents with different positions, in order to investigate the research questions from different perspectives.

In order to get an initial feeling for the context and the empirics of Nordic Financial Group, a kick-off meeting with the researchers, the CFO and the Head of Controlling was set up as part of the research phase. Through this meeting relevant interview objects were identified. Having established contact with the top level managers also facilitated formal consent and physical access to the divisions of the organization. It also helped provide a holistic overview and understanding of the company as well as adding credibility with other employees in Nordic Financial Group.

Interviews and observations were supplemented with a wide range of secondary documentary material. These included internal reports, planning documents, evaluation documents, as well as presentation materials used for both internal promotion, as well as external presentations. The secondary data also included information gathered by Nordic Financial Group from their process of evaluating the current rolling forecast practice in the group.

3.4.3 Data analysis

No formal coding program was used for the data analysis. The data from the interviews, meetings and internal documents were repeatedly reviewed, categorized and compared. The data analysis was guided by the theoretical perspective of the study as well as the research questions.

3.5 Evaluation of the chosen methodology

3.5.1 Quality of qualitative research

In general, research is associated with the quality criteria of validity, reliability all of which originates from the the context of quantitative research (Gibbs, 2007). However, there has been considerable debate over whether qualitative and quantitative methods can and should

be assessed according to the same quality criteria. As a result, various “assessment criteria” have been proposed. (Flick, 2007) One approach aims to institute different criteria; Lincoln and Guba (1985) suggest “trustworthiness, credibility, dependability, transferability and confirmability” as criteria for qualitative research. (Flick, 2007), other propositions include, “methodological rigour”, “interpretive rigour” (Fossey, Harvey, McDermott, & Davidson, 2002) and “convincingness” (Baxter & Chua, 2008). There is however no standard criteria that have been generally agreed upon. Another approach focus on retaining but re-working notions of reliability and validity within the framework of qualitative research. (Baxter & Chua, 2008) The latter approach will be adopted to evaluate the quality of this research.

There are several ways to improve the reliability and validity of qualitative research. A typical strategy is triangulation, which involves analyzing a research question from multiple perspectives. (Golafshani, 2003) Denzin (2006) distinguish between four basic types of triangulation: data triangulation, investigator triangulation, theory triangulation and methodological triangulation. Data triangulation involves using different sources of information. Theory triangulation involves using more than one theoretical scheme in the interpretation of the phenomenon. Investigator triangulation involves the use of multiple perspectives in form of researchers in an investigation. Methodological triangulation involves using more than one method to gather data, such as interviews, observations, questionnaires, and documents. (Denzin, 2006)

3.5.2 Reliability

Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings. The data is reliable if similar observation will be reached by other observers and if there is transparency in the interpretations of the raw data. (Saunders et al., 2009) This criterion is, however, less suitable for qualitative than quantitative research. There are several reasons for this. Firstly, structured data collection techniques are not used, and the dialogue in the interviews often affects the data collection. Secondly observations are highly context dependent, which makes it difficult for other researchers to achieve the same result. Finally, the interpretation of observations is closely related to the researcher. This is because it largely being influenced by the researcher's background and experience. (Johannessen et al., 2004) By combining multiple sources, researchers, and methods, this

study hopes to overcome the weakness or intrinsic biases and the problems that come from single-source, single-method, and single-observer studies.

Robson (2002) (cited in Saunders et al., 2009) points out that there may be four threats to reliability. These are subject error, subject bias, observer error and observer bias.

Subject error occurs if the research is likely to generate different results at different times. Over time there will be a certain turnover of employees which may alter the values and attitudes within the organization. Furthermore, Nordic Financial Group is still in the start phase of implementing rolling forecasts, thus the attitude toward and use of rolling forecasts may change during the course of the implementation. This study will therefore only present a more snapshot of the current situation in Nordic Financial Group.

Subject bias refers to the risk that informants or respondents are not giving their real opinions, but are for instance affected by what they think their supervisors want them to say. Subject bias may be reduced by ensuring anonymity. (Saunders et al., 2009) Since an executive manager functioned as an intermediate between the researchers and respondents, as well as organized the interviews, the participants may have been affected by this. However, to avoid subject bias, all informants were informed that participation was voluntary and answers would be treated with full anonymity. Furthermore, the interviews were conducted face to face in order to build trust.

Observer error is related to errors made by researchers in gathering, interpreting or analysing data. (Robson, 2002, cited in Saunders et al., 2009) Observer error may be reduced by a high degree of structure and recording data (Saunders et al., 2009). In this study all interviews and meetings were recorded and transcribed before the analysis, to ensure that everything that was said was taken into to the final analysis. In addition notes were taken under the interviews and meetings. Furthermore, the transcripts were repeatedly checked against the audio files, and both the audio files and transcript together with notes were used during the analysis. The interviews were conducted physically face-to-face, which facilitated complementary observations such as facial and other non-verbal expressions to strengthen the interpretations of data. Finally, the research has been conducted by a research team consisting of four researchers. Interviews, and sometimes meetings, were conducted by two researchers at a time.

Observer bias relates to the researchers themselves and if they are accurately analyzing and interpreting data. The threat of observer bias is especially high related to observation as this methodology is largely based on the researcher's perceptions of the current situation. To start off, none of the researchers have any affiliations with Nordic Financial Group outside of this research project. This entailed an impartial approach towards the research object. However, the interpretations of the qualitative interviews and meetings are subjective by nature. To limit observer bias thoughts have been shared and findings discussed among the researchers during the research project. In order to strengthen the reliability of the study I have attempted to provide a detailed descriptions of the chosen methods and procedures used in the study as well as to distinguish between the data, the analytic framework used, and interpretations. In the analysis section direct quotes from interviewees are used. Direct quote can often be taken out of a larger context, so that the meaning behind is changed. I have had this in mind during the analysis and tried to not take quotes out of their context.

3.5.3 Validity

Validity, in qualitative research, refers to whether the findings of the research are true and certain. "True" in the sense that the findings accurately reflect the situation, and "certain" in the sense that findings are supported by the evidence. One typically distinguishes between internal and external validity. (Saunders et al., 2009)

Internal validity

Validity refers to the extent of which the research process and the results present a picture of what they are supposed to describe. (Saunders et al., 2009) The question is whether the data collected actually reflects how rolling forecasts are used as a management tool in Nordic Financial. A qualitative study like the one performed in relation to this thesis will have some difficulty in order to defend its validity. One weakness is related to the selection of respondents. Eight interviews cannot be claimed as representable for all the middle managers. However, as many of the respondents have important roles in implementing the rolling forecasting process as well as have a good knowledge of the use of rolling forecasts in the group, the internal validity should be high. Furthermore, the respondents have different roles in Nordic Financial Group and thus represents different viewpoints. To increase the validity of the study multiple researchers, sources of evidence and methods were used. Triangulation of interviews, meetings and documents enabled me in some extent to go

beyond the accumulation of personal opinions to gain an understanding on how rolling forecasts are used and how they have affected the mind-set and behaviour of members of the organization.

External validity

External validity, or transferability as it is often called within qualitative research, relates to whether the research results are generalizable or transferable to other research settings or organizations (Saunders et al., 2009). For this study, the external validity relates to whether the results presented are transferable to other organizations following the principles of Beyond Budgeting.

Qualitative research methods are normally badly suited for generalization of results (Yin, 2003), as they represent a small and unrepresentative number of cases (Saunders et al., 2009). In this study eight interviews were conducted among middle and senior managers with different positions to attain a diverse set of opinions and attitudes about the rolling forecasts. Yet, one cannot claim that these opinions are transferrable to other firms, as they are subject to both personal and firm values. Furthermore, management control systems and planning processes are highly dependent on contextual and situational factors. However, the aim of this study is not to generalize, but to study the practice of rolling forecasts in a specific context, or as Cooper and Morgan (2008) call it, to gain “context-specific wisdom. The findings may be useful for similar research settings, for instance for other financial firms implementing the concepts of Beyond Budgeting and/or practices rolling forecasts. Furthermore, there is also a possibility that the findings may be valid for other organizations.

4. Empirics

The aim purpose of this chapter is to briefly present and explain the dynamic management control system in Nordic Financial Group where rolling forecast plays an important role. The chapter starts with a short introduction of Nordic Financial Group. Second, the management control system of Nordic Financial Group will be presented. Finally, the rolling forecasting process will be described in detail, as well as its relation to other aspects of the management system. The chapter will be an important step in the understanding of how rolling forecasts are incorporated into the management control system of Nordic Financial Group, and serve as a background for the analysis and discussion.

4.1 Company background

Nordic Financial Group is, through its subsidiaries, a large provider of financial products and services in the Scandinavian market. The group is collectively owned by a group of local and savings banks. The banks in Nordic Financial Group distribute the group's products and collaborate in key areas such as brands, work processes, expertise development, IT operation and operations and system development, through the alliance corporation. The companies in the alliance cooperation are not a part of the group, but the group has the administrative responsibility for the collaborative processes in the alliance cooperation.

Nordic Financial Group consists of mainly four subsidiaries or business units. The Insurance company is the largest of the subsidiaries, and is a major source of return and profit for the group. The company's products are primarily distributed via the owner banks but also directly to retail customers and via broker channels to corporate market customers. In this thesis the subsidiaries are referred to as both business units and companies.

4.2 Management control at Nordic Financial Group

Nordic Financial Group operates in the financial industry which is vulnerable to cyclical variations and affected by the development of the global economy and the social development in general. The Nordic Financial Group found its management control system unsuitable to handle the rapidly changes in the environment, and based on inspiration from

Svenska Handelsbanken, Statoil and Beyond Budgeting, the group started its Beyond Budgeting journey in 2008. Since then, Nordic Financial Group has developed and implemented a new dynamic management system. The journey towards a new management model was initiated by the top management in the group and the idea was to change the mental model, not to introduce a new management tool.

The dynamic management model is about being among the best through a management system based on trust and relative targets. This is achieved through competent employees who find it interesting and developing to work in Nordic Financial Group, and by keeping a strong focus on what is happening in the market. In the definition of the new system, the group decided that it would eliminate the traditional budget as a management tool. The dynamic management model system is based on the 12 Beyond Budgeting principles. As opposed to the “old” management system, which was characterized by command and control, the new system focuses on empowerment through increased involvement and delegation. This is shown in figure 4.

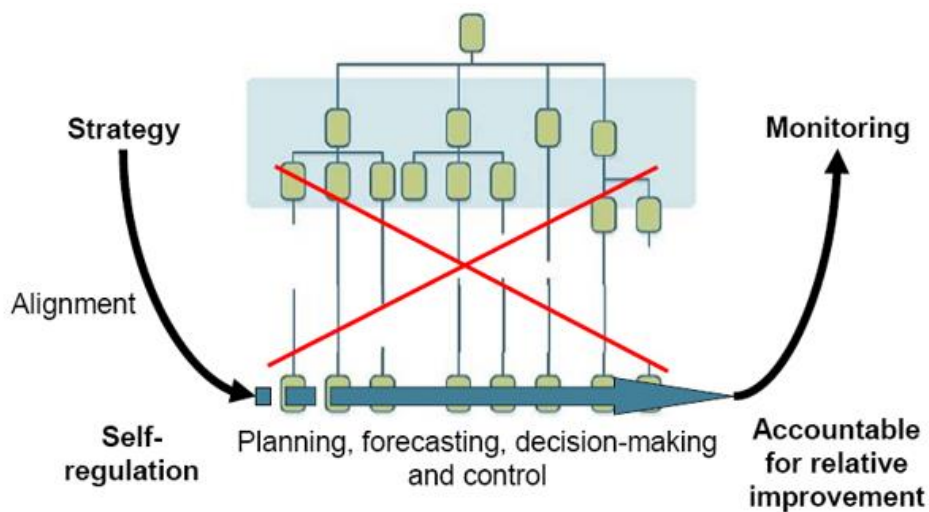


Figure 4: Dynamic management

The three main purposes of budgets in the “old” management system was target setting, resource allocation and forecasting. The rationale for the change in the management control system in Nordic Financial Group was in line with the theoretical premises of Beyond Budgeting and emphasized a need for separating these three tasks and thus the information provision for each task.

This thesis focus on how rolling forecasts is adopted in Nordic Financial Group. However, the implementation of Beyond Budgeting or dynamic management is not only about abandoning budgets and replacing them with rolling forecasts, but is about improving the whole management model. Forecasting is only one component in the overall model. The implementation of the dynamic management model includes a

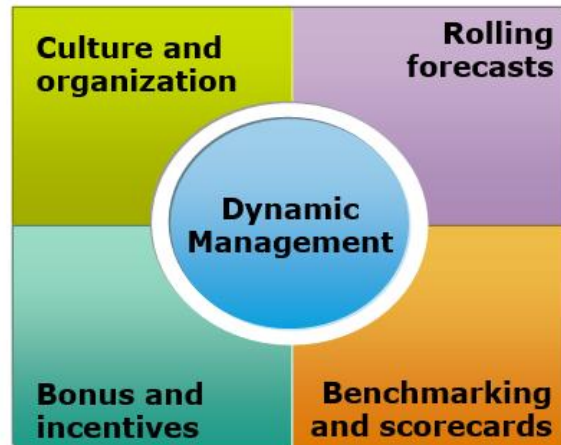


Figure 5: Dynamic management model

change of a range other processes, to make them all point in the same direction. This includes how targets are set, resources are allocated, and performance is evaluated and rewarded. In addition, implementation of the model requires a major change in culture, values and leadership behaviour, especially related to trust, transparency and motivation. The dynamic management model consists of four elements: 1) culture and organization, 2) bonus and incentives, 3) benchmarking and scorecards, and 4) rolling forecasts. Figure 5 illustrates the group's management model.

