

A Longitudinal Perspective on Rolling Forecasts & Interactions

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A Longitudinal Perspective on Rolling Forecasts & Interactions

by

**Thea Jarneid Holmen
Ingvild Skurtveit**

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Bergen, December 17th 2014

Thea Jarneid Holmen

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1. INTRODUCTION

1.1 Report Background

Budgeting is described as the cornerstone of management control processes, and the most common accounting tool (Ekholm & Wallin, 2000; Hansen, Otley, & Van der Stede, 2003; Tanlu, 2007; Horngren, Datar, & Rajan, 2012). In recent years, the environment has changed how organizations need to be organized and how decisions are made. Organizations experience a challenge, due to increasingly changing dynamic market conditions e.g. rapid technological developments of information processes (Kaplan & Atkinson, 2014). This creates difficult environments for existing management accounting and control systems (MACS), such as budgets (Heinzelmann, 2015*).

Budgets underlying assumptions are often insufficient for an organization in a fast-changing dynamic environment (Bogsnes, 2009). They are known for being too time consuming, having a backward focus, and rigid in terms of planning and control (Hope & Fraser, 2003; Bogsnes, 2009). This has generated a shift, and alternative MACS have been introduced to make organizations' management accounting and control function "fit" for the future (Heinzelmann, 2015*). More recently, a number of companies have implemented the Beyond Budgeting philosophy in order to deal with and solve key problems of traditional budgeting (Hope & Fraser, 2003; Bjørnenak, 2013; Bogsnes, 2013).

Already in the 1970s, the CEO of Svenska Handelsbanken, Jan Wallander, abandoned the traditional budget, and started to outperform their competitors by becoming more profitable than industry average (Wallander, 1999; Bogsnes, 2009; Bjørnenak, 2013). Several organization have followed Handelsbanken's example of abandoning the budgets, hence many Scandinavian corporation (Bogsnes, 2009; Johanson, 2013; Heinzelmann, 2015*). Abandoning traditional MACS and the annual budget enables organizations to decentralize and transfer power and authority from the center of the organization to front line managers (Hope & Fraser, 2003). In addition, Beyond Budgeting has addressed a change in management style and culture and the use of existing and new management tools towards a more dynamic, flexible and self-regulating management model (Morlidge & Player, 2010).

The critique of MACS has resulted in the development of alternatives to traditional budgets, such as rolling forecasts. Rolling forecasts are considered one of the most useful tools, and best practices, for the purpose of helping organizations plan and coordinate in uncertain environments (Hope & Fraser, 2003; Morlidge & Player, 2010; Bognses, 2013). In addition, it deals with many of the weaknesses of budgets and enables organizations to respond faster to environmental changes (Bergstrand, 2009; Bognses, 2009).

Unlike annual budgets, it is essential that rolling forecasts and targets are separated. Targets should be ambitious and maximize profit potential, while forecast should be realistic and improve management control (Clarke & West, 2007), and performance (Bognses, 2013). Moreover, rolling forecasts emphasize the need for dynamic management through the abandonment of a definite fiscal year-end. Rolling forecasts always look 12- or 18 months ahead and are updated on a monthly or quarterly basis. As a result, forecasts become more dynamic and adaptive to change (Bergstrand, 2009; Hope, 2010).

This report is set in the context of a large Scandinavian banking group, hereafter called FiGo. The organization's industry is highly affected by a complex and unpredictable environment. A few years back, FiGo experienced some of the same problems that are related to the criticism of traditional management systems. As a consequence, they decided to leave their budgets and implemented instead a new dynamic management model, inspired by the Beyond Budgeting principles, where rolling forecast plays an important part.

1.2 Relevance, Purpose & Problem Statement

Rolling forecasts have been increasingly adopted by organizations. However, researchers have given scant attention to such practices until recently. Researchers have started to look at contemporary management control systems in context of Beyond Budgeting (Østergren & Stensaker, 2010; Bourmistrov & Kaarbøe, 2013). Despite the fact that rolling forecasts have gained increasing relevance in practice, we have little knowledge about what is actually happening in organizations and how they use it as a tool. Rolling forecasts is a major tool in management control systems of how to operationalize Beyond Budgeting ideas, but there isn't much research on how rolling forecasting change the way firms are managed.

Additionally, we have scant knowledge about how the interaction between managers and controllers change.

By applying a case study approach we aim to explore the practice of rolling forecasts as a dynamic management tool in FiGo. Our study has a longitudinal focus, analyzing primarily meetings and interviews in the top management group, conducted in 2013-2014. The purpose is to investigate how the forecasts enable interaction in top management.

1.2.1 Problem Statement

Based on the report background and the relevance and purpose behind the thesis, the following problem statement is formulated:

How does the use of rolling forecasts enable interaction on top management level?

To shed a light on this problem statement and to be able to answer it, we have raised the following research questions:

1. How does top management make use of forecasting information?
2. What *changes* have occurred in the forecasting processes that influence top management?
3. What are the *challenges* that affect top management's use of forecasting information?

These research questions are reflected in the structure of this report and provide a stepwise approach to answer the main problem statement.

1.3 Shortcomings & Limitations

There are some shortcomings and limitations related to this thesis, in terms of variation and time. The time perspective concerns limitations regarding the timeframe. This is a master thesis, which implies that the study is conducted at one point in time. Conductions of the study at a different time, might give a different output.

The variation perspective concerns limitations in the collected data. This study is limited to look at a single organization. FiGo is a major corporation, but our focus is mainly on the group level and top management as the unit of analysis. In addition, the data collected, in

regards to number of respondents and observed meetings, might not be large enough to make statistical generalization about how rolling forecasts affect top managers' interaction.

Furthermore, the empirics of the study build upon information from informants in FiGo. Because large parts of the organization already has abandoned budgets, and implemented a new management tool, there is a chance that the informants are more critical to budgets than people in other organizations. This might influence our findings. In addition, the thesis is limited to look at informants' experiences and technical aspects of forecasting, not financial data.

As a case study, statistical generalization is not possible. However, the study allows for generalization by the means of theory, and/or by comparing other cases. Studying rolling forecasts in FiGo, allows for exposing e.g. theoretical strengths and weaknesses, which can be used for theoretical generalization. The findings in this case study can be used for comparing to what extent the study matches other situations, or similar cases, thus lead to empirical generalization.

1.4 Structure

This study is divided into six chapters. The first chapter describes the topic and the background. In addition, the problem statement is presented, as well as shortcoming and limitations, and how the thesis is structured. The second chapter presents the theoretical framework the study is built upon, whereas the third chapter describes the methodology and research design.

The fourth chapter describes the empirical background, presenting FiGo's organizational structure, management control system, and tools. This context is important for the further analysis in the next chapter.

In chapter 5, FiGo's top management practice of rolling forecast as a dynamic management tool is analyzed, and the research questions are discussed. Finally, in chapter 6, we summarize the main findings and give some concluding remarks.

Note the distinction between the concept of dynamic management and FiGo's management philosophy: "Dynamic Management", which is always written and referred to with capital letters and quotations.

2. Literature Review

The purpose of this chapter is to present the theoretical framework for this thesis, which together with central concepts and definitions will form the basis for the empirical analysis. The chapter starts with an introduction of traditional management accounting and control systems (MACS), including budgets and budgeting, and the related criticism. Thereafter comes a presentation of contemporary management systems, focusing on Beyond Budgeting and rolling forecasts as a dynamic management tool. In the review of the different models and theories, there will be a description of the relevance behind it, and benefits and challenges related to them.

2.1 Traditional Management & Budgeting

Traditional management is often related to strict hierarchy structures, where managers exercise top-down “command and control” to maximize the profit of the organization through efficient and standardize processes (Daft, Murphy, & Willmott, 2010). Accounting information in traditional management systems is developed on the basis of the historic cost principle, which is also the foundation for decisions in the organization (Kaplan, 1984). These control systems are based on formalized information-based activities, where budgets are often considered the core activity for managing costs, activities, and control (Daft et al., 2010).

2.1.1 The Role of Budgets in a Management Control System

Budgeting is commonly regarded as a cornerstone of a firm’s management control processes, and the most usual accounting tool for many years (Ekholm & Wallin, 2000; Hansen et al., 2003; Tanlu, 2007). Horngren et al. (2012, p. 32) define budgets as *“the qualitative expression of a proposed plan of action by management for a specific period and an aid to coordinate what need to be done to implement that plan.”*

The idea behind the use of budgets is to serve as a blueprint for the company for the next year. It is used to provide a framework for evaluating performance, promoting coordination and communication, being a management tool for cost containments, and motivate

employees (Wallander, 1999; Østergren & Stensaker, 2010; Leon, Rafferty, & Herschel, 2012). Tanlu (2007) emphasizes that the most important purpose of budgets is expressing top managers strategy and goals through target setting, planning, and resource allocation.