The first element, culture and organization is a part of the informal control system, while the three other elements, which concerns planning and control, compose the formal systems. The two systems of control, formal and informal, should complement and reinforce each other in order for the management control system to be effective.

Through adopting the new model, Nordic Financial Group strive to gain a stronger customer position, better financial results as well as succeed in making Nordic Financial Group an interesting, developing and fun place to work. In the next paragraphs, the four projects of the new management model are explained in brief, before the rolling forecasts will be described more in detail.

4.2.1 Benchmarking and scorecards

The implementation of dynamic management included some changes related to strategic goals, targets and key performance indicators (KPIs). "Good performance" is no longer equivalent with a positive budget deviation. In the dynamic management system, the target-setting process aims to make it clearer where the group is heading. The definition of success

is changed into improvement compared to competitors, instead of achieving a negotiated level. Benchmarking has been introduced as a part of the management philosophy and is used for comparing performance against competitors.

In the old system, ambitious targets were not possible because the budget number was the same for the target and the forecast. In the new system the target-setting process is separated from the planning and forecasting process. The organization has moved from having plenty of goals, targets and activities, to a model that consists of fewer and more ambitious goals

Nordic Financial Group has an overall long-term goal of being “the most successful bank” and aims to reach this goal through more defined short-term targets or KPIs defined for each subsidiary. The goal is broken down to sub goals, which are shown in form of league tables. A league table is an overview of how the group is performing compared to competitors. This is illustrated in figure 6.

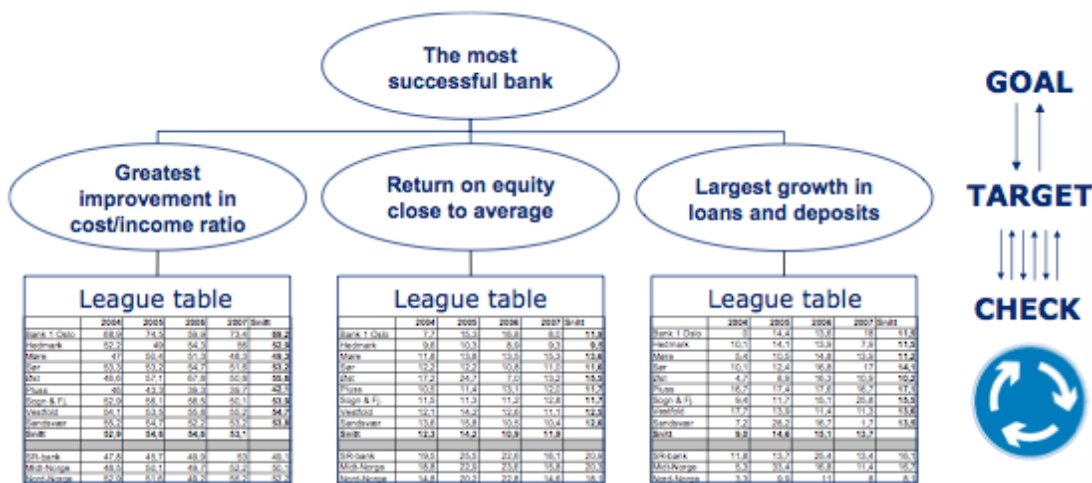


Figure 6: Breaking down long term goals

4.2.2 Bonus and incentives

Along with the dynamic management system, a completely new bonus and incentive system was also introduced. Definition of success is changed into improvement compared to the competitors, instead of achieving a negotiated level. Group and company level bonuses are disconnected from budgets or forecast and linked to the various league tables.

4.2.3 Culture and organization

The management philosophy of Nordic Financial Group is based on the leadership principles of Beyond Budgeting. It consists of three key elements: responsibility, involvement and business insight. In line with the Beyond Budgeting principles, the group aims to achieve a greater business insight by having great openness in information and knowledge



Figure 7: Elements of culture

sharing. Strategic information is transparent and lower and middle levels managers are included in discussions of strategic questions, as well as decision making processes. The purpose of this openness and involvement is to contribute to a better understanding of the market. By having a greater business insight, employees may be involved at a high level, and responsibility is a natural consequence. Together with responsibilities goes trust, and in the dynamic management model this is crucial. The management system is characterized by a coaching leadership style, short summarized, this is about asking questions and being indicative, rather than telling people what to perform and what to do.

4.2.4 Rolling forecasts

With increasing competition and a highly volatile business environment, Nordic Financial Group needed a better way to predict the future. As a result, rolling forecasts were implemented to help anticipate changes and better inform strategic direction. A rolling forecast is a process in which key business drivers are forecast on a continual basis and is an important management tool in the dynamic management control system. Rolling forecasts at Nordic Financial Group will be described more in detail in the following sections.

4.3 Rolling forecasts at Nordic Financial Group

The new management model includes all elements of the budget, they are just separated, and the rolling forecast is just one element in the overall model. The implementation of rolling forecasts have to be seen in relation other parts of the new management model. This includes how targets are set, resources are allocated, and performance is evaluated and rewarded.

4.3.1 The purpose of rolling forecasts

Rolling forecast is an important tool for management accounting and control in the dynamic management model Nordic Financial Group has implemented. The purpose of the rolling forecasting process is to be able to quickly respond to changes in the environment, and the goal is to be action-oriented. The CFO of Nordic Financial Groups express it as:

“[the purpose of rolling forecasts] is managing business in the desired direction, towards long-term ambitions, based on the information you have available to get an update on the current situation and the direction the development is taking.”

(Respondent 1)

Rolling forecasts are about spending more time managing the future rather than dwelling on the past. The rolling forecasts attempts to predict the future. Predicting the future in a changing environment is always difficult, thus the main purpose a rolling forecast is not to get the prediction exactly right, but to inform decision making.

Unlike budgets, the forecasts are not targets. The targets express the desired condition while forecasts on the other hand express the expected condition and should thus be “brutally honest”. The forecasts provide an early warning so that the course can be changed if needed, to reach the goals. The idea is to predict the key developments in the environment and estimate their effects on the organization and its ability to execute the original plan and deliver the initial goals. In this way any gaps between goals and forecasts can be identified in a timely manner, so that the gap can be closed, either by adjusting actions to achieve goals, or, in some cases, to decide whether the goals need adjustment. An example is shown in figure 8.

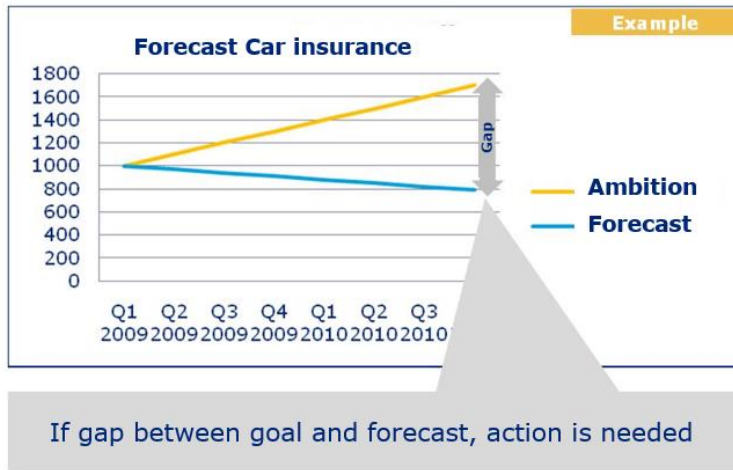


Figure 8: Gap analysis

An important aspect of rolling forecasts is that actual result should not be measured against forecast. Instead, the forecast are followed up by comparing them with each other. The forecast prepared in the 2nd quarter is compared to the forecast prepared in the 1st quarter, as illustrated in figure 9. This follow-up will increase the company’s understanding of why such differences occur and changes of assumptions are identified.

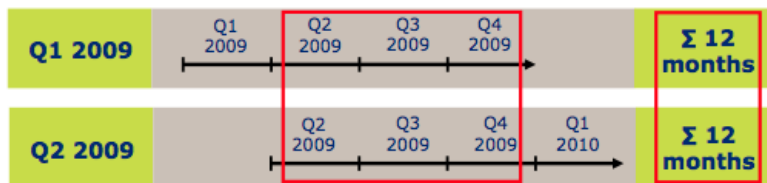


Figure 9: Comparison of forecasts

When such monitoring and follow-up is undertaken, attention is paid to where the company is and where it wants to go. In addition, the forecasts provide information on how the overall strategy works, and whether it needs to be changed.

4.3.2 The forecasting process

The forecasts are updated quarterly and go twelve months ahead. The exception is the forecast prepared in October, which is for five quarters, so that it covers the upcoming year. The process is coordinated by corporate finance and managed at company level by the finance departments. Each quarter the business units prepare their forecasts, together with explanations and comments on assumptions, which are sent to the corporate finance department. The forecasts of the various business units are then consolidated. After the forecast is sent off, there is no immediate feedback, no room for negotiation and further

changes are not possible when a forecast has been passed on. Each manager is responsible for what is passed to the next level. The rolling forecast process promotes a higher level of autonomy and responsibility, as every manager is responsible for the forecast as it is sent up a level in the company. The forecasting process is a lean process. The forecasts are based on currently available information and existing plans, thus there is no preparation of new information. Rough estimates are made for both costs and revenues, and quality means “roughly right”; it is better to hit roughly than miss accurate.

The consolidated forecast is presented by the CFO or Head of Forecasting to the group management team. This meeting is called the First Glance and is a quick overview lasting typically 15-20 minutes. Shortly after the First Glance meeting is the Business Review meeting. At this meeting the CFO steps back and let the business units present both their ambitions and their forecast, and gaps between forecasts and goals together with corrective actions are discussed.

There have been no strict policies or common processes on how to do the forecasts at company or business unit level. Nordic Financial Group is decentralized with each company having their own financial department, and most decisions are made in the companies. Each company has been given the freedom to implement the model in their own way. The companies have their own forecasting process, and in the end the forecasts are reported to the group management. The various companies have adopted different speed in the implementation of rolling forecasts. The Insurance company has come the furthest in developing their process and is used as an internal benchmark.

In Insurance the rolling forecasts are developed in a bottom-up, one-way process. Compared to the budgeting process, more people are involved in the forecasting process. The middle managers report to their managers, which in turn reports to the Head of Controlling in the company. The Head of Controlling:

“For each product they [the product managers] make a forecast for how many number of insurances are we going to have and then how much is the mean price per insurance going to be. So what are the price-increases going to be next year? Then the claims frequency, and then how much is each of the claims going to be... So those four input parameters will give you a claims ratio for each of the products.”

(Respondent 4)

The Head of Controlling gives inputs on costs to product teams from the headquarters. After receiving inputs from the departments, he structures the numbers and make it at the right format to put into the models. Thereafter inputs are sent to actuaries, and forecasts for each product are received in return. The forecasts are then sent back to the Head of Controlling who report to corporate finance. The bottom-up forecasting process is illustrated in figure 10.

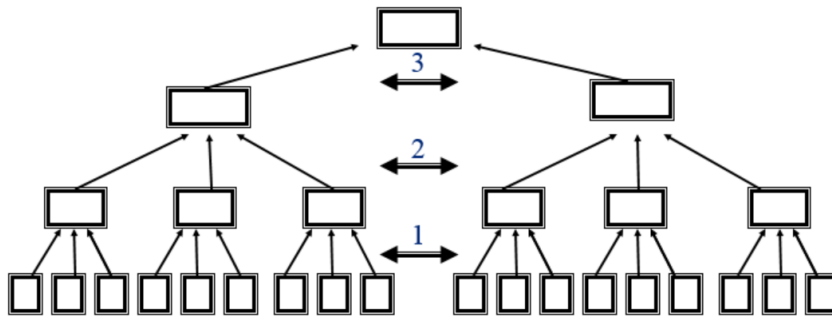


Figure 10: Bottom-up forecasting process

Before reporting up to corporate finance, the forecasts are presented to the management team in the company. The management team do not have the possibility to propose any changes to the forecasts. The first glance is just for the managers to get an overview before the forecasts are sent upwards. In this first presentation, the numbers are fresh and analyses relating to goal achievement are not largely available. The discussion is more about the assumptions behind the forecasts, than priorities and proposals of new measures. After the forecasts have been reported, there is a Business Review meeting within the company where the forecasts are compared against ambitions, gaps are identified and actions discussed.

4.3.3 Focus on key drivers

Unlike the budgets, which focus on details, the rolling forecasts are driver-based, focusing on some key value drivers. Driver-based forecasting focuses planners on the right things, treating financials as outcomes. It captures all the interdependencies that actually describe the business and results in fewer inputs for planners. Driver-based planning also ensures that forecast process is not purely financial in nature, thus providing a more well-rounded view of the business.

Furthermore, the forecasts and targets are relative rather than fixed. This means that not only costs or revenues are in focus, but are seen in relation to each other. For instance, rather than

targeting and forecasting claim costs the costs are measured in relation to premiums, e.g. loss ratio. In Insurance there is a focus on key drivers such as loss ratio and premium volume growth.

4.3.4 Resource allocation in relation to forecasts

Resource allocation in the dynamic management system is decoupled from forecasts. The resource allocation procedure has been changed to create a more dynamic process. Unlike budgets, forecasts are not an application for nor pre-approval of resources. The subsidiaries use the resources they need to achieve results and the top management follow up on the results. Investment decisions in the subsidiaries are made by the subsidiaries. Investments above a certain level have to be approved by the board. In other words, resources are no longer allocated on an annual basis, but rather continuously and dynamically, based on specific criteria, and made available case by case. When managers can make resource decisions as late as possible instead of once a year during a planning cycle, they have better information to work with and make better resource allocation decisions. Decisions related to spending are based on whether it is correct to do, rather than if the budget allow it.

Staff functions without profit responsibilities regulate their use of resources through service-level-agreements (SLAs) with the users (line functions with profit responsibility). In principle, those who generate income should control resource consumptions of the staff functions. In effect, the SLAs are commitments from one process to another based on anticipated demand.

4.3.5 Targets in relation to forecasts

In the “old” system, ambitious targets were not possible, because the budget number was the same for the target and the forecast. An important aspect of the rolling forecast is that it does not have to be met. In the dynamic management system the target-setting process is separated from the planning process, there is thus a distinction between targets and forecasts. The target setting process happens in the companies, and includes preparing league tables and setting KPIs. The target setting process addresses where the company is headed and is a part of the strategy process. In Insurance the target setting process is a two-way process, consisting of a bottom-up process and a top-down process. The targets are then calibrated from the top, based on the difference. By employing a combination of a bottom-up and top-

down target setting process, the company seek to achieve a balance between attainable and ambitious targets.

The targets go three years ahead, and are set for each year. The targets are updated on an annual basis. The target-setting process is an ambitious, outside-in process, based on the external expectations and competitor performance as well as internal goals. The rolling forecast is just one of many inputs in the target setting process. After the target setting process, the forecasting and planning process addresses how to reach the ambitious targets. The continual updates of forecasts should not invalidate current targets, but rather be viewed as a way to manage the gaps.

4.3.6 Best practice

Until recently, Nordic Financial Group had no common processes or policies on how the forecasts were to be used throughout the group. The group consists of several subsidiaries which is decentralized. The subsidiaries have developed their own processes and rolling forecasts are used differently in the various companies.

In order to achieve the purpose of forecasting, they must be used correctly. Based on Beyond Budgeting, and inputs from CFOs and controllers from the various companies, the group CFO and Head of Controlling has newly established policies of what they think is the best practice:

1. *Forecasts should be used together with historical data and goals to identify gaps and needs for measures.* Historical development and achievement of goals, objectives and forecasts must be used in conjunction to make up an image of any gap between the desired and likely development. In this any need for action based on the forecasts can be identified.
2. *Forecasting of value drivers.* Value drivers are important factors that can explain the financial performance of a company. Forecasting of drivers provides an insight in the development of these factors. It provides a better basis for making decisions about which factor one should prioritize to change to improve the results.
3. *Be clear on the assumptions the forecast is based on.* There are uncertainties associated with a forecast. It must be clearly stated which assumptions the forecast is based on.

4. *Do not use forecasts to measure performance.* Measurement of results against forecasts shall be made only to measure the accuracy of the forecast and not as a measure of performance. Success is improvement of own performance and performance relative to competitors, not to be better than forecast.

In the long run it is a goal that all business units in Nordic Financial Group will adopt “best practice”. The aim is to create a uniform corporate governance throughout the Group.

4.4 Summary of empirics

Nordic Financial Group operates in business environment characterized by rapidly changes and high uncertainty. In order to better handle the changes in the environment the Group introduced a dynamic management system based on Beyond Budgeting principles. A consequence of this change is that the group has discontinued the traditional budgetary process and implemented rolling forecasts. Ambitious, relative targets and the extended use of benchmarks are other important elements of the dynamic management model. Furthermore, the group’s bonus and profit-sharing plans have been modified in accordance with the principles of this management philosophy.

Rolling forecasts are an important tool for management accounting within the dynamic management model. The rolling forecasts are updated quarterly and go twelve months ahead. The purpose of the rolling forecasts is to support decision making and be able to quickly respond to changes in the environment. The planning process is separated from the target setting and resource allocation, resulting in more realistic forecasts and ambitious goals. The focus is on gaps between forecasted and goals, and how to close these gaps. Resources are allocated in a timely and dynamic manner and are not based on the forecasts. The main differences between budgets and rolling forecasts are summarized in table 5.

Table 5: Main difference between budgeting and rolling forecasts

	Budgeting	Rolling forecast
Target setting	Hierarchical (top-down)/negotiations, fixed	Ambitious targets, relative
Planning/forecast	Closely linked to target setting	Focus on gaps between targets and forecasts, frequently adjusted, transparency, decoupled from target setting
Resource allocation	Time-consuming, pre-defined, once a year standardized process	More dynamic, not tied to the forecasts.

5. Analysis

The following chapter is an analysis and discussion of the data collected. The aim of this chapter is to address the problem statement of this study:

How do the middle managers in Nordic Financial Group experience and make use of rolling forecast, and what kind of actions do they derive from forecasts?

First, the chapter will discuss why Nordic Financial Group decided to drop the budget then an analysis and discussion of rolling forecasts as a management tool follow. Adler and Borys's framework outlined in chapter two is applied to analyse the attitude of middle managers toward rolling forecasts.

5.1 Why Beyond Budgeting and rolling forecasts?

Until 2009, Nordic Financial Group used budgets as their main tool for management control. The budget had more or less three purposes: setting targets, resource allocation and planning. One of the respondents express that the purposes of the budget were conflicting:

"[...] we used budget for multiple purposes. You know, it was a budget, but it was also a forecast and... it was bonus connected with it. And... it was just biased. It was inaccurate..." (Respondent 3)

There were some forecasting together with budgeting, which was done by the Head of strategy analysis. However, the forecasting was done ad hoc on top of the organization and had a different purpose than today. The forecast followed the financial year and had a long time horizon. The respondent explains:

"They would usually be end of the year, yes. Or maybe three years ahead, but then in a different context. I think he [the Head of Strategy] still does those three to five years very overlooking from a very global perspective or a macro..." (Respondent 3)

The forecasts were prepared by the Head of Strategy and were mainly for the Board and the CEO to have an overview; they were not used by managers for decision making. The budget

was the key tool for management accounting and control, and has been both liked and disliked by the users in Nordic Financial Group.

One disadvantage some of the respondents point out is that a lot of time and resources were spent on the budgeting processes. Time was spent deciding the budget every year as well as monthly negotiations concerning the budget and explaining deviations. The budget process was an iterative process, e.g. a combination of top-down and bottom-up. Budgets were prepared at the lower level of the organization and sent up. If the top management was not pleased, the budget was sent in return. The budget process was perceived as negotiations between the top management and the rest of the organization and a consequence was gaming behaviour. Conflicting goals of executive leaders and business unit managers resulted in numerous budget iterations. The budget numbers that rolled up from lower- and mid-level managers were often inaccurate and misleading because of sandbagging (i.e. budgetary slack) by the managers who knew how to play the game. Revenues were budgeted too low and costs high. One of the managers explains the disadvantages with the budget:

“The traditional budget was that we in the fall spent a great deal of effort to create the budget for the coming year. And it was... It was... You sent it in, and were told that this must be cut, and lots of back and forth, and then it was approved. And it rumbled on the following year, without... I often thought about that there was little reviewing of your budget, before you arrived at the end of the year. Then you had to say "Have I used all my budget," and if not you, in a way, had to spend the remaining of the budget, otherwise you got a lower budget next year. And then you did things that may not strictly have been necessary. I have been a lot in the army, and there this was horrific. Exercises where you had to pepper ammunition at sea, just to use everything, right? Contrary to forecasts, where it is much more dynamics in it, and you recognize yourself in the daily life in a completely different way. You have the ability to adjust yourself.” (Respondent 6)

The whole budget process could last until six months, with the most intensive periods being in between September and November. One unfortunate consequence of these lengthy planning cycles was that final budgets often fell out of step with quickly evolving business conditions. The managers experienced that budget was already out-of-date at the start of the budget period because of the time taken to put it together. One controller puts it:

“We spent almost the entire autumn making the budget, and then when we were in February it was outdated” (Respondent 3)

Conditions frequently change during the course of the budget year and unanticipated risks and opportunities often arise and had an effect on the targets defined in the budget. The controller explains that the company experienced that the budget targets were seldom achieved. The budgets were inaccurate and did not follow the movement in the environment:

“[...] we were missing more and more and more each year, because there was so much going on in the financial markets; at that time it was positive, and the budgets... the result was always almost twice as high as what we budgeted...” (Respondent 3)

In the budget regime decision-making authority was to a great extent centralized and constrained by the budget. Each manager had the opportunity to make decisions as long as they stayed within their budget. As the budget was only updated once a year it was perceived as rigid and made it difficult to adapt to the changes in the environment:

“[...] it's not easy for them [middle managers] to move quickly if everything has to be approved one year ahead in our budget process... And then during the year we also have the normal approval procedures, if you have to spend this somehow, you have to get approval from your leader and that was the second approval. So, you don't need both approvals, because if the idea is good, you should only have the business case once. Or else it's waste of time” (Respondent 3)

An important feature of the budget was that it would act as a control and monitoring tool. Variance reporting was an important part of the budget process. The managers had to look back in history and try to explain why deviation between budgeted and actual numbers had occurred. This led to a focus on budget deviations rather than looking forward.

Target and goals were closely related to the budget. The goal was always to remain on budget and the organization controlled the employees according to how they did compared to the budget. The company's bonus and incentive system was an important part of this control mechanism. The system was strongly linked to the budget and the employees were rewarded in terms of budget compliance. A result of this was that the managers had a tendency to report easy to obtain numbers.

Despite the shortcomings and challenges that has been expressed after the abandoning of budgets, there was not a huge unambiguously dissatisfaction with the budget inside the company. The Head of Controlling expresses it in the following way:

“There was a lot of talk maybe in the environments, maybe not inside the company about the budget wasn’t working. But I don’t think there was a huge... there wasn’t a huge dissatisfaction internally with the budget. There wasn’t. And I used quite a lot of time to convince XX, which was the CFO at the time, that this is a good idea. We were quite content.” (Respondent 2)

Even though Nordic Financial Group now see the many disadvantages with the earlier method there were still some positive aspect by budget governing that is important to point out. The old method was very predictable and it gave a feeling of assurance and safety for many when it came to the use of monetary resources. Previous the managers got a set amount of money allocated that they were to guard and spend during the year, nothing more, nothing less. This kind of allocation made the responsibilities clear and the same goes when focusing goals. The budget made it easy to communicate these aspects to everyone involved since it was what people for a long time had been using. The budget was to a certain degree a good tool for control, but had difficulties when it came to producing real and up-to-date information due to rapid changes. However, the reason for abandoning the budget seems to be a desire to change the management model, rather than great dissatisfaction with the budget.

5.2 The use of rolling forecasts

The use of rolling forecasts cannot be analysed isolated, but have to be seen in the context with the other aspects of the management control system. As mentioned, the forecasting process and the use of the rolling forecasts varies across the business units within the group. This thesis focus on the rolling forecasts as they are used in the Insurance company. However, through the interviews and reviews of the documents provided by Nordic Financial Group some information of the forecasting process in the other companies was also gained.