Preparing budgets is a comprehensive process where length of the preparation, format, level of detail, and horizon might vary across organizations (Tanlu, 2007; Bergstrand, 2009). Bergstrand (2009) describes that many employees and managers are involved in the preparation throughout the organization, to gather information and evaluate goals and resource allocations. Additionally, each level within an organization has different information that is valuable in the creation of the budget, and the information-gathering process can either be top-down or bottom-up depending on the organizational structure (Anthony & Govindarajan, 2004; Tanlu, 2007; Bergstrand, 2009).

According to Bergstrand (2009), budget exerts strict control that allows top management to make sure its employees cooperate towards common strategies and goals. Furthermore, the budget also plays an incentive role since it is used in performance evaluation and compensation (Tanlu, 2007). Executives have an incentive to set ambitious performance goals, both to obtain employee commitment and increase motivation (ibid.).

Budgets provides a plan for the total activities in the company during a period to come, which gives top management an overview and makes it possible for decision makers to make sure that the company is moving in the right direction (Bergstrand, 2009). Anthony and Govindarajan (2004) emphasize that since budgets describes revenue and expenditures for each section of the company, it is used to confirm delegation of authority and to identify who is responsible for what (ibid.). Hence, the budget helps delegating decision-making authority.

Notwithstanding these advantages offered by budgets as a tool of management, both practitioners and academics have stated their concern about the possible disadvantages and dysfunctionality of traditional management and budgeting.

Relevance Lost and the Appearance of Beyond Budgeting

Already in the 1970s, the CEO of Svenska Handelsbanken, Jan Wallander, abandoned the traditional budget, which he denoted as “an unnecessary evil” (Wallander, 1999). He stated that: *”A budget will thus either prove roughly right, and then it will be trite, or it will be*

disastrously wrong, in which it will be dangerous. My conclusion it thus: Scrap it!" (Wallander, 1999, p. 411). In the 1980s Thomas H. Johnson and Robert S. Kaplan initiated the so-called Relevance Lost debate. They criticized not only the budget, but also issues with various parts of the management control systems in general (Johnson & Kaplan, 1987; Bjørnenak, 2010). They argued that companies did not produce relevant data to be utilized by decision-makers, because key information came too late, was too aggregated, and influenced by external reporting requirements (ibid.). Furthermore, they stressed that traditional management control systems were difficult to use for communication and evaluation of business performance (Johnson & Kaplan, 1987).

Hope and Fraser were pioneers behind a second debate that arose in the 1990s, featuring criticism of the traditional management systems (Bjørnenak, 2010). This debate led to a movement called Beyond Budgeting, which has a strong focus on the problems with traditional budgeting and provides alternative management control methods (Hope & Fraser, 2003). Hope and Fraser (2003) calls the traditional budget "the annual performance trap", and emphasize that characteristics of the budget doesn't contribute to value creation in organizations. In regards of this, they have highlighted the potential conflict of having the budget perform many essential purposes in management control systems (Tanlu, 2007). We will go into detail about Beyond Budgeting later in this chapter.

Relevance Lost and the Beyond Budgeting movement has led to an increased criticism of traditional management control systems, and particularly the use of budgets and budgeting.

2.1.2 Critique of the Budget

Researchers have pointed out different dissatisfaction of traditional budgeting in today's rapidly changing markets. A major critique is that budgeting creates a control-and-command environment within an organization by keeping it centralized, hence decrease decision-making, transparency, and trust (Hope & Fraser, 2003; Hansen et al., 2003; Bogsnes, 2009). Budgets is not reflecting the emerging network structure, and control is actively being used instead of trust to make sure front-line managers behave in the best interest of the organization (Hansen et al., 2003; Bogsnes, 2009). Bogsnes (2009) stresses that lack of trust goes hand in hand with lack of transparency, which restricts access to information and decrease knowledge sharing and empowerment.

As mentioned earlier, the budget main purposes are target setting, planning, and resource allocation. The problem with the budget playing all these different roles is that the purpose of each element is in conflict with each other, which lower the quality of each (Tanlu, 2007; Bogsnes, 2009; Østergren & Stensaker, 2010). Furthermore, researchers also criticize budgeting for taking too much time and need substantial resources for an uncertain benefit (Hope & Fraser, 2003; Tanlu, 2007).

Moreover, budgets constraints the organization from understanding the underlying business drivers and adapting to new situations and trends, due to reliance of historical costs and internal data (Bogsnes, 2009; Leon et al., 2012). This could lead to high cost focus, rather than value creation. In addition, budgets are too rigid and static when market change rapidly, since it is based on a set of assumptions about organizations and the environment that are questionable (Hansen et al., 2003; Bogsnes, 2009; Hornngren et al., 2012). Wallander (1999) argues that by the time the budget is prepared and approved by top management, the assumptions behind the budget are obsolete and irrelevant. The numbers become practically worthless and outdated hence increased risk of suboptimal decisions (Hansen et al., 2003; Tanlu, 2007; Bogsnes, 2009).

According to Leon et al. (2012), the annual budget serves as a performance measurement tool. If the target is set to high, it might lead to decreased motivation hence not work as an incentive for the employees (Bogsnes, 2009). Furthermore, it could lead to gaming behavior, since the budget as a performance management tool assess how well an operating manager is utilizing allocated resources (Hope & Fraser, 2003; Hansen et al., 2003; Tanlu, 2007; Bogsnes, 2009).

This criticism of traditional budgeting, the relevance lost debate, and the Beyond Budgeting movement, has resulted in a mobilization of developing dynamic management control systems and alternatives to budgets.

2.2 Dynamic Management Control

2.2.1 Dynamic Management

The relevance lost debate and the Beyond Budgeting movement led to more and more academics, consultants, and practitioners taking the critique of traditional MACS seriously (Heinzelmann, 2015*). Bjarte Bogsnes (2009), expresses that across almost all businesses, the operating environment has become radically more dynamic¹, unpredictable, and turbulent. To be able to survive and make profits in such volatile, complex, and fast-moving business markets, organizations have in a larger extent implemented a more dynamic management (Kaarbøe, Gooderham, & Nørreklit, 2013). Bjørnenak and Kaarbøe (2013), describe that dynamic MACS is about the dynamics of what tool to use, and how these tools and combinations of tool are used in the organization.

Management accounting and control systems are highly influenced by the environment and the structure of the organization (Bogsnes, 2009). Increased use of dynamic MACS are to a large extent due to globalization, competition, new technological developments, and corporate trends (Burns & Baldvinsdottir, 2007). Abrahamson (1996) explains the adaption and diffusion of new MACS as a fashion (Ax & Bjørnenak, 2007; in Hopper et al., 2007). He argues that researchers, or management fashion setters, pursue purposeful and active plans in order to achieve widespread diffusions of management techniques, hence creating a fashion or a trend (ibid.).

Flexible, up-to-date, and responsive MACS allow for new risks and opportunities to be identified, and empower an organization to respond effectively and efficiently (Leon et al., 2012). Bogsnes (2009) emphasize that many organizations have responded to the changing markets, but in very different ways. The literature suggests a number of new tools to make organization's management accounting and control functions forward looking, such as: Balance Scorecard, Customer profitability, Activity Based Costing, and Beyond Budgeting (Bogsnes, 2009; Bjørnenak, 2010; Heinzelmann, 2015*). Organizations have begun

¹ (Of a process or system) characterized by constant change, activity, or progress (Oxford Dictionaries, 2014)

supplementing or even replacing the budget with alternative management control systems (Ekholm & Wallin, 2000; Libby & Lindsay, 2010). The concept of Beyond Budgeting is understood to be suitable for solving major problems of traditional MACS (Hope & Fraser, 2003; Morlidge & Player, 2010), and have contributed to this line of thinking (Østergren & Stensaker, 2010).

2.2.2 Beyond Budgeting

Since Hope & Fraser's introduction of Beyond Budgeting, institutionalized as the Beyond Budgeting Round Table (BBRT²), there have been different important contributors for its development and dissemination (Bjørnenak, 2010). Bjarte Bogsnes, chairman of the BBRT, is in addition to Jan Wallander a significant contributor. He has implemented the principles of Beyond Budgeting in large global organizations (Bogsnes, 2009). Compared to Hope and Fraser, Bogsnes has a wider critique of the budget (Bjørnenak, 2010). For instance he is not just looking at the budgets inability to look forward, but also the behavioral aspect of budgeting: budgetary gaming and excessive use of resources (ibid.).

The concept of Beyond Budgeting addresses the shortcomings of traditional budgets, and the idea is defined by Hope and Fraser (2003) as *“a set of guiding principles that, if allowed, will enable an organization to manage its performance and decentralize its decision-making process without the need for traditional budgets. Its purpose is to enable the organization to meet the success factors of the information economy (e.g., being adaptive in unpredictable conditions).”* (Hope & Fraser, 2003, p. 212).