5.2.1 Increased business understanding

Compared to the budgeting process there is a lot more involvement from the organization in the rolling forecasting process. As already mentioned, the forecasting process in Insurance is a bottom-up process involving managers on various levels of the company. The Head of Controlling in Insurance explains that the forecasts are discussed in product teams, with each team being responsible for parts of the portfolio. The product teams consists of a product manager, a claims manager, a sales manager and a controller, who each gives inputs to forecasting data. The managers have workshops where they look at the output, make assessment, and evaluate the forecasts before the forecasts are presented to the management team in Insurance. One of the portfolio managers in Insurance explains how the managers are involved in making the forecasts:

“So, I work together with the Heads of Distribution Channels especially on the number of insurances. How we see the development there, especially how we see the development of sales. And then I work with the product department managers on the risk side, on the profitability side. And they internally use different players within claims departments and the production departments to see what they see in development of cost, the development of the average claim, claims frequency et cetera, et cetera. And then we put that together to make the prognosis. Also it is the product managers of the departments that come up with the numbers for estimated development in price per insurance. So, the sales managers... they provide the numbers, number of insurances; and then the product people mainly produce the rest of the results.” (Respondent 8)

The controller gives inputs on costs; the claim manager on claim costs and frequencies; the product manager on prices; and the sales manager on sales volume. The Head of Controlling in Insurance explains that increased participation from the different part of the organization results in increased business knowledge and thus a better basis for decision making. First, the rolling forecasts give the top management a picture of what is happening in the business. Business-line managers are close to emerging trends and possess much of the internal data that informs the financial planning processes. Second, involvement of the middle managers in the forecasting process also leads to increased business knowledge among the middle managers, as they have to pay attention on what is happening, both internal and in the

market. One of the controllers explains:

“I think we get a good usage just by being conscious of the input you are putting into the models. So... learning more about our products, what do we need to be aware of to make a good forecast.” (Respondent 4)

Decentralized decision-making is a natural consequence of involvement and increased business insight. By paying attention to the changes in the environment, the middle-managers can respond to the changes. The Head of Controlling in Insurance explains:

“[...] it’s pretty bottom-up the way it is now. But we think it’s good that they [the middle managers] are conscious about how will the... for example the claims frequency develop the next year. Because it’s important to respond to any big movements” (Respondent 4)

As the middle managers know more about the business, the forecasts are more accurate than if they are to be prepared by some few managers on the top level. The middle managers contribute to valuable information to the forecasting process. However, some of the respondents express that the forecasts rolling up from below tend to be a little optimistic, especially with regards to sales. The managers in the finance department often see when the forecasts are unrealistic and sometimes make adjustments on top of the output submitted from lower levels. Some of the respondents express that this is something they would like to avoid:

“The sales information comes from the sales departments. So they [the actuaries] attempt to have it... to adjust them down a little bit, after receiving it. Because sometimes the actuaries think they are a bit positive. But that’s something that we don’t want to do...” (Respondents 4)

“You, obviously as a manager or as a controller, you can challenge the input as such. Why do you think, the interest rate would be that? Why do you think they claim damage...? But you do not sit on top of that and start changing the figures, when it is reported from the lower level. Then you sort of damage the trust completely in the process.” (Respondent 1)

The rolling forecasting process is based on trust, and the forecasts submitted by the middle managers should not be questioned. However, the finance department brings a broad

perspective to forecasting that, together with contributions from business managers leads to more accurate forecasts. It is not about knowing better than business managers, but having another perspective. While the business managers report on what they observe in the market, the finance function has access to information and analytics that can help interpret these trends across enterprise. Based on information from the business managers together with the analysis, as well as knowledge and experience, the finance functions try to make top level adjustments to get to a realistic projection. One of the managers explains:

“Also, and I think that is really good, is that when we start with the quarterly forecasting process we receive some predictions or mathematical predictions on the different numbers we have forecasted. Like the trends for number of insurance, the trends for average premium et cetera, et cetera. I mean, that gives us really... a really good platform for discussing the forecasting. Because if one of the sales managers come up with a number that is really far off the trend, they have to have much better explanation on how we are going to achieve that.” (Respondent 8)

One main critique against budgets is that the budget process requires a lot of time and resources. As pointed out, a result of increased involvement is increased business understanding. However, increased involvement might also lead a lot of time and resources being spent on the forecasting process. One of the executive managers explains that they want to avoid the forecasting process being perceived as budgets process four times a year. There is a trade-off between time and involvement. Instead of having a few people making the forecasts within few days, the forecasting process stretches up to a month from the beginning to the first glance. Most likely, the total time and workload spent on planning has not been reduced with the implementation of rolling forecasts. One of the respondents express when asked about the workload now compared to with the budget process:

“It is more or less the same. I worked a lot more with the budget, during the budget process, and then had afterwards in the monthly reporting comment on how the development was compared to the budgets. Now we do the forecasting process in a shorter time, write the comments and I think we had less work than in the traditional budgeting.” (Respondent 7)

The statement above implies although the total time spent producing rolling forecast compared to budget has not been significantly reduced, the managers might perceive that

there is some reduction in time, as each forecasting process is shorter. Furthermore, several respondents express that they feel that the time is spent more wisely. The CFO express that increased business understanding is an aim in itself:

“Now we have a process that stretches up to a month from the beginning until we have a first glance. But we were very specific on that... one of the aims of introducing rolling forecasts was that we wanted to build business understanding, greater business understanding within the organization. [...] I think, that having managers sit down four times a year asking: what do you think would be the outcome of what we are doing and the plans we have, what would be the outcome, it has a value itself.” (Respondent 1)

There is also a probability that time spent on preparing forecasts will be shortened as the managers gain more experience and get better routines. Improved technology will also contribute to the reduction of time used for planning. However, as the above statement implies, the overall goal is not to save time.

5.2.2 Decision-making tool

In Insurance the forecasts have value for the management team beyond reporting upwards; the forecasts are used to make better decisions and to drive performance. Forecasts are an essential tool for the management team, not just another management chore that needs to be done to please the corporate headquarter. Forecasts are important inputs in decision-making processes in Insurance, both in terms of dynamic performance management and project prioritization.

However, one respondent explains that the organization needs to be conscious of the numbers in the forecast before the forecast is prepared. Planning should be done and decision made on a continuous basis, not as a result of a forecasting process. The respondent explains:

“If we predict: okay, we are going to have a huge sales growth because we have a new product or something else, it is important that the organization is conscious about that also prior to seeing the actual forecast made that quarter. What we are trying to do is that everyone is working towards always knowing what the future will bring, and then each quarter we take a snapshot of: “Okay, what’s going on in the

organization now”, and then extract it to make the forecasts for... well, for reporting, but also for usage by ourselves” (Respondent 4)

The management team in Insurance makes use of the rolling forecasts beyond reporting upwards; the forecasts is an important basis for action plans to correct negative trends or to exploit positive developments. In the Business Review meeting the forecasts are compared against ambitions, gaps are analysed and measures assessed. The forecasts make it possible for problems to be detected and pursued right away, to ensure that targets are achieved. They are useful to identify and act upon early signals from the external and internal environment, to position the company to effectively exploit opportunities. The business review is an important arena for discussing forecasts and actions. In the Business Review meeting in Insurance, one member of the management team expressed the importance of the discussions in these meetings:

“I think that the questions we ask on these business review meetings are important, because when the last quarterly results are put it is... then it is too late to do anything about what has already happened. That is why we must constantly ask: are the measures we plan enough to deal with the worries?” (Member of management team, Insurance)

This statement implies that the management team sees the rolling forecasts as an important tool to deal with changes in the environment in a timely manner, and the rolling forecasts make an important basis for discussing what actions to take. The focus in the business review is on value drivers and their development. The discussions are very action-oriented, focusing on the reasons for the gaps between forecasts and goals and how to close them.

The rolling forecasts are useful to get insight into how the results realistically will evolve, and thus to be able to evaluate against goals, and where to focus on closing gap through new measures. The management team in Insurance express:

“[The forecasts] provides the management team with a good indication of how we will perform against ambitions, which provides input to the prioritization of measures. We have become more concerned, and have better insight into competitors and the market than before forecasts/dynamic management was introduced” (Management team Insurance)

Figure 11 illustrates how rolling forecasts are used as a decision making tool. The figure shows the actual development, forecasts, and goals. The actions planned are also embedded in the forecasts, i.e. the forecasts take into account how the actions will work. The forecasts are the aggregate of business as usual and extrapolations of existing trends; all the action plans in progress; and all plans in the pipeline. In other words, the forecasts are “baseline plus anticipated events,” with the effort being focused on “events”.

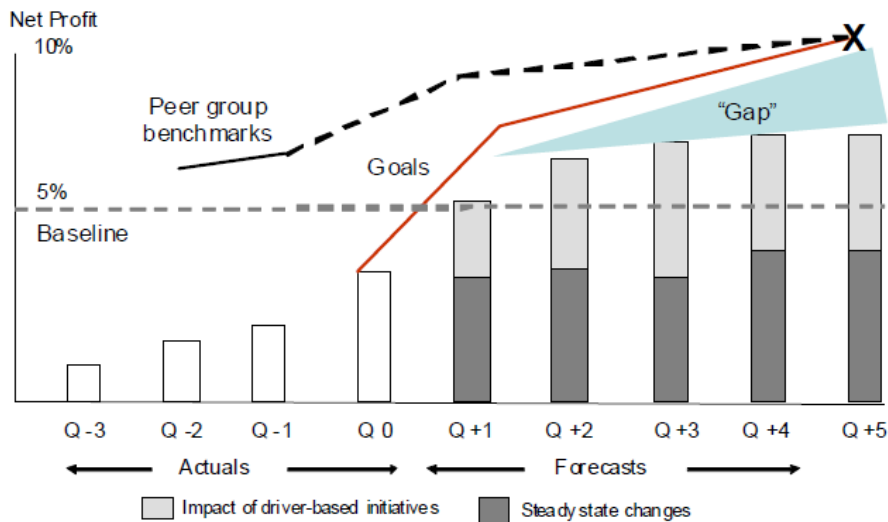


Figure 11: Forecasts as a decision making tool

Several respondents express that some of the challenges related to the forecasting process are that the forecasting is a fragmented process and have a tight schedule:

“The biggest challenge is that the process is fragmented and that deadlines are tight so you do not get to see the whole context in relation to the correct discussion, what have we learned since the previous forecast and how the picture has changed in the last 3 months. There is a lack of discussion about what the forecast should mean for what we do next. There is too little time for processing in the management team before reporting and final determination of forecasts. However, the processes and relationships have improved over time.” (Management team, Insurance)

“What could be improved, I think, is maybe the time for the leader group to discuss the forecasts and see what actions we should take to... if the forecast shows that we are not heading directly to the goals, that we should take some actions to change the

course and so on. I think the leader group should have more time to discuss the forecast” (Respondent 5)

“The challenge up to the Business Review meeting is that... and that depends on the time-schedule, both within the company and up to the Board of Directors’ meeting, is that the CEO that is running the Business Review in the top management meeting hasn’t always had time to have a sort of internal business review process. And this obviously sometimes effects the quality and the outcome.”(Respondent 1)

In the Business Review meeting at group management level, the CEOs of the various companies run through the forecasts and ambitions in detail, as well as how they intend to close the gaps, if any. Measures and actions are also discussed, if they work as the forecasts predict. All the pieces of the organization are connected and one sees everything in perspective. At this level, the rolling forecasts are mainly used as a reporting tool. The Head of Controlling explains this with that the business unit managers are closer to the business and has more business knowledge than the top managers:

“The management processes happen in the company management groups; and not so much here. The discussions on closing the gaps... I mean, the efforts that we can do from a group level are not that many. It’s done in the companies. The good discussions are in the companies. And it has to do with... uh... I mean, lack of business understanding in Finance, in our department.” (Respondent 2)

The CFO express that in the Business Review meeting at business unit level the forecasts become a discussion; they become a good tool, because the ambitions are clear. At the lower and middle management the ambitions are sometimes not very precise, because it is difficult to benchmark the outcome. Hence, the ambition is not easy to grasp for the managers. At company level there are league tables and KPIs which are benchmarked and used to set relative targets. But further down in the organization, details of competitor performance may not be available in such detail. The CFO express that perhaps at the lower levels, the ambitions and goals are not closely enough linked to the output of the forecasts. He further explains that at lower organizational levels they need help to develop good KPIs. The challenge lies in succeeding in scaling down the overall goals and to translate the output or forecast in a way that makes the forecasts useful for the lower level managers in making

decisions. This include bringing the middle managers and controllers of the various units closer to the business management:

“I think, when you come beyond that level, [the larger departments within the companies] the managers don’t relate that much to the forecast as a management tool, as they do further up in the organization. We have an ambition that we should try to get the company controllers closer to the business managers and help them then more than being a reporting tool or helping the top management group. I think, there is a... there is a line somewhere in the organization where... where the process from the top management and the lower levels is sort of de-coupled.” (Respondent 1)

In the dynamic management model decisions and processes have been moved down in the organization. However, this also requires that the managers at lower levels are provided information to make decisions. The CFO explains that they need to change the focus of business controlling from top level support to supporting the whole organization. The CFO further explains that the forecasts are very much financially driven, and order for the middle and lower level manager to use the forecasts as a tool rather than reporting, the focus have to be on the drivers of business:

“...because one other challenge is that, I think, to make the forecast relevant for them [managers at lower level of the organization] and to take forecast process to the next step, we have to focus on the drivers, not... because we are very much financially focused, we are setting up a P&L and a balance sheet, and to ask a middle manager down in the organization from the claims department to sort of make a forecast on cost and so forth, it is... I wouldn’t say it is difficult, but he would probably see the forecast as much more useful if we could say: What we are asking you to make a forecast on is the number of claims, the average claims level; and sort of translate this into financial figures” (Respondent 1)

He points out that the middle managers have an important translator role between the top management and lower levels of the organization.

When asked if the forecasts are used as a decision making tool at lower levels in the organization, two of the respondents express:

I think, that depends a little on what you work with. If you work with processing claims or if you work with putting new policies in effect, I guess, it is not a really big issue. If you work with sales and are responsible for a bank or if you are a product manager, this is something you really had to focus on and be on alert on. And I think they are. So, I think this is, back to product managers, they use the forecasting to see, we need to do something in the terms and conditions, if we need to do something with the rates and they use that heavily; and on the sales management side, they also use that a lot in the discussions with each of the banks, how they are going to focus, what kind of activities they can do to increase the volume et cetera, et cetera. And on the level above, we use it to determine, how we should focus, what products need more attention than the others, to kind of prioritise across products and the various business.” (Respondent 5)

“I do not think the lower levels use the forecasting as a decision making tool. I do not think so. That is more for the management and the overall business. Of course, maybe the managers of the lower departments go through this process four times a year, and that makes them conscious about how much costs they are actually using and how to do their business in a sensible way, but I think that is more day-to-day business all the time, and not the forecasting process as such that makes... It can make them conscious about the things, but I do not think they use it as a decision making tool.” (Respondent 7)

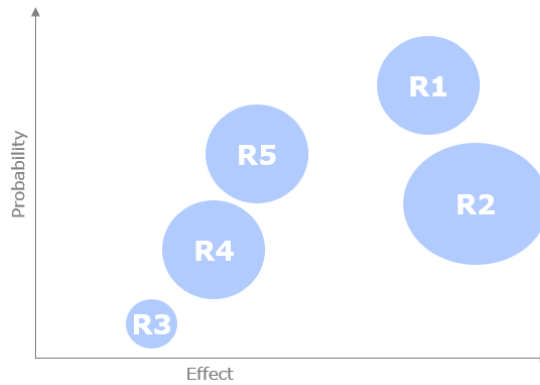
The responses regarding the use of the rolling forecasts at lower levels of the organization are rather mixed. The CFO express that the aim is to have a forecast process that is well connected from the very bottom of the organization and get the forecasting process work in a manner that also help the middle and lower managers see the forecasts and the process as a good, meaning full process that adds value. According to the CFO Nordic Financial Group is not there yet.

5.2.3 Scenario planning and risk assessment

In Insurance the use of forecasts in scenario planning is limited, and is mainly used in relation to risk considerations. The rolling forecasts scan the environment of risks and changes which affect the assumptions used in the planning process, and based on these measures and actions are addressed to handle these risks. The rolling forecasts provide useful

information for an effective risk-management. An example is of risk assessment shown in figure 12.

Risk areas XX



#	Risk area	Measure	Time
R1	xxx	xxx	Continuously
R2	xxx	xxx	Continuously
R3	xxx	xxx	Q2-2013
R4	xxx	xxx	Q3-13 to Q2.14
R5	xxx	xxx	Q3-13 to Q2.14

Figure 12: Risk assessment (modified)

5.2.4 Information system

In Insurance the information on forecast, targets, gaps, actual development and measures is integrated in a single IT-system. Key value drivers on profitability and growth are visualized as diagrams, charts and other insightful depictions. The tool gives insight to both total figures, product areas and individual products. The tool supports dynamic business workflow and provide views of complex data across multiple dimensions and drill-downs into specific data. It connects different pieces of the organization and gives the management a continuous picture of the historic development, current position, and the short term outlook, as well as long term goals. The information is systematized in a logic and structured manner, creating a dynamic view and enabling managers to perform analysis more quickly. It is used as a basis for discussion around deviations between the results of actions and goals.

The tool is available to all employees in Insurance, but is used mainly by managers at various levels who are directly involved in the performance management process. This includes for instance product managers and portfolio managers. The tool is used both on a

day-to-day basis as well as to monitor developments in portfolios and for gap-analysis, particularly in business reviews meetings at various levels of management. The system facilitates reporting, documentation and following up. It also makes results transparent, which may motivate managers to achieve goals.

The Insurance unit is still in the process of implementing the information system, and Nordic Financial Group aims to implement this system in the other business and at group level in the future.

5.2.5 New tool, old mind-set

The process of rolling forecasts is still new in Nordic Financial Group. The CFO express that some of the middle managers still have the “budget mind-set”, which is influencing the potential benefits of the forecasts:

“.. it is a challenge of course when we have managers coming and going and we are having still... Beyond Budgeting it is not flourishing Nordic Financial Group. And we have both middle managers and top managers coming in... I would say challenging that we have abandoned budget and... challenging the philosophy and Beyond Budgeting... and dynamic management. They still are in sort of their spine and in their mind, and sometimes the slip of tone tells me that “Oh, you are very much in the budget world.” And of course that sometimes spills down the organization in the way they communicate and the way forecast is used.” (Respondent 1)

This budget mind-set leads to confusion between forecasts and goals. Some middle managers still believe that their forecast is their “application” for resources as with the budgets. Some also mix targets and forecasts. They believe they have to “deliver” on their forecasts, and results have been compared to forecasts. In addition, large gaps between results and long-term goals sometimes lead to forecasts rather than ambitions being used as a measurement for results. The Head of Forecasting explains how forecasts have been compared to actual results in one of the companies, and the problems related to this:

“They had forecasts, and then they had actuals, for example the first quarter. And then they saw: “Yeah, we are on forecast, actuals and forecast, they fit.” And then next quarter. A new forecast, and new actuals as well, but this time the forecast is much better than the actuals. They go to the third quarter, and there is some a new

forecasting process, they are trying to be more realistic and they lower the forecast and the actuals are more on track again. And they say: “Yeah, good job!” But it’s not a good job, because the forecast is lower. Because you forget about the ambitious goal; thus the forecast should see how you can... steer the company towards the ambitious goal we have set for the company. If you follow-up one actuals compared to forecast that is changing, it doesn’t give you much information. You have the ambitious goal and it stands... you know, standing there. And that is what you should compare to. Because in that third quarter you are quite far away from that ambitious goal; and that is also what the forecast indicated. So instead of saying you did a good job, because you met the forecast in the third quarter again, you have... you know, you go the loop to the business review, find out what you can do to meet that ambitious goal and make a new forecast the next time again, to see if you are in track towards that goal.” (Respondent 3)

As the statement implies, when forecasts are compared to actuals, the focus is on how to meet the forecasts, rather than actions to reach the goals. Moreover, comparison of forecasts with actuals leads to a bias since the forecast is considered a goal, i.e. sandbagging and other gaming behaviour is the consequence.

Even if the rolling forecast process is not supposed to be the budget process four times a year, it seems like some of the middle managers use the rolling forecasts as they used the budget. These managers see the forecasting process as reporting rather than a decision-making tool. Documents on the evaluation of the current rolling forecasting process conducted by the group reveals that by some middle managers business review is perceived as a report to corporate management and is not used as a management tool. The reported forecast is basically a summary of known parameters that have been in use for a long time. It does not provide new management information for the management team in the company, but is rather a relevant overview for the corporate management. One of the companies does not even have a business review, they just report to the group. The CFO explains that some managers see the forecast as a “stand-alone reporting”, and do not use the forecast as a tool. This not how the group want the forecasts to be used:

“We have to see the forecast in... not on a stand-alone reporting because it is, I think, a tendency... and that, you probably will also get some feedback on that when you

interview people in the organization that it in some respect tends to be just another report and not used for its purpose, as it is meant to be and what is sort of best practise.” (Respondent 1)

The CFO express that the First Glance meeting at group level sometimes tend to focus too much on the details rather than what is going on in the business. The focus should be on the “drivers” of the business and actionable data, not on the details. He further explains that the way the First Glance meeting is proceeded that does something with mind-set:

“... the forecast has to be sort of related to something, not on a stand-alone basis. In the first glance the budget is very much on a stand-alone basis... And I see that that does something with the discussions within the top management team. Instead of sort of discussing “Is this bringing us closer to the ambitions and goals”, it sort of tends to be a stand-alone discussion and we dig into sort of kind of details in the forecast which we... we are trying to avoid that kind of discussion.” (Respondent 1)

The CFO further explains that it is challenging to get the lower levels of the organization to relate to the forecast as a decision making tool:

I think, if you go further down the organization than the management level in the insurance company, they would probably say that this is a reporting to the next level.
(Respondent 1)

Some of the respondents express that some middle managers are not interested and involved in the process, they do not use the forecasts as a tool but rather just deliver the relevant data required by the group.

5.2.6 Time-dimension and use of forecasts

Currently Nordic Financial Group adopts a one-size-fits all approach with a fixed horizon and update frequency across business units. Quarterly forecasts and a twelve months rolling horizon works well for most of the companies, but it is a challenge for some. Two of the respondents express:

“We have a fixed forecasting horizon, but for instance for markets it would be better on the income side to have a shorter forecasting horizon, because they don’t know

how... the things happen quicker there; and insurance companies, they should at least have two years for instance. Because when they make a policy change, it will take at least two years to see the full effect.” (Respondent 3)

“[...] some of them [the companies] feel the need or they feel that they have... they could get more accuracy if they forecast ... just to give an example like a month or three weeks or 14 days ahead of time. I think, the time horizon can be a challenge depending on the type of business, and we have very different companies. I mean, fund management, and you have insurance, and the time perspective there could be quite decisive on some of the numbers you are trying to forecast. (Respondent 5)

The above statements imply that managers in some companies perceive the forecasting process as reporting because the process is not adapted to their business, and thus gives little value. A quarter is too long for some companies, and the forecast could be more useful if they were updated more often. For instance, one of the companies forecast each month, thus the forecast they send to the group is quickly outdated. Other companies have demands of forecasts for two or three years ahead, because it takes time to see the full effect of actions. The companies are different; they have different business models and operate in different markets. Forecasting time frames should be consistent with the companies' business cycle and business needs. The frequency and total time horizon should align with lead times needed to correct the course and the overall rhythm of the business in the various companies. Furthermore, the forecasts should match the companies' ability to see into the future.

5.2.7 Learning and reflection

The forecasts are benchmarked against each other; the updated forecast is compared to the previous forecast, and the differences discussed. The evaluation helps to inform future forecast assumptions and drivers. The variances make the basis for discussions about changes in assumptions and provide information to detect trends. Did the forecasts miss due to coincidences, structural changes or poor understanding of the drivers? Focus on variances force the managers to make reflections of why the differences occur and how they will influence the inputs of the forecasts. One respondent explains:

“[...] you see the new forecast compared to the last forecast and what has happened, can we do anything about it, or is it just fluctuations? And just looking at those two different forecasts, it’s... it’s a process of taking action isn’t... in itself. Because you either see you have to do something or... or not.” (Respondent 3)

The actual results should not be directly measured against the forecasts to avoid the “budget mind-set” and biased numbers. However, the actual results are compared to forecasts to have an understanding of why the forecast were not met. The accuracy of forecasts is measured at the corporate finance department, and used for learning and detecting systematic errors. The Head of Forecasting explains:

“Maybe once a year maybe we make a chart that plots how they forecasted and how the actuals were for that period. And we have all the forecasting periods from when we started [with rolling forecasts]. So it’s basically... It’s a line [which shows forecasts equal to actuals] and then you plot how it correlates with that line.”
(Respondent 3)

The Head of Forecasting further explains that they have meetings with managers from the finance departments of the various business units on an ad hoc basis to discuss the variances. It is important to point out that accuracy is not something the managers are measured on. However, comparison of forecasts to actuals is important for learning and to further develop the process. The purpose is not to find out if the managers are “beating” or “achieving” their forecast, but rather if they tend to miss more on the downside or upside, and to figure out a better way to better align forecasts with actual performance. The purpose is not to attribute blame but to learn if forecast accuracy is improving and how it can be further improved. One respondent expresses:

“I think it is important that they have some follow up on our ability to forecast, to see if we are actually able to forecast well. And also when we are far off, we can have an evaluation of what we did not see.” (Respondent 8)

Several respondents explain that the group has to be better at including learning in the forecasting process. Systematic errors have to be pointed out and highlighted so that the managers can improve their forecasts. Furthermore as one respondent points out, it is important to encourage the managers to be honest and realistic:

“We have to challenge them to... to be perfectly honest on what they think they are going to use.” (Respondent 7)

The management team in Insurance express that they are not good enough in including learning in the use and evaluation of the forecasts to become even better at making forecasts. Quality of forecasts is crucial for good use, while quality again depends on that one has a good use of the forecast.

5.2.8 Uncertainty of information in the use of forecasts

For several product companies it is difficult to find relative targets and league tables, which make it difficult to set targets and forecast. Furthermore, there are some challenges in relation to forecasting of value drivers. Some drivers are characterized with high degree of uncertainty and are difficult to predict. One respondent explains:

“The results for some of the companies are quite depending on the development of the financial markets. And some of them assume a normal return, and... is like... yeah... um... they cannot really predict how it is going to be, and of course depending on the fluctuations on the financial markets, the actual numbers will vary. So, that is the problem with some... or not the problem but the challenge with some of the companies.” (Respondent 5)

Another respondent express the uncertainties related to for instance forecasting of loss ratio for some products, which is affected by factors beyond the managers' control:

“[...] it is a bit tricky because like now, on... um... like home owners insurance, we have had... what... which is really heavily affected on severe weather. And we have not had any severe weather this year. So, the results are really good. But we cannot use that trend to anticipate that it will stay this way, because if we get a storm or something...” (Respondent 8)

An important challenge is related to how to deal with the uncertainty:

“The main challenge is to highlight the uncertainty within the forecasts, the probability of achieving the forecasts, against the volatility of the individual drivers. But we are starting to get a good understanding of the most uncertain elements.” (Management team Insurance)

The current system is very binary. You can forecast that something will happen or it will not happen. The forecasts do not highlight the uncertainty around the various elements they are based on. Some things are to a large degree certain, like fixed costs and agreements or contracts that are already signed, some are speculatively put in the forecasts, which are not committed to, but the managers want to make sure that it is on the radar, while others are more a “wild guess” and are out of the managers’ control. In other words, the forecasts show things that might happen – or will happen or definitely will happen. The challenge is to highlight the uncertainty and improve decision making.