The main ide behind Beyond Budgeting is according to Hope and Fraser (2003) changing the whole management model, to a new way of thinking rather than a single tool. They suggest abandoning the budget and replace the command-and-control system with a management model that is more adaptive and increases empowered. Beyond Budgeting is understood to be suitable for solving major problems of traditional MACS, and there have been done different studies on how Beyond Budgeting is used in practice (Østergren & Stensaker,

² Established in 1997 by Hope and Fraser. Is designed as a research group or a "think tank", spreading the idea of going beyond budgets through promotional work (Becker, Messner, & Schäffer, 2011)

2010; Bourmistrov & Kaarb e, 2013; Heinzelmann, 2015*). Bogsnes (2009) argues that the main purpose is not to get rid of the budget, but achieve a release from fixed periods, detailed numbers, hierarchies, and the other disadvantages of budgets. Beyond Budgeting is a philosophy supported by guiding principles that make a comprehensive management model (ibid.).

Hope and Frasers (2003), and the Beyond Budgeting movement, suggest that organizations follow a set of twelve principles that releases them from the “annual performance trap”, as well as the accompanying “command and control” culture associated with traditional budgeting (Bogsnes, 2009; Becker, Messner, & Sch affer , 2011). These 12 principles form a coherent management model, which Hope and Fraser (2003) believe is the key to success in a rapidly changing environment.

Table 1: 12 Principles of Beyond Budgeting (Bogsnes, 2009, p. 55)

12 Principles in Beyond Budgeting	
Leadership Principles	
1. Customer	<i>Focus everyone on improving customer outcomes, not on hierarchical relationships.</i>
2. Organization	<i>Organize as a network of lean, accountable teams, not around centralized functions</i>
3. Responsibility	<i>Enable everyone to act and think like a leader, not merely follow the plan.</i>
4. Autonomy	<i>Give teams the freedom and capability to act; do not micromanage them.</i>
5. Values	<i>Govern through a few clear values, goals, and boundaries, not detailed rules and budgets.</i>
6. Transparency	<i>Promote open information for self-management; do not restrict it hierarchically.</i>
Process Principles	
7. Goals	<i>Set relative goals for continuous improvement; do not negotiate fixed performance contracts.</i>
8. Rewards	<i>Reward shared success based on relative performance, not on meeting fixed targets.</i>
9. Planning	<i>Make planning a continuous and inclusive process, not a top-down annual event</i>
10. Controls	<i>Base controls on relative indicators and trends, not on variances against plans.</i>
11. Resources	<i>Make resources available as needed, not through annual budgets allocation.</i>
12. Coordination	<i>Coordinate interactions dynamically, not through annual planning cycles.</i>

Beyond Budgeting’s 12 guiding principles include both leadership and process principles (Hope & Fraser, 2003). They all support and depend on each other, where processes is structured and implemented to support and drive desired leadership behavior (Bogsnes, 2009). According to Bogsnes (2009), it is not possible to implement only a few principles if the organization want to experience real change, but the relative importance of each principle might vary depending on the business. Each organization has to construct an alternative

control and management system to fit their type of business by using different technical devices, such as key-indicators and ratios (ibid.).

2.2.3 Advocated Advantages of Beyond Budgeting Principles

Hope and Fraser (2003) use transparency as a new control mechanism. Openness and letting everyone share and have access to the same information, is one of the leadership principles within a Beyond Budgeting environment (ibid.). Hence, when everyone can see how you spend your time and how everybody performs, it creates a form of control that no formal control is able to achieve (Bogsnes, 2009). At the same time, variance analysis of targets and performance is used for learning and adaption, rather than instrumental control (Morlidge & Player, 2010).

Bogsnes (2009) highlights that trust is very important in Beyond Budgeting. Moreover, Hope and Fraser (2003) has learned through studying different cases, that relative improvement contracts are based on mutual trust between employees and employers. The implicit agreement is that executives will provide a challenging and open working environment, and that employees will deliver continuous performance improvement using their knowledge and judgment to adapt to changing conditions (Hope & Fraser, 2003).

In Beyond Budgeting, executives and managers are responsible for taking action and maximize the organizations value and performance, in regards to stakeholders and customers, instead of shareholder value (Hope & Fraser, 2003). This change of focus helps the organization to easier adapt to environmental changes, as the gaze is lifted from strict internal control and command (ibid.).

According to Wallander (1999), it is important that employees feel involved and satisfied about their work, and not just strive for money. This organizational culture and motivation is achieved through decentralization, and giving each unit a degree of independence and authority (Hope & Fraser, 2003). Processes are built and coordinated across the organization to support employees working towards common goals, and increase business understanding (Morlidge & Player, 2010). In addition, performance is evaluated based on relative performance i.e. benchmarks, peers, and prior years instead of fixed pre-negotiated contracts,

which improve reward systems and motivation (Hansen et al., 2003; Hope & Fraser, 2003; Morlidge & Player, 2010).

Targets, Forecasts and Resource Allocation

Hope and Fraser (2003) present the benefit of Beyond Budgeting to have the capability to respond more effectively to emerging threats and opportunities. As mentioned, the main purposes of budgets are to provide good targets, reliable forecasts, and achieve an effective resource allocation, which is hard to achieve in a volatile market. Beyond Budgeting emphasize the need to divide these different purposes, and improve each one of them since they are in conflict with each other (Bogsnes, 2009; Østergren & Stensaker, 2010).

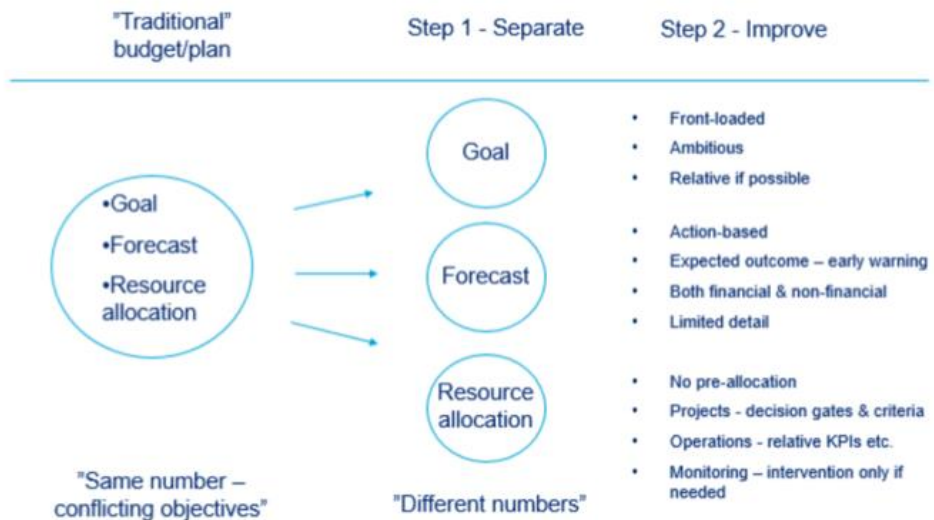


Figure 1: Quality problem - separate and improve (Bogsnes, 2009, p. 121)

The three processes are separated in order to minimize dysfunctional effects, and to maximize the usefulness for planning and decision-making, as shown in figure 1 (Bogsnes, 2009; 2013). The purpose of *target setting* is to maximize performance and define goals that the organization wants to achieve (Bogsnes, 2009) hence targets need to be relative and ambitious (Morlidge & Player, 2010). The target setting process should only focus on targets, not how to reach them (Østergren & Stensaker, 2010). *Forecasts* should be realistic, reliable, and an “honest” representation of the expected outcome (Bogsnes, 2009; Bergstrand, 2009). The purpose of the forecasts is to get an early warning to be able to take

necessary corrective actions (Bogsnes, 2009). The gap between the ambitious targets and the realistic forecasts is where organizations need to have their attention and resources (ibid.). *Resource allocation* shifts from fixed-year to continuous planning, where front-line managers have resources available when needed (Hope & Fraser, 2003; Morlidge & Player, 2010). This possibility to adapt creates opportunities to realize maximum value creation for the organization (Morlidge & Player, 2010). Unwanted gaming behavior and excess use of resources is therefore less prominent since front-line managers are responsible and accountable for efficient use.

2.3 Rolling Forecasts

2.3.1 A New Management Tool

Theoretical and empirical, rolling forecasts seems to be the most visible and practical way of implementing Beyond Budgeting mindset in an organization (Hope & Fraser, 2003; Østergren & Stensaker, 2010; Bourmistrov & Kaarbøe, 2013; Heinzelmann, 2015*). In a Beyond Budgeting environment, rolling forecasts should ideally lead to reduced amount of work, increased reliability of information, and less rigid planning and control (Bergstrand, 2009).