For the several product companies, key drivers related to sales are uncertain and beyond the managers’ control, as the product companies do not own their distribution channels. Distribution is managed by the owner banks, and the companies depend on the banks in selling their products. Thus drivers on volume growth are to some extent out of their control, at least in the short run. However, the focus is on what they can influence through for instance prices and product mix. There is also focus on developing and facilitating channels, such as online sales. The forecasts are useful to identify gaps and the development and these make the basis for dialogues with the banks. A challenge is that some of the banks still operate with budgets, and the budgets are often not ambitious enough to achieve the goals. In the Business Review meeting in Insurance, this was discussed and one of the managers point out the importance of getting commitment from the banks and challenge them on ambitions.

5.3 Perception towards rolling forecasts

The rolling forecast is an important part of the formal control system in Nordic Financial Group. In order to be able to handle the rapid changes in the environment it is important that the formal control system is perceived as enabling. In the following section the middle managers’ attitude toward the rolling forecasts will be analysed by applying Adler and Borys’ framework of enabling and coercive formal control. According to these authors managers are likely to perceive formal procedures as enabling if the latter facilitate their actions without unduly constraining them. There are four features that characterize an enabling system: repair, internal transparency, global transparency, and flexibility. (Adler & Borys, 1996)

5.3.1 Repair

In the rolling forecasting process *repair* is allowed and encouraged. The forecasting process encourages the middle managers to participate in the process and to propose improvements. The forecasting process is a bottom-up process, which allows the managers to influence the forecasts and suggest improvements along the way. Middle managers are expected to detect changes of assumptions, and thus change the forecasts. There is also a focus on the value drivers, if they provide better management, or if better value drivers are needed.

5.3.2 Flexibility

The dynamic management model and rolling forecasts enable the managers to *flexibly* respond to environmental circumstances. First of all, the middle managers have been provided flexibility of how to use the rolling forecasts in their business unit. Recently the top management have established “best practice” on how the rolling forecasts should be used. However, these are more guidelines than detailed manuals. Furthermore, the middle managers experience increased local freedom and confidence to make decisions and act when the situation requires it. Managers are empowered by being provided more freedom in terms of how to reach goals. Instead of having detailed budgets giving a rigid system for how to reach goals, the middle managers have increased flexibility to act on the information provided by the forecasts, to reach goals. In the dynamic management system resource allocation is dynamic and de-coupled from forecasts, and is not as inflexible as under the budget regime where everything had to be approved one year ahead. Resources are allocated case by case and the managers are followed up on the results. Compared to the budget regime, the middle managers are given more flexibility to act on the forecasts. The manager are given both responsibility and authority to achieve results.

5.3.3 Internal transparency

The management system exhibit *internal transparency* if the managers understand and see the logic of the system, as well as what constitutes best practice. This seems to be the case for the majority of middle managers. They seem to understand and see the logic of the rolling forecast and its relation to goals and resource allocation. However, not all middle managers seems understand the logic of the system. As mentioned, some managers still have the budget mind-set and there are thus some confusion between forecasts and goals. Some

middle managers perceive the rolling forecasts as just another reporting tool and do not use the forecasts in the way it should. Not all managers has yet understood and adopted “best practice”.

5.3.4 Global transparency

The rolling forecasts help the managers to see the bigger picture, thereby ensuring *global transparency*. The use of rolling forecasts as a management tool makes employees work toward an overall strategy. The goals and responsibilities are clearer, it is not only about achieving the budget. Furthermore, rolling forecasts together with the ambitions contribute to a better understanding of strategy and operations. The measures and actions are followed up and the managers see themselves in a context. As the middle and lower level managers are involved in setting the ambitions, they have a strong ownership towards the strategic objectives. On the question of how getting the information up will affect the culture, a respondent says:

“This [the use of rolling forecast as a management tool] will lead to clearer goals, you will learn what you are working with across the units, and see the effects on other than your own unit, and you get more knowledge about what is going on. Both the ... about what happens internally and what is happening in the market. I think it has major significance.” (Member of management team, Insurance)

5.3.5 Development and implementation

A positive attitude toward a formal system also depends on the development and implementation of the system. Implementation of the rolling forecasts system in Nordic Financial Group is based on participation of managers. Large parts of the organisation have been involved in the process in order to avoid the change becoming a "project" that is owned by the finance and accounting department or a few key employees.

Furthermore, the middle managers have played an important role in developing the forecasts process, as well as establishing “best practice”. The managers in the various business units have had the freedom to decide how they want to implement rolling forecasts in their unit. The units has implemented the system in their own way and learning is shared throughout the organization. However, as already mentioned, the rolling forecasting process on the

overall level is not adapted to the various business units. A result might be that some managers perceive the forecasting process as coercive, as they see the rolling forecasts as a reporting tool.

According to Jeremy Hope and the BBRT (Hope, 2010), for rolling forecasts to be successful they must be seen as a tool for strategic management and learning, not for control. In Nordic Financial Group the rolling forecast is used as a management process, not a measurement process. The rolling forecasting system is based on trust. The middle manager are responsible for and trusted to prepare realistic forecasts and make decisions. Unlike in the previous budget process, the senior management cannot send the forecast in return with the comment that it is not good enough. One senior controller express:

“I mean, each subsidiary, they have people in charge of making this forecast. I trust that they have done all these considerations and evaluations, before they report to us. I do not really question whether a number is right or wrong. I just ask questions... more information to acquire more knowledge on the backgrounds of the numbers. But I am not really in the position to question whether or not they are right.”

(Respondent 5)

Furthermore, forecasts are not seen by senior managers as a tool for questioning or reassessing performance targets. Nor are they be used to demand changes or improvements. A result is that the middle managers perceive the process as enabling, rather than coercive.

5.4 Impact on managerial behaviour

According to the respondents, the implementation of rolling forecasts has influenced managerial behaviour in several ways. The budgeting process encouraged dysfunctional and opportunistic behaviour such as sandbagging, focus on costs, biased budget numbers and excess resource spending. The implementation of rolling forecasted has had a positive effect on this kind of behaviour.

5.4.1 From biased numbers to realistic forecasts

The respondent express that the quality of forecasting in Nordic Financial Group has been improved as a result of implementing rolling forecasts. When making the forecasts the

managers are expected to be “brutally honest”. This is easier to attain with the rolling forecasts than with the previous budgeting process. First of all, the forecasts are not connected to resource allocation. The forecasts are in no way pre-approvals of fund, thus the managers do not have an explicit incentive to project high costs to receive more resources. Secondly, as the budget was used for target setting and for performance evaluation, bias and distortion was inevitable. The budget was seen as commitments, and a result was that the targets were not ambitious enough. Decoupling of rolling forecast are from compensation, has resulted in reduced sandbagging and budgetary slack. However, regardless of the forecasts are tied to compensation or not, it is reasonable to assume that moving from an annual budget to a rolling forecasting system would reduce sandbagging behaviour. The reason for this is that the forecasts are more frequently updated, which leads to a higher probability of getting caught sandbagging the forecasts.

Furthermore, the budget did not give the right picture of the reality due to its conflicting purposes. As mentioned, Nordic Financial Group experience that the budget was inaccurate. After the removal of budgets the managers are more realistic and “honest” in their forecast. The forecasts have become more accurate as a consequence of the implementation of rolling forecasts.

The forecasts are supposed to be honest, and an honest forecast has no bias. Managers should thus expect to see half of their forecasts to be on the high side of actual outcomes and half on the low side. The ideal forecast has clean data that enables managers to improve decision making. As mentioned, the accuracy of forecasts are measured on an ad hoc basis at corporate finance. It is however important to point out that the managers are not evaluated on accuracy, in other words, their compensation is not based on meeting the forecasts. When asked about accuracy of forecasts, one controller express:

“Some of the companies are quite good, they are quite close to the forecasts. Some of them, they have huge gaps. And, I guess, it has something to do with like how optimistic or pessimistic they are at the time.” (Respondent 5)

The Head of Forecasting explains that comparison of actual results with forecasts shows that the cost forecasts have been quite accurate; the managers do not tend to build in slack when projecting costs. However, in relation to revenues, the forecast bias has swung the other way.

The sales forecasts from the market division have been a little optimistic and tend to be affected by what the managers hope and want to achieve:

They were good at forecasting costs, but on income... they have sometimes been far, far away... but on the ambitious side. It was not realistic. It was what they were hoping. It was perhaps more their goal, like their ambitious goal, and it was not a forecast. So you could see... we had some serious outline errors there.” (Respondent 3)

However, the forecasts have improved. The managers have become better at forecasting as a result of experience and learning. Furthermore, the managers know that accuracy is analysed, thus they know that they should not bias the forecasts too much in either way. If the managers are systematic under- or over-forecasting, this can be detected quite quickly after a few times. The Head of Forecasting explains:

“...some companies are getting better and better, you know, they miss just as much above the line as below... it seems to be a good process. But if they are always under-forecasting or over-forecasting, you see that quite quickly after a few times. And then there is a job to be done, you know, pointing that out. Because then it’s not a coincidence any more. Then it’s a pattern.” (Respondent 3)

The aim is for the managers to be as honest as possible in their forecasts. One respondent explains that the output of the forecasts should be what the managers *think*, not what they *hope*:

“If you think you are going to employ five more people during the next twelve months, you should put them in the forecast. But if you... but that is just... if you believe that you are allowed to employ those people, not because you wish them, but if you see... you think that “I have good arguments for getting permission to get those five new people employed... those arguments are so solid that I think I will get the permission”, then you should put them in the forecast, because you should put in the forecast what you sincerely believe is what you are going to use. You can also say “I wish to employ these people, and that is what you dream of, but you do not think you will be allowed”. Then, you should not put them in the forecast, but you can still try

to get them employed and argue with your leaders that you should be allowed. So, that is two different things.” (Respondent 7)

5.4.2 Action-orientation

The rolling forecasts provide information on the development in the environment, which enables the middle managers to react quickly to changes. The rolling forecasts thus lead to middle managers being more action-oriented. The focus in the current planning process is to do something about the gap between ambitions and forecasts, instead of as before to hide the gap by using unrealistic forecasts. The whole idea of identifying the gap between goals and forecasts is to put in activities to correct it. The focus is less on reducing costs and beating the numbers, and more on value creation in terms of what actions to take to reach the goal. Whereas before the managers would spend weeks negotiating targets, they now spend their time improving the business. Less company politics tend to come into play compared to the budgeting process.

With the rolling forecasts, the middle managers are provided more flexibility through dynamic resource and more freedom in terms of how to reach goals. Instead of having detailed budgets giving a rigid system of how meet the goals, the middle managers are given more freedom and flexibility in terms of means for reaching goals. Hence, the managers are given more autonomy and are empowered. However, expectations and accountability for showing results simultaneously increases. Freedom comes with responsibilities, and another effect of removing the budget is that the managers can no longer point to budget constraints to make excuses for not taking actions. One respondent explains:

“I think, [rolling forecast] makes people much more responsible. It is not a question of whether you have money on your account because you have an approved budget or not, it is more if this is the right thing to do, regardless of whether you have money or not.” (Respondent 8)

With rolling forecast and dynamic resource allocation the middle managers have more pressure to secure action. There are no excuses and no time wasted explaining variances against a budget; the focus is on actions and the consequences of the actions.

5.4.3 From reactive to proactive planning

Proactivity is about acting in advance to deal with future events, rather than just responding to them after they have happened. It is about identifying and exploiting opportunities as they arise, as well as detecting potential problems and threats.

The budget process was anything but proactive. The approved budget would apply for the next year, and there was little room for revising or adapting the budget during the year. Furthermore, the budgeting process focused on budget deviation, e.g. what *has* happened, while rolling forecasts focus on what *is* happening and what *will* happen. The rolling forecasts enable a consistent forward-looking business outlook. The rolling forecasting process forces managers to review business operations more frequently and strategically than is required in the fixed annual budget process. Instead of looking at historical budget data, the rolling forecasts necessitates managers to look forward and adjust their plans to react to changing business conditions in order to achieve the goals. The forecasts enables the managers to be proactive and seize the opportunities as they arise. Using rolling forecasts is about influencing the future rather than reacting to what has already happened. Two of the respondents express:

“We try not to, we try to think... like not locked to the actual numbers but more free for itself and try to think: what are the factors that affect our forecasts. Of course that is really important for actions that are going to be taken without actually saying: “Okay, the number was this, the result for the quarter was this. But the forecast said it would be that. What happened?” That is not a question we ask. Which is what you would have done, if you had budgets. [...] the type of questions that you ask are more like: we want to get there, what should we do to get there? That is basically the direction we try to take, instead of saying: “So, what happened here? (Respondent 5)

“I think that the questions we ask on these business review meetings are important, because when the last quarterly results are put it is... then it is too late to do anything about what has already happened. That is why we must constantly ask: are the measures we plan enough to deal with the worries?” (Member of management team, Insurance)

The process of rolling forecasts is a forward-looking process, which always looks 12 months ahead. However, as the organization is still subject to the fiscal year for various reasons, such as financial reporting and taxation, 31st of December is important. There is still a lot of preoccupation about the final number of the year, especially at group level. The net income is the primary output that is presented and the financial result for the current year is compared to the former forecast for the same period. One respondent explains:

“It’s... you know, the year end results... dividends to our owners, they want to see what they can expect. And.., it’s the number that gets focus in the media as well.”