Lorain (2010) summarizes that there are various rolling forecasting techniques that permits companies to frequently revise their financial indicators, to link planning with strategy, and to make appropriate decisions. Some organizations conduct projections of year-end values on a regular basis, called rolling budgets, while others goes beyond the fiscal year and uses a rolling 12- to 18-month period forecast (Lorain, 2010). According to Bogsnes (2009), only making the budget rolling doesn't solve the conflict between the three purposes of the budget. When the market is rapidly changing, this type of traditional forecasting has limited value and is a recipe for disaster for managing performance (Hope, 2010; Morlidge & Player, 2010). One reason for this is that it is important for managers to anticipate short-term outcomes, thus influence them. Moreover, most managers know that their operations don't stop at the calendar year-end (Bergstrand, 2009; Hope, 2010). Within a Beyond Budgeting environment, rolling forecasts is seen as one of the main management control tools (Ekholm

& Wallin, 2000; Hope & Fraser, 2003; Bogsnes, 2009; Hope, 2010). Instead of traditional fixed budgets, the solution would be to replace them with rolling forecasts.

2.3.2 What is Rolling Forecasts?

Bergstrand (2009), describes rolling forecasts as a planning tool based on projections of a small number of key variables, where part of each period is included in the following periods without any obvious breaking point. Rolling forecasts have typically shorter time horizon, are updated frequently, and are prepared within a few days compared to the traditional annual budget (Bergstrand, 2009; Morlidge & Player, 2010). This solves the problems associated with budgets inability to predict the future. The periodicity of rolling forecast strategic reviews might be different in various organizations. It might be on a regular basis, such as monthly or quarterly, driven by some significant events such as the introduction of new products or services, or reactions to supply chain disruptions (Bogsnes, 2009; Lorain, 2010).

The rolling forecast process requires managers to review business operations more frequently and strategically than in a fixed annual budget process. Rolling forecasts are more flexible, up-to-date, and allows for new risks and opportunities to be identified and responded to more effectively and efficiently (Tanlu, 2007; Leon et al., 2012). It is important to understand that rolling forecasts is a tool for strategic management and learning, not an attempt to “predict and control” future outcomes (Hope, 2010). Instead, the aim is to build a process that enables managers to continuously look ahead and take immediate action if performance gaps occur or new business opportunities arise (Morlidge & Player, 2010; Leon et al., 2012).

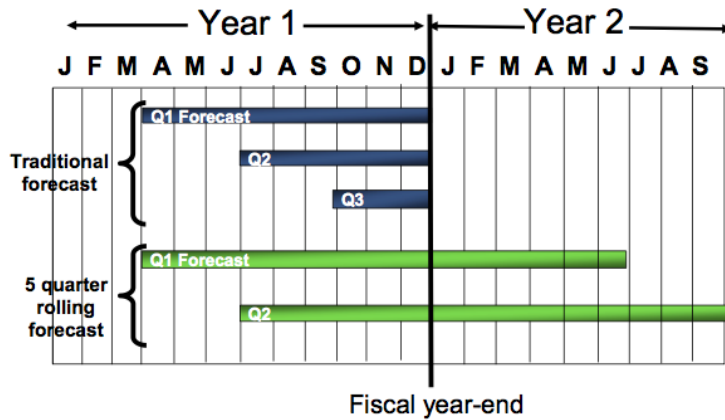


Figure 2: Traditional vs. Rolling Forecasts (Hope, 2010, p. 4)

Figure 2 shows how the forecasts work. The rolling forecast approach differs from the traditional fixed budget and static forecast, by eliminating the constraints of a set forecast period with a defined and unchanging end point (Leon et al., 2012). The fiscal year-end is always on the 12- or 18-month rolling forecast radar screen, and the forecast continuously reviews the next four or five quarters ahead (Hope, 2010; Lorain, 2010). Often a forecast made in the 4th quarter looks five quarters ahead to get a full forecast for the upcoming year, otherwise the forecasts is four quarters ahead (Tanlu, 2007; Bergstrand, 2009). This process allows for the forecasted periods to remain the same, regardless of the accounting closing. When a month or quarter ends, it is simply dropped from the forecast and a new month or quarter is added to the end of the forecasted scope. The rolling forecast end period is constantly projected forward (Bergstrand, 2009; Leon et al., 2012). Thus rolling forecasts are more flexible than budgets, and do not appear to be so mandatory or strict (Ekholm & Wallin, 2000).

Bergstrand (2009) explains the forecasting process illustrated in figure 3 below. The first step (1) of the planning process is for managers on the lowest level of the organization to hand in their forecasts to their immediate superiors. These forecasts should be done far in advance. The second step (2) is for the superiors to review the material coming from lower levels, form an opinion, and send their own forecasts to the next level. If managers have different opinions, there is no time for long discussions, as the forecasts will have to be passed up in line almost immediately. Each manager will have to take full responsibility for

the forecast, which is sent to the next level. The forecasts are finally consolidated at the upper level (3) (Bergstrand, 2009). Rolling forecasts processes are designed as organizations were interdependent communities, and the aim is to ensure that everyone has access to the information when needed (Hope, 2010).

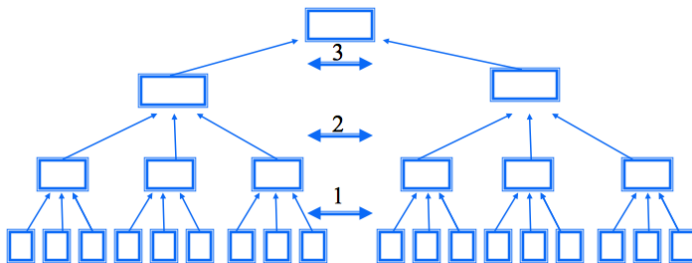


Figure 3: Forecasting process (Bergstrand, 2009, p. 175)

The idea behind rolling forecasts is to build a process that not only enables decisions to be taken with confidence throughout the organization, but also help organizations to respond quickly to unpredictable events (Leon et al., 2012). It doesn't necessarily mean making better predictions, but for managers to make rapid evaluations of what to do next when things change (Morlidge & Player, 2010).

2.3.3 Forecasting Mastery

Rolling forecasts manage the weaknesses of traditional budgeting: it represent an unbiased, expected outcome separated from target, have typically less line items, shorter time horizons, and are more frequent updated compared to budgets (Golyagina & Valuckas , 2012). Additionally, rolling forecasts are not as inflexible as budgets and aims to allocate resources more timely and effective (Bergstrand, 2009).

In rapidly changing and unstable environments, management control systems need to provide managers with accurate and reliable data on a regular basis to be able to continuously adjust operations, assess resource availability, and make appropriate decisions. The ability to anticipate the future and make good forecasts is crucial (Bergstrand, 2009; Hope, 2010; Morlidge & Player, 2010).

Hope (2010) argues that adopting rolling forecasts is a major step forward, but it is how these forecasts are prepared that is key to success. Rolling forecasts is implemented in

organizations in order to cope with the weaknesses of traditional budgeting, to improve financial and operational management, to accelerate the decision-making process, and to devote more time to value-added activities (Lorain, 2010). The importance of forecasting is often recognized, but in practice it is rarely performed well. Any organization that is not able to forecast – anticipate and respond, risks loss or even failure (Morlidge & Player, 2010). Hope (2010) emphasize that many organizations are adopting rolling forecasts in an effort to anticipate change, but most fail to reap the benefits. This is because these forecasts are distorted by the “gaming” that invariably occurs when supervisors ask managers for their expected performance figures. In addition, forecasts that are used by senior executives to micro-manage or demand immediate action, lead to rapidly evaporation of trust and confidence (ibid.).

Lorain (2010) argues that rolling forecasts are a dynamic strategic planning tool and a “just-in-time” process that focuses on strategy, threats and opportunities, and is a technique that allows the firm to allocate resources quickly and efficiently. Forecasts are described to perform a number of roles, such as helping senior executives to manage shareholder expectations, enable finance people to consolidate and manage cash requirements, and help operational managers to make decisions (Hope & Fraser, 2003; Lorain, 2010). Rolling forecasts present a vision of what will happen in the short and medium term, compared to budgets which gives a single view of the future to implement strategy and to control operational measures. Lorain (2010) argues that keeping the forecasts focused on key performance indicators and line items, allows for quicker turnaround, more value-added analysis, and insight from finance. Rolling forecasts provide frequently updated indicators, which contribute making more adaptable and flexible organizations that are able to cope with business and environmental change (Hope & Fraser, 2003; Lorain, 2010).

Hope (2010) stresses that rolling forecasts should primarily be seen as a tool for strategic management and learning: not targeted for control. According to him, effective forecasting only works in a culture underpinned by transparency and trust. In addition, the forecasting process must be *quick*, *impartial*, and *paint a moving picture* of the factors that create financial outcomes, so that the “gaming” behavior and trust issues with forecasts and micro-management can be eliminated (Tanlu, 2007; Hope, 2010). Quick means that the process only has to focus on key performance drivers and involve a few people. Impartial means that

forecasts must be an independent process disconnected from targets, performance evaluation, and rewards. Lastly, to paint a moving picture means that the forecasts must constantly look a year or more ahead, thus giving managers time to influence the outcomes (Hope, 2010).

Leon et al. (2012) state that some key factors to a well-implemented rolling forecast involve evaluating, understanding, and utilizing drivers as the basis of the forecast. According to Morlidge and Player (2010), the key to master forecasting is knowledge, or science. It is the organizations that tackle forecasting as a science that are the once that are getting it right (Morlidge & Player, 2010). They point out five principles of forecasting: the mastering of purpose, time, models, measurement, and risk. In regards of mastering risk, forecasts are reliable if they are unbiased and have an acceptable level of variation (ibid.).

According to Morlidge and Player (2010), traditional budgeting is seen as an exercise in “fixing” targets and budgets for a financial year. Deviations from the budget within the year are normally regarded negative and traditional practice requires these gaps to be eliminated, while forecasting exposes those gaps to help management respond appropriately (Morlidge & Player, 2010; Bognses, 2013). Hope (2010) points out that too many forecasts are prone to bias because of the reliability on opinions instead of “hard” data. The problem is that these opinions tend to distort results because people confuse targets, which is what you hope, with forecasts, which is the reality. Other causes for bias is the tendency of producing individual forecasts, hence mistrusting forecasts from other areas, and use forecasts that differ from those used in other parts of the company. By separating forecasts from targets and performance measurement much of the bias are taken out of the forecasting process (Hope, 2010).

The potential benefits of mastering forecasting is according to Morlidge and Player (2010) better customer service, lower costs, better use of resources, fewer shocks, quicker to exploit opportunities, more predictable performance, and enhanced teamwork and collaboration. Managers work in team to conduct the forecasts on a regular basis, which increases the collaboration within the organization (ibid.). Furthermore, rolling forecasts focus on few key value indicators and are based on unbiased and realistic forecasts, which contributes to making more adaptable and flexible organizations (Lorain, 2010).

To summaries, researchers argue that rolling forecasts enable organizations to see upcoming challenges and respond more quickly to changes in the environment (Hope & Fraser, 2003; Bergstrand, 2009; Hope, 2010; Morlidge & Player, 2010). Gathering of information continually throughout the organization helps the employees to reveal likely outcomes, in addition to the potential opportunities and risks. Organizations often focus more on what has happened instead of the reason why things has happened. Rolling forecasting focuses on the latter to get a clear business understanding of what is driving future performance (Morlidge & Player, 2010). Morlidge and Player (2010) explains some of the major strengths of rolling forecasts as enhanced decision-making due to continually improved information, and managers experience more empowerment and responsibility. In addition, managers are working in team to conduct the forecasts, which increase the collaboration within the organization (ibid.).

2.4 Critique of Beyond Budgeting & Rolling Forecasts

2.4.1 Disadvantages of Beyond Budgeting

Even though Beyond Budgeting appears to be more closely connected to firm strategy, there is some lack of knowledge about how it is used in practice and new potential challenges (Hansen et al., 2003; Østergren & Stensaker, 2010). Separating targets from forecasting can lead to an ambition problem (Østergren & Stensaker, 2010). Managers are being pushed to achieve great performance based on relative targets that are ambitious and goals for the future. Targets are set on the basis of relative performance to competitors, which might lead to pushing managers excessively (ibid.). In addition, Hansen et al. (2003) address issue of relative performance evaluations. Access to competitors' data might be difficult to obtain in a highly competitive and rapidly changing markets, which makes it hard to base performance evaluation on relative measures.

Even though Hope and Fraser (2003) present Beyond Budgeting as a universal model that will benefit all types of organization, and it is referred to in most management accounting textbooks, it has not yet had an important impact on organizational practices (Becker, Messner, & Schäffer, 2011). Ax and Bjørnenak (2005) expresses that when appropriating an idea such as Beyond Budgeting, flexibility are needed. The diffusion of an innovation can be

slowed down if it doesn't lend itself to such plasticity regarding its interpretation and use (Ax & Bjørnenak, 2005; in Becker et al., 2011). Research of North-American and European organizations, conclude that the majority of organizations are not planning to step away from budgets in the nearest future, but complement budgets with alternative tools to reduce the disadvantages (Ekholm & Wallin, 2000; Libby & Lindsay, 2010).

Despite moderate diffusion, Henttu-Aho and Järvinen (2013) points out that Beyond Budgeting has got an increased interest especially in the Scandinavian countries. This is due to higher degree of decentralized structure and organizational culture based on trust. Heinzlmann (2015*) follows up this research and highlights that Nordic countries have a unique culture and model of governance, which makes these organizations more adaptable to the Beyond Budgeting mindset. Important characteristics are especially the role of capital markets, labor participation and management style (ibid.).

2.4.2 Disadvantages of Rolling Forecasts

Bergstrand (2009) points out that total work load of forecasting might increase compared to budgeting, since forecasting will be done several times a year instead of only once using budgets. In addition, forecasts are changed constantly, which can lead to uncertainty among managers (Ekholm & Wallin, 2000; Bergstrand, 2009). Bogsnes (2013), critiques the rolling forecasts technique to still have a "fixed" frequency and time horizon, which might be too often and too long for some organizations, and the opposite for others, in terms of their types of business.

Leon et al. (2012) emphasize on another challenge with rolling forecasts. Arriving at the necessary specific drivers to implement robust, driver-based planning can be challenging given the large amount of data, in addition to the complexity of today's business operations and the rapidly changing environment (ibid.). Another problem is that most organizations are poor at forecasting, because they lack foresight and have an inherent fear of taking positions that go against conventional wisdom (Hope & Fraser, 2003; Morlidge & Player, 2010). Furthermore, following up of management decisions may be more difficult, at the same time as it can be hard to detect managers who dodge their work. This stresses the importance for managers to trust each other in order to get the rolling system work efficiently (Bergstrand, 2009).

2.5 Summary of Literature Review

Beyond Budgeting is considered as useful dynamic management control system to handle uncertain business environments. It is also understood to be suitable for solving major problems of traditional budgeting, such as: being backward oriented, too time consuming, rigid command-and-control structure, and having a cost focus rather than focusing on value creation. Rolling forecast is considered as being the best way of implementing Beyond Budgeting ideas in an organization. It is a useful planning tool and information system, which aim to connect the whole organization and give a continuous realistic picture of the current position and the short-term outlook. Forecasts enable managers to be action-oriented and forward-looking to respond quickly to potential performance gaps, or opportunities ahead. Moreover, better forecasting information gives better basis for decision-making.

3. Methodology & Research Design

This chapter is divided into two parts. The first part describes the methodology used in this study, which consist of a presentation of theoretical perspectives and research methods on management accounting practices. In addition, quality criteria of good research will be discussed. The last part of the chapter describes the research design, including description of the data collection process and how the research have been structured.

3.1 Methodology

3.1.1 Management Accounting Practices

Research on management accounting practices has proven to be both challenging and interesting (Chapman, Hopwood, & Shields, 2007). Chapman et al. argues that the reason for this is that management accounting is a set of practices, which are often loosely coupled to one another and varies across both time and space (ibid.). In addition, there is a general belief that management accounting practices shapes and continue to shape the context in which it operates (Heinzelmann, 2012). Horngren et al. (2012, p. 26) define management accounting as: *“Measures, analyses, and reports, financial and non-financial, information that helps managers make decisions to fulfill the goals of the organization”*.

Empirical research on management accounting practices has developed in recent decades, which has created a variety of theoretical perspectives and research methods to address an increasing range of fundamental questions (Luft & Shields, 2007). There is an interest about systematic knowledge in the field of management accounting, and research processes that develop this knowledge (Chapman et al., 2007). Such research aims to understand the complex interaction between management accounting institutions, practices, and understandings (Heinzelmann, 2012). One of the reasons is that it seems important, both empirical and theoretical, to study what happens in management accounting practices when different pre-understandings meet (ibid.).

The research tradition are today established as the social studies of accounting, which aims to enrich people’s understanding of the meanings of their action, thus increase the possibility

of mutual communication and influence (Chua, 1986; in Heinzlmann, 2012). One type of research that has been long lasting within social studies of accounting is case-based research (Heinzlmann, 2012). Case studies have shown well suited to produce general, context-independent knowledge (ibid.). This thesis adopts such an approach, and we will therefore discuss relevant methodological issues specifically in relation to this type of research.

3.1.2 Case-based Research in Management Accounting

Case studies have been around for a long time and are nowadays widely used (Flyvbjerg, 2011). Much of what is known about the empirical world has been produced by case study research (Flyvbjerg, 2011; Yin, 2014). According to Cooper & Morgan (2008) case-based research is known under different labels such as; field studies, interpretive studies, qualitative research, small sample studies, action and constructive research (ibid.).

Case study research concentrates on a single case, an individual unit, or a small number of cases, in order to get in-depth understanding of its specificities (Heinzlmann, 2012). Flyvbjerg (2011) stresses that case studies are “*an intensive analysis of an individual unit stressing developmental factors in relation to environment*” (p. 301). Stake (1995) notes that they are “*expected to catch the complexity of a single case. (...) A case study is the study of particularity and complexity of a single case, coming to understand its activity within important circumstances*” (p. xi). Cooper and Morgan (2008) also define case study research as an in-depth and contextually informed examination of specific organizations or events that explicitly addresses theory.