(Respondent 3)

The Head of controlling express that this is not how the group want the forecasts to be used:

“Because we’re still very focused on the one year forecasting to the wall as... We haven’t managed on this [group] level to use this... I know... What is the goal? Can we tell our Management Group what this will lead to? Do we have a gap? We are not answering any of those questions. But... that’s is mainly because we are financially driven, if you can say it like that...” (Respondent 2)

It is however important to point out that the year-end number is not used to measure performance:

“It’s the figures to see how we will do at year end. But it’s a not a figure they use to measure the company It’s not something we are being followed-up on. It’s just... “This is the snapshot now, this is how we will do year end.” So also it’s a number that is not biased, it is unbiased compared to the budget previously.” (Respondent 3)

5.4.4 From cost focus to value creation

According to respondents in Nordic Financial Group, dynamic resource allocation decoupled from forecasts has changed the focus of the managers. The managerial attention has change from budget compliance to toward continuous focus on profitable investments. As long as the overall financial capacity is in place, an investment will not base turned down because of budgetary constraints. The focus is on how to create value, rather than beating the budget

Budgeting often leads to managing the result in order to meet the budget targets. This kind of opportunistic behaviour is solved by decoupling forecasts from target setting. The rolling

forecasting process involves a focus on value drivers, rather than financial variances. As mentioned, there is no comparison of actual result with forecasts. The forecasts are compared with the previous forecast, and the focus is on the reasons for changes in the forecasts. In other words, the managers are dealing with the real causes of problem. However, a strong focus on rapid achievement often leads to focus on profit and loss, which takes the focus away from the underlying drivers.

5.4.5 Increased cost awareness

Since resource allocation is not tied to forecasts, and the managers are given more empowerment and flexibility in spending resources, one might expect increased cost. This does not seem to be the case, rather the other way around. One of the respondents explains:

“Before we started, of course, there was some fear that this would make costs explode and that people would use more money resources than before, but it was also quite clear that even if we make a [forecast] output... say that they think they are going to use these resources in the coming 12 months, that is not a permission to use them, that is quite another decision. This is what you think you are going to use, and what you think is the most probable use; but it is not your wish list, and you do not have the permission to use it, even if you have put it on the paper. So that decision is quite another thing. And that was very important that everybody understood. But we have also experienced that there has not been an explosion in costs; almost the opposite: people are quite conscious of how to use the resources; and it is almost easier to do cost control than before in the traditional budgeting, because everybody wanted to expand their budgets, and if you have got it in the budget then you had the permission to use the money. So we have not experienced an explosion in costs, as I said; almost the opposite: people are more conscious.” (Respondent 7)

As the respondent express, in the budget process the managers tried to acquire as much resources as possible through the budget negotiating process. In addition, the budget was seen as something to be spend. This led to excessive resource consumption. Since the rolling forecasts are not connected to resource allocation, this is no longer a problem. The rolling forecast give the managers useful information on how the resources should be spent to reach the goals. It has moved the managers away from the “it wasn’t in the budget” mentality to

one where opportunities are continually being evaluated and resource allocation is more effectively optimized. The respondent further explains:

“I think it [the rolling forecast] has increased the cost awareness; at least it is not the opposite: it has not made people think that “Because there is no budget what I have to answer for, then I can use whatever I want”. That is certainly not the general feeling or so. I think people are quite cost aware and feel more like it is their own money. They ask themselves: “Would I use it if it was my own money? Is it a sensible use of money? Yeah. Every three months you do a decision whether to spend or not to spend.” (Respondent 7)

Devolving more resource decisions to middle managers has the effect of not only making the organization more responsive, but also making managers more accountable for resource decisions.

5.4.6 Continuous improvement

In the budget process the managers were focused on meeting fixed targets defined by the budget. The goal is to meet the budget, and that was that. With the rolling forecasts and the establishment of relative measures, you kind of never cross the finish line, because the target is moving. The environment is moving and the competitors are moving, thus the organization also has to move. The goals connected to the rolling forecasts are relative and move in pace with the external environment. Rolling forecasting is about continuous improvement.

5.4.7 Increased collaboration and focus on the big picture

Another effect of the new management model and rolling forecasts is a focus on the big picture, rather than departmental budgets. This indicates that sub-optimisation between departments is reduced. In the budgeting process the departments had to “compete” with each other for resources, which discouraged knowledge sharing. In the new system projects and investments are decided case by case. As opposed to previous where each departmental manager focus on their own budget the financial planning is now integrated. At company level, a cross unit management team make investments decisions, forcing the team to consider where the investments will create the highest value across units and departments.

Furthermore, the rolling forecasting process requires collaboration across the departments and divisions. Finance, sales and operations have to work together to offer realistic view of the future. Finance departments has become closer to business. Rolling forecasts involves close collaboration between finance professionals and business managers who rely on information to make decisions. In addition, the corporate managers have more continuous contact with the divisions managers compared with previous, and plans are coordinated more often than once a year.

The controllers have important roles in the rolling forecast process. The workload related to financial management may have increase, but the work is perceived more valuable. The controller are be more involved in setting targets and ambitions and action plans to achieve these. Controllers have become business partners more than general workers of accounting.

Another key challenge of budgeting is the high level of details involved. After removing the budget, the focus is rather on the big numbers instead of details. Compared with previous, the different managers work together to achieve common goals, rather than focusing on their own budgets and own targets. The forecasting process force organizational units to look beyond their own unit and focus on the big picture, meaning the whole organization, rather than their own company or business unit or division, and departments. Everyone is working together to beat the competition.

5.4.8 New kinds of gaming behaviour?

Overall the elimination of budgets have reduced most of the gaming behaviour related to the budgeting process. The questions is whether rolling forecasts lead to development of new kinds of game. The respond is that it has not, but confusion between forecasts and goals might still lead to some gaming behaviour. One manager express:

“My feeling is that in general there is not [gaming in forecasting]. But I still hear statements that “I have this in my prognosis, so I can do it.” (Respondent 8)

None of the managers mentioned gaming behaviour related to the rolling forecasting process. The overall impression is that gaming behaviour has been limited, but this study does not provide enough information to make a conclusion about this.

5.5 Challenges ahead

5.5.1 Changing the culture

The process of rolling forecasts in Nordic Financial Group is still new. A successful implementation requires a change in culture, values and leadership principles, which takes time. Implementing Beyond Budgeting is not only about introducing new tools and processes, but also a change in the mind-set of the managers and other employees. Changing methodologies will not change attitudes. As the CFO points out, it is especially important to influence the mind-set of middle and senior managers as their attitude spills down the organization:

“...it is very much up to the top managers and the level just below the top management, how they actually sort of use the forecast and how they talk about it.”

(Respondent 1)

5.5.2 Key management tool in all business units

Nordic Financial Group is decentralized, and the subsidiaries are in a large extent autonomous, which makes it challenging to implement the management model in all the companies. Several respondents explain that one of the reasons that Insurance has adopted rolling forecasts and the new management system so quickly is that they are physically closer to the corporate centre. It might be more challenging to implement the management model rolling forecasts in the other companies. Two of the companies are also quite new, thus rolling forecasts are still new for them. Furthermore, the alliance cooperation still operates with budget, and the aim in the nearest future is to introduce rolling forecasts also in the alliance cooperation. The alliance cooperation differs from the subsidiaries in that they only have costs and do not generate revenues, thus rolling forecasts will be used differently.

Another challenge is related to the time dimension. The current rolling forecasting process have a fixed horizon of twelve months and are updated quarterly. This is not optimal for all the business units. In order for the companies to use rolling forecasts as a management tool, the time frame of the forecasts has to be adapted to the business cycle and the business needs of the various companies. There have been some discussions about making the forecasting process more event based, which means updating the forecast when something occurs. The

Head of Forecasting explains that there are both technical and implementation challenges related to making the forecasts event based:

“I think it’s both [a technical and implementation matter]. Technical, because we haven’t had system support for that, because we have built forecasting model... based on quarterly [figures]; also it is mostly Excel-based; we have some systems to... you know aggregate it, but we are just aggregating Excel sheets in the system. Yeah, that’s the system part. And the other part about implementation... we haven’t... if we are going to do it, it’s going to take a lot of time again to... you know, to training, implementing it, so... it’s perhaps mostly the system-based.... And also the fact, that we haven’t matured to that level yet, because it’s also about how mature we are or how ready we are for thinking like that.” (Respondent 3)

5.5.3 Key management tool at all levels

An important challenge is to make rolling forecasts a key management tool at all levels of the organization. Central for the dynamic management model is devolution of responsibilities to lower and middle managers. The managers on lower levels of organization are empowered and have been given decision making authority. However, to provide the managers with the information they need to make decision the focus of business controlling have to be moved from top level support, to supporting the whole organization. It is also important to focus on value drivers that are important for managers on all levels; the CFO express that currently the focus is too much on financial drivers. The challenge is to translate these financial drivers to operational drivers so that they are useful for operational managers. The aim is to have a forecast process which is well connected from the very bottom of the organization and get the forecasting process work in a manner that also helps all the managers see the forecasts and the process as a good, meaning full process that adds value.

5.5.4 Standardization

Nordic Financial Group is currently in the middle of an evaluation process of the current forecasting process practices, with the aim to make the forecasts more action orientated and to involve middle managers more closely. The purpose of the project is to investigate how the process is adopted in the various business units and the use of rolling forecasts. A result of this evaluation is the establishment of “best practice” – a guideline for how the forecasts

should be used in the various companies, as well as standardized setup for forecasting, with some company specific lines. One controller express that the new setup is more efficient and makes it easier to consolidate the forecasts:

I think, it is a very good way to do it to make standard set-ups because, I mean, you have some common things you have to focus on, at the same time, of course we do this with the feedback from the companies and what is important for them. Then you have like company specific, say, lines that they report on but a standard set-up. And it works very well because it makes it easier for the whole consolidation and analysis process actually, instead of getting completely different reports. (Respondent 5)

The goal is after this evaluation is to make the forecasting more standardized among the four main business units. The next step planned is to establish a template for the Business Review meeting, which should be used by every company. The challenge is to make the forecasting process useful for both the group and the companies:

“It’s always... because people like to do it their way. And there we have to find the balance that can make it useful for them and make it useful for us. And that’s why we have had... you know, a bit loose policy on it; because they should not have to make another presentation for the Holding than what they do in their leader group. But the goal is after this evaluation to make the forecasting more similar among the four main business units as the group has. More similar within the policy, not on exactly what they do, but at least they should cover some things; it should now add value; they shouldn’t have to... do both, do one for them and one for us [the group management].”

Standardization might make the process more effective, but the business units are different, so the process also have to be adapted to the various business units:

“Of course, it is a good thing that you have got a standard presentation, and the top leaders recognize the difference. But you have also the problem that the different companies are doing quite different kind of businesses, and it is difficult to press it into one special template, because you have to allow businesses to present what is their problems. And so you can standardize to a certain degree, but you should also allow some independent presentations from each kind of company, because you have

different needs, and you should be able to present what is important for that kind of business.” (Respondent 7)

Another respondent express a concern about introducing templates and standardization, because the management model is not just about introducing new tools, but a change in the mind-set:

“I am slightly concerned about that [introducing templates]. Because I think there is a lot of people... um... I see them here, and also heard someone when I have been attending some of the meetings... they would like to do this much more technical and mechanically. And then, I think, you lose the core of what this is about which is to change the mind-set. Something that is a risk is that you put too much into templates and standards and you lose the mind process you need to provide good forecast and do the right actions to change if needed. [...]And I think if you do it mechanical... if you say “Okay, sales going down, we need to reduce rates”, for example. But then it might be some really different implications that is driving the [development]... (Respondent 8)

The CFO express that it is demanding to find a good balance between designing process standards and allowing the companies to find things out for themselves.

Until now, the Business Review meeting on group level only consists of CEO’s from the daughter companies. This is changed, and the top management team will also consist of managers from the alliance cooperation. This implies that the Business Review meeting has to be changed. A challenge in this regard is that the departments in the alliance cooperation still use budgets. The CFO explains:

“[...] the sort of the setting of the Business Review meeting is quite different in October than it was in May/June where there was the CEOs of the daughter companies that constituted the top management team. Now we have brought in a few from the alliance cooperation in the top management team. So, sort of building this new team and how to set up Business Review in this new setting and how do you do Business Review on the marketing area, the business development area, the IT-operations which is now a part of the top management team, that is a challenge that the CEO has given to XX and myself. How do we envisage a Business Review in April

2014... in July 2014, which comprises the whole top management group, not only the daughter companies. [...] How do we set up Business Review meetings in this new context? And also, then, what does the Business Review look like for the business development side and the IT-operation that is using budgets?" (Respondent 1)

6. Conclusion

The problem statement of this study has been the following:

How do the middle managers in Nordic Financial Group experience and make use of rolling forecast, and what kind of actions do they derive from forecasts?

This chapter includes a summary of the main findings - the answers to the research questions and the problem statement, as well as some suggestions for future research.

6.1 Main findings

6.1.1 Research question 1:

How are rolling forecasts used as a tool?

The study finds that at group level, the rolling forecasts are mainly used as a reporting tool. At middle management, rolling forecasts are used as a decision making tool and for risk assessment, as well as learning and reflection. Furthermore the forecasting process lead to increased business knowledge. However, not all the middle managers use the rolling forecasts as a tool, but see them as reporting to the next level.

On top management level the forecasts is used mainly as a reporting tool, as the top management lack the business knowledge about the various companies. The consolidated forecast connects all the pieces of the organization and gives a picture of the overall development. The management processes happen at company level.

The forecasting process is a bottom-up process which requires involvement from the whole organization. More involvement leads to increased business knowledge, which make a better basis for decision making. Involvement of the middle managers in the forecasting process also force them to be conscious of the input they are putting into the models. This include learning more about their products and what they need to be aware of to make a good forecast.

In the Insurance company forecasts, ambitions, deviations and measures are integrated in an information system which makes a useful tool for discussing the current development, and provides a basis for making decisions about what actions to take and how to prioritize

measures. Furthermore the forecast is compared to the previous forecast, and the differences discussed, to assess which assumptions has changed. The forecast is an important decision-making tool for the management team in the Insurance company, and has a value beyond reporting upward.

However, middle managers in other companies still have the “budget mind-set”, and the rolling forecasting process is seen more as reporting to the top management. There are some confusion between targets and goals. The same applies for the managers at the lower level of the organization. Many of the middle and lower level managers perceive the forecasting process as reporting to the next level. The aim is to have a forecast process that is well connected from the very bottom of the organization and get the forecasting process work in a manner that also helps all the managers see the forecasts and the process as a good, meaning full process that adds value.

6.1.2 Research question 2:

How do the middle managers perceive and evaluate rolling forecasts as a management tool?

All the respondents in this study have a positive evaluation of the rolling forecasts. With reference to Adler and Borys’ framework of enabling and coercive formal control, the respondents perceive the rolling forecast process as enabling, and they feel that their job is more value adding than previous. Several respondents reported that the rolling forecast process enables the middle managers to face decision-making situations in new and better ways. However, the respondents also reported that some middle managers do not see the logic of the system; there are some confusion between forecasts and goals.

In the forecasting process *repair* is allowed and encouraged. The forecasting process encourage the managers to participate in the process and to propose improvements. Furthermore, the managers are expected to *flexibly* respond to environmental circumstances. The managers are not only made accountable but responsible for their results and have been given the authority to make decisions. They are also provided more freedom in terms of how to reach goals. The management system exhibit *internal transparency* in that the majority managers understand and see the logic of the system. They understand that the forecast is decoupled from goals and resource allocation, and why this is so. However, not everyone understand the logic of the system, there is some confusion about goals and targets on some

of the executive managers in the different business units do not see the need for rolling forecasts. The management system helps the managers to see the bigger picture, thereby ensuring *global transparency*. The use of rolling forecasts as a management tool makes employees work toward an overall strategy. The goals are clearer and there is a better understanding of strategy and operations.

In Nordic Financial Group forecasting is used as a management process, not a measurement process. Forecasts is not be seen by senior managers as a tool for questioning or reassessing performance targets or used to demand changes or improvements. Thus, the middle managers perceive the rolling forecasts as enabling rather than coercive.

6.1.3 Research question 3:

How does rolling forecasts as management tool influence managerial attention and behaviour?

The study finds that the implementation of rolling forecasts has mitigated the opportunistic and dysfunctional behaviour related to the budget process, and the rolling forecasts do not seem to have led to development of new kinds of game. The forecasts are more realistic, the managers are action-oriented and forward looking in the planning process, there is an increased cost awareness and there is a focus on continuous improvement Furthermore the implementation of rolling forecasts has resulted in increased collaboration and knowledge sharing across divisions and departments, as well as between the different levels of the organization.

As the forecasts are de-coupled from target setting and resource allocation, the forecasts are more “honest” and realistic. The middle managers do not have an explicit incentive to project high costs to receive more resources, nor do they have an incentive to report a low forecasts which is easy to obtain.

Disconnection of forecasts from compensation has led to reduced sandbagging and budgetary slack. The fact that the forecasts more frequently updated, also make it easier for executive managers to detect sandbagging behaviour. Some of the respondents express that forecasts from the sales department tend to be a little optimistic. However, biased forecasts seems in general no to be an issue, and the managers become better at making forecasts as a result of experience and learning relation to forecasts of sales.

Another effect of implementing the rolling forecasts is increased cost awareness. The forecast is decoupled from resource allocation and is not seen as something to be spent. Furthermore the managers do not try to negotiate the highest amount of resources like they previously did in the budget process. Resources allocation is no longer not predetermined once a year through the budget, but rather allocated in a timely manner. The middle managers are given more empowerment and flexibility in spending resources, but they are also made accountable of how the resources are spent and are responsible for achieving results. The managers have to evaluate opportunities on a continuous basis, and are more conscious about how the money are spent and if the investments creates value.

Furthermore, the rolling forecast has resulted in the middle managers being more forward looking and action-oriented. The rolling forecasts enables the managers to detect changes in the environment, and respond to the changes as they appear. The focus is on what actions to take to close about the gap between ambitions and forecasts, instead of as before to hide the gap by using unrealistic forecasts. Since the middle managers are not only made accountable, but responsible for creating results they have more pressure to secure action

Finally, the rolling forecasts increase knowledge-sharing and collaboration across departments and divisions. The focus is on the big picture, rather than departmental budgets. In the budgeting process the departments had to “compete” with each other for resources, which discouraged knowledge sharing. In the new system projects and investments are decided case by case. Furthermore, as opposed to previous, where each departmental manager focused on their own budget, the financial planning is now integrated. The rolling forecasting process requires collaboration across the departments and divisions. The different managers work together to achieve common goals, rather than focusing on their own budgets and own targets.

6.1.4 Concluding remarks

The purpose of this thesis is to provide an understanding of how rolling forecasts are adopted in an organization as a part of Beyond Budgeting. The dynamic management model and the rolling forecasts implemented in Nordic Financial group aims to making provide information for better decision making to make the organization adaptive to the changes in the environment. The study finds that the rolling forecasts help the middle manager to face decision making in new ways and that overall the managers have a positive evaluation of the

rolling forecasts as a management tool. However, what is particularly important is that the implementation of rolling forecasts seems to be not only a matter of changes in management accounting techniques, but also a matter of change in the mind-set of the managers. It is one thing to introduce new tools but another is to create an understanding of how to use them properly. The study finds that the Nordic Financial group faces a big challenge in avoiding the rolling forecasts to be old processes with new labels, or as Otley (2007) puts it: "old wine in new bottles". Some managers use the rolling forecasts the same way as they used the budget. They perceive the rolling forecasts as a reporting tool and rather than a management tool. An important reason for this is that the rolling forecasts are not adapted to the various business units, and tend to focus too much on financial drivers. In the Insurance company the rolling forecasts are very much used as a decision-making tool, and have a value for the management team beyond reporting upwards. The challenge is however to make the rolling forecasts valuable as a tool also at lower levels of the company. The aim is to make the rolling forecasts as a tool for better decisions in all business units at all levels of the organization. An important challenge with regards to this is to find a good balance between designing process standards to make sure that the tools are used in the desired way and allowing the business units to find things out for themselves.

There are two reasons to believe that the changes in time will have a greater positive effect on the research questions. The first is that the middle managers have a common understanding of the logic and purpose of the management model. The second is that the middle managers have a certain ownership of both the rolling forecasting process as well as rolling forecasts as a tool.

Nordic Financial has come far in implementing rolling forecasts, but an effective implementation also requires a change of the culture of the organization and mind-sets of the managers. It is "easy" to introduce new tools but the challenge is to create an understanding of how to use them properly. The middle managers play an important role as they act as mediators between the top management and the rest of the organization. Nordic Financial Group is moving in the right direction with regards to being more dynamic and adaptive, but leadership development and cultural change is a long journey. Beyond Budgeting is a permanent change process and not a project that ends, or as Jeremy Hope (2008) puts it: "*Beyond Budgeting a continuous journey of learning and adaptation*".

6.2 Suggestions for further research

Several interesting topics for further research emerged in the making of this thesis. First of all, the study only make use of qualitative data. A quantitative follow up study can be conducted to test the findings in the qualitative study. Furthermore, the study have focused on executive managers and middle managers in the Insurance company. The findings from this study indicate that the rolling forecasts are used differently in the various business units and at the various levels of the organization; these difference needs to be further analysed. One suggestion for further research is to conduct an in-depth study on how rolling forecasts are used and evaluated by operational managers and other users of forecasts at lower organizational levels, as interviews in this study have been very much focused on the producers of forecasts, and middle and top level managers. Another possible study is to investigate the difference in the use of rolling forecasts in the various business units, through a comparative analysis. A third approach could be to study the dynamic management model and rolling forecasts in Nordic Financial Group later in the implementation process to see if the findings are the same.

As this study only involved one company in a very special context, it could also be useful to conduct a comparative study on how rolling forecasts are used as a management tool in other financial entities, and/or in other contexts. Such research may also help to indicate how similar tools may be used differently based on contextual factors in the management control system.

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Appendix

Interview guide line

Introduction

- We introduce ourselves, the project and we thank the interviewee for the possibility of interviewing him/her
- Could you please introduce yourself? (educational background, former positions in- and outside, current position)

Nordic Financial Group's forecasting process

- What is your role in the forecasting process
- What is the most important and most difficult thing when it comes to forecasting?
 - Advantages of budgets compared to forecasts.
- When you think about the time before the rolling forecast was introduced, what is different today?
 - Has your role changed? (Responsibility, type of work, work load)
 - How did you experience the rolling forecasts compared to a traditional budget?
 - If there is a difference – How did it impact the interaction with the top management? And the company?
 - The span of responsibility and authority: has it changed (for you, on different levels of the company)?
- How does the forecasting process work at Nordic Financial Group?
 - What is peculiar to the Insurance division?
(Heavy focus on sales forecasting, interaction with sales people etc.)
 - How do you interact with the group and other divisions with regard to forecasting?
 - What does top management require from a forecast?
- How would you assess the accuracy and efficiency of the forecasts?
 - Tendency of overreaction if sales increase vs. underreaction if sales decrease

- Uncertainty of information about markets and competitors
- Who is involved and responsible for which part of the forecasts?
 - Potential tension between ownership/maintenance of forecasts and users. The literature suggests that both should be in the same hands.
 - In which degree can employees on different levels of the organization identify and propose changes/improvements?
- Does the forecasting process support middle managers to get a better understanding of the “bigger” picture?
 - Understand the logic behind/purpose of forecasts
 - Increased understanding of operations and strategy?
- Where do you get the information about your competitors?
- How is (forecast) information shared throughout the organization?
 - Availability
 - How is the information used?
- How do the forecasts impact decision-making on different levels in the bank?
 - How is the flexibility/freedom to act on the forecast? (control of resources; labour, capital, information). Are the responsibilities clear?
- How do the middle managers relate to the goals/ambitions?
 - League tables, KPI's
 - Visibility compared to budget. (clearer goals? Confusion?)
 - Distinguish between forecasts/goals
 - Overall goals (bigger picture)
- How do you link the forecasting KPIs to other types of information in accounting (budget targets (target vs. forecast; ambition vs target), risk management, cost accounting, cash flows, BSC) and to the strategy formulation?

The evaluation of Nordic Financial Group's forecasting practices

- Why did Nordic Financial Group decide to evaluate the forecasting? (i.e. what were the weaknesses with the previous processes? vs what were its strengths / should be kept?)
- Can you link the decision of starting to evaluate the rolling forecast practices to any particular event?

- Who is involved in this evaluation? And when did this happen?
- What is missing in the way it is forecasted so far?
(Documentation: relative little time to analysis, measuring against ambition, gap-analysis, and assessments of measures, uncertainty of information, accuracy)
 - ⇒ What does action means in this regard? Example
 - ⇒ How can the accuracy of forecasts improved?
 - ⇒ How can Nordic Financial Group manage to get operational managers more involved?
 - ⇒ Financial/Non-financial forecasting indicators
 - ⇒ Is the number of indicators appropriate?
- How can the forecasting process be improved in your point of view?
- How do you perceive the time dimension of the forecasting process and decision-making? (short-term forecasting 5 periods ahead vs. long term strategy, and project-based forecasting)
- What have been the main lessons to learn after this evaluation?
- What kind of changes is Nordic Financial Group going to implement after the evaluation? (i.e. what changes will you make?) And why?
- What is the envisaged implementation? (e.g. pilots?)

Thank you very much for your time and this interesting interview.

- Do you have any questions to us?
- Did we forget to talk about anything?
- According to you, who else could be interesting and insightful to talk to regarding forecasting in Nordic Financial Group?
- Can we get back to you for further questions; might it be possible to have the chance to talk to you later on in the project?

By adopting a case study approach, this thesis aims to illustrate how rolling forecasts are implemented in a Beyond Budgeting environment. The thesis places emphasis on the middle managers' situation and their changed situation as a result of implementation of rolling forecasts as a planning tool as an alternative to budgets.

The case study has been conducted in one of the leading financial corporations in the Nordic countries. Through the use of qualitative research, the study takes a holistic view of analysing how rolling forecasts are used as a tool, the managers' attitudes toward rolling forecasts, as well as how rolling forecasts affect managerial attention and behaviour.

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