Stake (2010) explains that what you are studying and research questions, is more important than how you are studying it. Yin (2012) states that use of case study design is particularly motivated by the explanatory research questions that asks “how“ and “why” questions, and which also is rooted in existing theory (Yin, 2012; 2014). By following this, existing theory can be retained, modified or developed (ibid.). Case study research can in principle be studied in a number of ways: qualitatively or quantitatively, analytically or hermeneutically, or by mixed methods (Flyvbjerg, 2011; Heinzlmann, 2012). Our study is a qualitative case study, because such a design is well suited for the purpose of our study, both in terms of objectives and ideas about the research. In addition, the use of “how” and “why” questions enable to get an in-depth understanding of the use of rolling forecast practices. By doing

qualitative case studies Stake (1995) notes: “*we seek greater understanding of the case. We want to appreciate the uniqueness and complexity of the case, its embeddedness and interaction with its contexts*” (p. 16).

Many different case study researchers suggested techniques for organizing and conducting research successfully. Yin recommends a structured and pre-defined six-step process (Yin, 2014). Those six steps are: Designing, preparing, data collection, collecting evidence, analyzing, and reporting (ibid.). Given that researchers never can fully represent the field, the judgments about quality of such research processes are given by the criteria of *validity*, *reliability* and *generalizability* (Baxter & Chua, 2008; Heinzlmann, 2012). In contrast, other researchers emphasize on the importance of taking the unique and context-dependent characteristics of case studies seriously, which aim to enhance the understanding of single cases. Such approaches introduce alternative quality criteria (Heinzlmann, 2012). In management accounting both approaches are common (ibid.).

The methodological design of this thesis is based on Yin’s components in order to frame the research process. Also we have chosen to do a single case study, by going in-depth in FiGo as an object of study. This will hopefully give us a better picture of the context on how rolling forecasts are used as a dynamic management tool. Also, we have chosen to collect data from mainly one unit of the organization, namely the top management group and not going to deep into the business units. We will in the next section present quality criteria of good research.

3.1.3 Alternative Quality Criteria of “Good” Research

Researchers can never re-visit or re-experience the field two times in the exact same way, and given that researchers can never fully represent the field, research have been associated with quality criteria (Baxter & Chua, 2008).

In general, research is associated with the quality criteria of generalizability, validity and reliability, all of which originates from natural science and the use of more quantitative methods (Heinzlmann, 2012). However, there has been considerable debate over whether qualitative and quantitative methods can, and should be, assessed according to the same quality criteria. Using predefined hypothesis, quantitative methods focus on empirical

“testability” through verifying and falsifying theories, hence a quality criterion of validity is meaningful (Chua, 2003; in Heinzelmann, 2012). Unlike qualitative methods that focus more on explaining and interpreting the empirical material using theories (ibid.).

Baxter and Chua (2008) notes that much of the debate is done within a natural science framework, in which accomplishments of accounting field researchers are assessed in terms of their representational “reliability” and “validity”. These criteria may be appropriate within the context of so-called mainstream accounting research (Chua, 2003; in Heinzelmann, 2012), but “reliability” and “validity” practice is questioned and challenged by constructivist and critical perspectives on field research (Baxter & Chua, 2008). Ahrens and Chapman (2007, p. 299) describe: “*doing qualitative field studies is not simply empirical but a profoundly theoretical activity*”. The debate has been much about the role of theory, and in this regard it has been proposed alternative “assessment criteria” of research quality (Baxter & Chua, 2008).

Qualitative research can help develop a theoretical basis of knowledge in management accounting, and different tactical approaches are distinguished. A criterion of “good” research is the reflexive interplay between empirical material and theory, and generalizability (Heinzelmann, 2012). Keating (1995) suggests a framework that categorizes case and field studies according to their different theoretical purposes. In addition, to help researchers understand how case study research contributes to the growth of knowledge in management accounting studies (Keating, 1995; in Hopper et al., 2007). The framework is based on what findings in a study suggest in theoretical terms, and he differentiate between *theory discovery*, *theory refinement* and *theory refutation* studies (ibid.). Theory discovery’s objective is to map novel, dynamic and complex phenomena ignored, or inadequately explained by existing theories. It provides “building blocks” of theory, rather than fully specified theories (ibid.). Theory refinement on the other hand, provides analytic evidence in support of a specific theory, and it seeks to refine and operationalize a theory. Last, theory refutation’s objective is to falsify or otherwise refute a well-specified theory (ibid.). The first criterion of “good” qualitative research is the reflexive interplay between empirical material and theory. This can bring theories into contact with empirical reality, thus exposing their strengths and weaknesses, and modifying, or when refuting them, a sort of theoretical generalization (Hopper et al., 2007).

On the other hand, generalizability is about the degree to which empirical insights can be generalized outside of the case (Heinzelmann, 2012). But it is important to be careful about what is meant by generalization (Hopper et al., 2007). Generalizability in the sense of producing laws that apply universally, is not a useful standard or goal for qualitative research (Gomm, Hammersley, & Foster, 2000). Although, in case studies the term generalizability could be replaced by fittingness, which includes analyzing the degree to which the situation studied matches other situations (ibid.). In other words, generalizing from a single case study could be done in two ways, either generalizing by the means of theory, or by comparing to other cases (Heinzelmann, 2012).

Qualitative field-based science research rejects classical concepts of validity and reliability (Seale, 1999, 2004; in Heinzelmann, 2012), and different researchers have established alternative assessment criteria of quality. Baxter and Chua (2008) mention some of them. One approach focuses on retaining, but re-working notions of reliability and validity within the framework of qualitative research. Another aims to institute different criteria – such as *trustworthiness*, *methodological rigor*, *interpretive rigor*, and *convincingness* (ibid.). We will in the following section present alternative concepts of good research, especially focusing on Golden-Biddle & Locke’s convincingness as an alternative to the concept of validity (Golden-Biddle & Locke, 1993; in Baxter & Chua, 2008).

Researchers aim to write “convincing” texts that will convince readers that the research is credible and truthful. Golden-Biddle & Locke characterize “convincingness” in terms of three dimensions, which they refer to as *authenticity*, *plausibility*, and *criticality* (Baxter & Chua, 2008).

Criterion of authenticity refers to the authoring of the “been there” quality of field research (Baxter & Chua, 2008). This refers to some form of “calculative” reckoning such as describing the length spent in the field, the number and type of informants, and the quantum of data collected (Briers and Chua, 2001; in Baxter & Chua, 2008). Authenticity encompasses the researcher’s ability to assure the reader that he has caught and conceived the everyday life world, and its members (Golden-Biddle & Locke, 1993; in Heinzelmann, 2012).

The subsequent criterion of plausibility on the other hand, refers to whether interpretations of the field make sense and is credible, given what knowledge the readers have. It is important that the research reports is coherent when assessed in terms of structure and its disciplinary context (Baxter & Chua, 2008).

The third dimension, criterion of criticality, is concerned with the imaginative possibilities that field research may provoke (Golden-Biddle & Locke, 1993; in Baxter & Chua, 2008). It associates to the quality of challenging predefined ideas and beliefs, in order to argue for alternative interpretations of the accomplished work (Golden-Biddle & Locke, 1993; in Heinzlmann, 2012). This is in order to reflect and question personal and intellectual assumptions (ibid.). Golden-Biddle & Locke doesn't perceive this last dimension as an absolute requirement for good field-based research, while Baxter & Chua complements the criteria of authenticity and plausibility with the criterion of criticality in their research papers.

We will in our qualitative case study use Baxter & Chua's quality criteria of good research: authenticity, plausibility, and criticality.

3.1.4 Research Methods

Robert E. Stake (2010) argues that qualitative research relies on human perception and understanding. This method of research is sometimes defined as interpretive research, since researchers have to look deeper into the meaning of what they observe and the understanding of social settings and actions. It is crucial according to Heinzlmann (2012) to use different sources of evidence when conducting a qualitative research, because it generates authentic, credible, and rich interpretations.

Qualitative researchers seeks data that represent experiences in particular situations or processes (Stake, 2010). Sources can be differentiated between primary and secondary (Jacobsen, 2002). Primary sources is data that is gathered by the researcher for that specific research, while secondary sources are material that is conducted by others and is therefore already interpreted and used for other purposes (ibid.). This research is mainly based on primary sources to facilitate the analysis, in order to understand interactions and dynamic processes within the organization.

The most common methods of qualitative research are interviews, observations, and examination of documents and audio data (Stake, 2010). Documentary analysis is most powerful when combined with in-depth interviews that allow researchers to discuss with the authors about what they contain and how they were prepared (Rubin & Rubin, 2012). Since this study is very much based on interviews, in addition to observation, this technique is outlined in greater detail.

3.1.5 Qualitative Interviewing

According to Yin (2014), interviews are one of the most important sources of information in case studies. Qualitative interviews are often guided conversations in which interviewers carefully listens to understand the denotations, in addition to obtain different descriptions and interpretations (Stake, 1995; Warren, 2002). Studies of academic fields are commonly conducted through qualitative in-depth interviewing (Rubin & Rubin, 2012), due to the advantage of obtaining unique information that the interviewers are not able to observe or analyze. Stake (2010) points out that in-depth interviews collect information from many interviewees within different positions that contribute with valuable information. Furthermore, interviewers are able to explore in detail experiences, motives, and opinions from a different perspective (Rubin & Rubin, 2012). The purpose of most qualitative interviewing is to derive interpretations, not facts or laws, from interviewees to portray ongoing social processes (Warren, 2002; Rubin & Rubin, 2012).

A major strength of qualitative interviewing is that it produces highly credible results as interpretations is tightly linked to solid evidence, all embedded in a context (Rubin & Rubin, 2012). Credibility is dependent on the research design, as the information has to be accurately and transparently reported through how the interviewers perceive the data and how the analysis is conducted (ibid.).

There are different qualitative interview techniques in terms of how the it is structured. Interviews can be unstructured, semi-structured, focused, or problem-centered (Heinzelmann, 2012; Rubin & Rubin, 2012). The interviewers only have one topic in mind when conducting an unstructured interview, and open-ended questions evolve along the way as the interviewees reveal their knowledge and experience about the topic (Rubin & Rubin, 2012). In a semi-structured interview a guideline of questions is prepared in advance to help

the interviewer direct the interviewee on a specific topic, in addition to ask follow-up questions to enhance the understanding (Stake, 2010). A predetermined socially related problem is presented in problem-centered interviews where interviewers try to follow a guideline to uncover different perspectives (Witzel, 2000). Focus interviews are related to problem-centered interviews by selecting a predefined purpose of the interview with more specific questions (Heinzelmann, 2012).

Degree of structure and formality of the questions depends on the research questions (Johannessen, Kristoffersen, & Tufte, 2004). According to Stake (2010) a strict structure might bind the interviewees and prevent elaboration and a fluent dialog, and causes a more mechanic interview, or conversation. However, it enhances the interview if the interviewers have specific and given questions to allow for comparable analysis if they address the same question to several interviewees (Ryen, 2002). Even so, too much structure might lead to loss of important information or misunderstandings since only one perspective is highlighted (ibid.). Heinzelmann (2012) emphasize the importance for a balance between structure and openness conducting dynamic interviews and obtain rich data.

According to Johannessen et al. (2004) it is hard to determine in advance how many interviews are necessary in a case analysis, to make a research of good quality. Instead, it will become evident as the interviews are conducted and adequate information is revealed in order to answer the research questions. At the same time, it is important to avoid gathering too much data (Ryen, 2002). All in all, the combination of interviews with other sources of evidence is essential regarding the plausibility and authenticity of data (Heinzelmann, 2012).

3.2 Research Design

The research design is a description of how a research should be carried out from the beginning until the end, based on the research questions (Johannessen et al., 2004). This research was structured based on Yin's five step model to conduct qualitative case-based research, hence including the following steps: designing, preparing, data collection, collecting evidence, analyzing and reporting (Yin, 2014).

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:

How does the use of rolling forecasts enable interaction on top management level?

The literature review describes the management accounting and control systems, in terms of history and techniques, mainly focusing Beyond Budgeting and rolling forecasts. The case selected is guided by the theoretical interest about rolling forecasts in a Beyond Budgeting environment, and the organization selected is situated in Scandinavia.

3.2.1 Collecting Data & Evidence

This case study is based on semi-structured interviews and observation of meetings on a management level within in FiGo, and the empirical material was collected from 2013 to 2014. Semi-structured interviews were used to gain in-depth information, while the observation of meetings gave a better understanding of communication and interaction. In addition, we did make use of internal documentations and presentations made available by FiGo, for gaining further knowledge of the organization.

Interviews

A guideline of open-ended questions was prepared in advanced to be able to do comparable analysis of the information afterwards. The guidelines were adapted to each respondent in terms of different emphasis based on their experience and position in the organization. The interviews were exercised as a dialog to create a trustworthy atmosphere and let the interviewee talk freely about the open-ended questions. Follow-up questions were accompanied along the way to make sure the interviewer understood the answers correctly or for getting complementary information e.g. exemplified experience (Stake, 2010). This structure ensured a balance between flexibility and standardization.

The selection of interviewees was done by snowball technique, which involves starting with a small sample of initial interviewees, and then let them help to locate others through their network (Warren, 2002). Interviewees were strategically picked in regards of their position in the organization, and if they were able to contribute with valuable information to the project. All the respondents were either from the top management on group level or from the

HR division. Interviewing different top managers creates an understanding of how they make use of the forecasting information, and reveals challenges and changes linked to this management tool.

Two or three interviewers conducted the interviews with one interviewee at a time. The interviews lasted between 40 to 90 minutes. All the interviews were held in English, but some parts were conducted in Norwegian if the respondents had a hard time explaining certain things in a foreign language. This ensured full-bodied details and understanding of processes within the organization. In total, six semi-structured interviews were conducted. All interviews were recorded and transcribed shortly after the interviews were completed. In addition, there was a possibility to contact the interviewees if extended information was necessary. A summary of the interviews conducted is presented in table 2. Statements from respondent 2 and 3 are not from interviews, but from top management meetings. They are listed in the table for giving a total overview of the respondents mentioned in the analysis chapter.

Table 2: Interviews

	Respondent	Date	Length
Respondent 1	CFO, Group	27.09.2013	00:55:29
Respondent 2	CEO, Group	Statements from the CEO, Group is collected from top management meetings (see table over meetings)	
Respondent 3	CEO, Insurance	Statements from the CEO, Insurance is collected from top management meetings (see table over meetings)	
Respondent 4	Head of Forecasting, Group	27.09.2013	01:13:10
Respondent 5	Head of Controlling, Group	27.09.2013	01:01:15
Respondent 6	Head of Controller, Insurance	27.09.2013	00:48:09
Respondent 7	Controller, Group	11.11.2013	01:15:28
Respondent 8	Implementation manager, HR	10.11.1014	01:04:04

Direct Observations

Many qualitative researchers prefer observed data in comparison to other sources, because this sort of data is information that is directly seen or heard by the researcher (Stake, 2010). This method let researchers be present in relevant situations without interacting, to perceive interactions in a natural context (Gummesson, 1991). In this study, direct observation of top management meetings about the forecasts was completed two years in a row by different research teams, to conduct data for a longitudinal study. In total five meetings have been observed in order to experience directly the way forecasting information is used by top management. The meetings were held in Norwegian, and they were all recorded, transcribed, and translated into English shortly afterwards.

Table 3: Meetings

Type of meeting	Participants	Date	Length
First Glance Meeting Group	CFO Group, CEO Group, CEO insurance and top management team	28.10.2013	25:37
Business Review meeting Group	CFO Group, CEO Group, CEO insurance and top management team	11.11.2013	02:03:57
Board of Directors meeting	CFO Group, Board members	20.11.2013	13:34
First Glance meeting Group	CFO Group, CEO Group, CEO insurance and top management team	27.10.2014	28:33
Business Review meeting Group	CFO Group, CEO Group, CEO insurance and top management team	10.11.2014	37:53

3.2.2 Analyzing & Reporting

No formal coding program was used for this analysis. The data from the interviews, meetings, and internal documents were repeatedly analyzed, categorized, and compared. The data analysis was guided by theoretical perspective of the study as well as research questions. Challenges and limitations to the study are listed previously in the introduction section.

4. Empirical Settings

The main purpose of this chapter is to present necessary empirics for the analysis. We have divided the chapter into three parts. First, there is an introduction of FiGo. Thereafter comes a presentation of their dynamic management control system, “Dynamic Management”. Finally, this rolling forecast process will be described in further detail. The chapter is an important step in the understanding of how rolling forecasts are used and incorporated in FiGo’s “Dynamic Management”.

4.1 About FiGo

FiGo is a financial service provider in Nordic countries. The organization consists of an alliance of Norwegian regional savings banks that own the FiGo corporation. The alliance, which is a banking and product alliance, is channeling much of their common interests through FiGo. Participation in the alliance has proven to give the members efficient operations and economies of scale, and the alliance model has served the member banks well in case of market shares and return on equity. The alliance got approximately 6300 employees, of whom 1300 are affiliated to FiGo and its subsidiaries.

FiGo provide and distribute products through its six subsidiaries, in the fields of life and P&C insurance, fund management, securities brokering, and factoring in Scandinavia. The products delivered by the subsidiaries are primarily distributed via the banks in the alliance, but also directly to retail customers and via broker channels to corporate market customers.

Moreover, FiGo has the administrative responsibility for the cooperation processes in the alliance, where technology, brands, expertise, common processes and/or application of best practice, and procurement are key elements. This is called the alliance cooperation unit in the rest of this study.

4.2 FiGo’s Dynamic Management

FiGo operates in an industry that face rapid environmental changes, and a high degree of competition. The organization experienced that budget assumptions became quickly outdated

and not being a good measure for performance and optimal resource allocation. In 2007, a new CEO was appointed, who initiated the journey towards a new management model based on the Beyond Budgeting principles. As a result, a new dynamic management control system, called “Dynamic management”, was implemented in 2008.

According to FiGo, “Dynamic Management” is about being among the best through a management system based on trust and relative targets. When defining the new system, FiGo decided that they would eliminate the traditional budget and implement new management tools and techniques instead. The old system with budgets and budgeting was based on command and control, while the new management system focuses on empowerment, involvement, and delegation. FiGo wished that their new management system should support a different mentality on the use of resources than the budget stimulated. Instead of thinking about organization as an obedient machine, one should think of organization as an adaptive system. This is illustrated in figure 4.

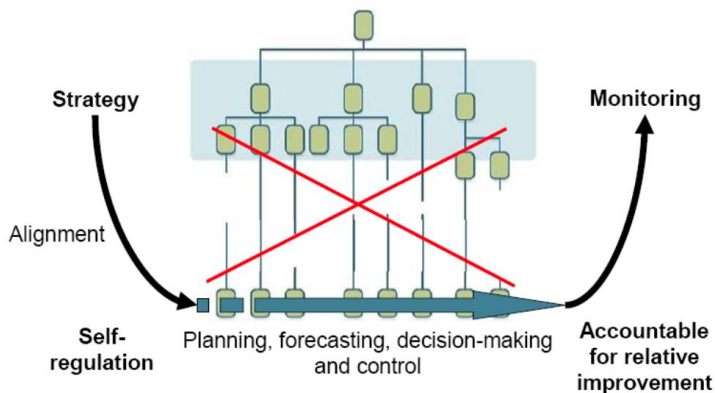


Figure 4: Dynamic Management

Strong and independent subsidiaries as well as increased competition in the core fields of FiGo’s business required more flexible management. “Dynamic management” consists of four projects: *benchmarking & scorecards*, *culture & organization*, *bonus & incentives*, and *rolling forecasts*. Figure 5 illustrates FiGo’s dynamic management control model.

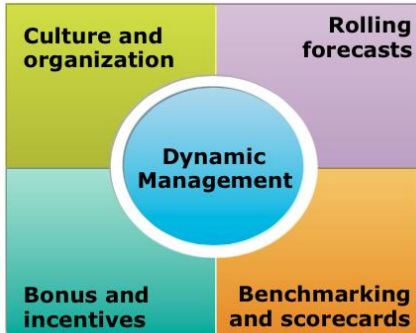


Figure 5: Components of "Dynamic Management"

The next sections give a further description of the different elements which together forms FiGo's new management philosophy.

4.2.1 Benchmarks & Scorecards

FiGo has chosen to implement benchmarking in their new management philosophy. They developed league tables for each business unit, monitoring FiGo's performance relative to main competitors, based on a set of KPIs³. This replace the old method of measuring the level of success based on whether or not you managed to reach predetermined goals and targets.

In the new "Dynamic Management" system the target-setting process is separated from the planning and forecasting process. This has resulted in more ambitious goals, hence reflecting where FiGo desires to be in the future. The league tables is reviewed each year to be able to evaluate who the main competitors are at all times, which influence where to focus and range of products distributed.

4.2.2 Culture & Organization

Culture and organization is claimed to be the most important project in the new management control system. The Beyond Budgeting principles emphasize a change in leadership, which consist of three important key elements: responsibility, involvement, and business insight.

³ Key Performance Indicators

FiGo aims to achieve a better business insight, by increasing responsibility on all levels and change towards a more coaching leadership style. Their model for performance management seeks a clear link between performance, problem solving, measures, and targets.

Furthermore, FiGo has had increased focus on continuous improvement, by a launching a lean agenda in line with the principles of their “Dynamic Management”. This involves development of internal coaches that leads the lean projects on the operational levels. It is the human resources (HR) division at group level that is in charge of these processes.

4.2.3 Bonus & Incentives

FiGo’s bonuses and incentives are connected to relative performance targets, based on league tables as in line with Beyond Budgeting principles. Success is in “Dynamic Management” measured relative to competitors, instead of achievements of pre-determined, absolute goals. This stimulates employees to continuously strive for greater success and process enhancements. Teamwork, knowledge sharing, empowerment, and self-regulation are important elements in the new bonus and incentive system.

4.2.4 Rolling Forecasts

With increased competition in a highly dynamic, volatile environment, FiGo was in need of a better forward-looking management tool. They implemented rolling forecasts, which was firstly introduced on FiGo’s group level and later diffused into the business units, and where key drivers are forecasted on a quarterly basis. We will in the next section describe the forecasting process, which create a basis for the discussion and analysis in chapter 5.

4.3 Rolling Forecasts in FiGo

Rolling forecasts is an important tool for management accounting and control in FiGo’s new dynamic management model. The organization’s forecasting model is said to be action-oriented, “brutally honest”, and driven by expected outcome. The forecasts help managing the business in the desired direction, towards long-term goals.

4.3.1 Forecasting Process

The forecasts are updated quarterly and goes twelve months ahead, except in the 4th quarter when they make forecasts for fifteen months ahead, hence it covers the upcoming year. The process is coordinated by corporate finance and managed in business units by the finance divisions. The business units prepare their forecasts quarterly, together with explanations and comments of assumptions, which is then sent to the top management and consolidated. It is a bottom-up process, where all the different managers are responsible for what is passed to the next level, to create more autonomy and responsibility, as in line with Bergstrand's figure 3. The forecast should be based on currently available information and existing plans, thus there should be no preparation of new information. Rough estimates are made for revenue and costs, and the idea is that it is better to hit roughly than miss accurately.

4.3.2 Focus on Key Drivers

Compared to budgets that are detailed, FiGo's rolling forecasts are driver-based, focusing on a few key value drivers, such as return on equity (ROE), sales volume and claims ratio. These drivers describe the business and the results, and help managers to concentrate about the most important things. FiGo's driver-based planning combines non-financial and financial indicators, and the combination gives essential perspectives of the business.

Moreover, FiGo's forecasts and targets are relative rather than fixed; hence they don't only focus on costs and revenues, but they are seen in relation to each other. For instance, the insurance unit has a high focus on loss ratio, which is a cost measure in relation to premiums. All the business units have their main key drivers like this, which reflects their main focus relative to competitors.

4.3.3 Resource Allocation in relation to Forecasts

Resource allocation is decoupled from targets and forecasts in FiGo's "Dynamic Management" model, to create more adaptive processes. Due to decentralization, decisions related to the use of resources, are a continuously process that adapts to demands and value creations. Business units use the resources they need case-by-case to be able to perform their best according to targets. Top management in each division follows up the results, and asks

for adjustments if needed. In addition, front-line managers are more empowered and responsible for efficient use of resources, to increase motivation.

4.3.4 Targets in relation to Forecasts

FiGo has through the abandonment of budgets, separated the purposes of budgets: target setting, forecasting, and resource allocation, as previously illustrated in figure 1. In the “Dynamic Management” model, these purposes are divided into different processes. Targets are closely connected to strategy and describe where FiGo wants to go. Within the business units, the target setting process is a two-way process, consisting of both bottom-up and top-down. By employing a combination of both processes, FiGo seeks to achieve a balance between attainable and ambitious targets. In addition, league table and KPIs are developed in all divisions, which is actions-measures employees follow on a day-to-day basis connected to superior targets.

The relative, superior targets are set for three years ahead, and are updated on an annual basis. The target-setting process is an ambitious, outside-in process, based on external expectations and competitor’s performance, as well as internal goals. After the target-setting process, forecasting numbers signalize the gap between targets and the realistic forecast.

4.3.5 Best Practice

FiGo is decentralized where each business units have their own financial division, and most decisions are made in the units. Each subsidiary has, until recently, been able to individualize their forecasting process to a larger extent, which has resulted in various forecasting practices. FiGo had no common policies of how the forecast should be reported to the group, or how it should be used throughout the organization. Through evaluation processes of the forecasting practices post implementation, standardized templates and a common “best practice” guideline has been implemented for the whole organization:

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 changing 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.

4.4 Summary of Empirics

FiGo is a financial service provider, operating in a highly competitive industry and a rapidly changing environment. FiGo consist of strong and independent business units, which required more flexible management control system to adapt to a volatile market. The “Dynamic management” model was implemented in 2008 consisting of four projects based on the principles of Beyond Budgeting: *benchmarking & scorecards, culture & organization, bonus & incentives, and rolling forecasts*. The traditional budget was abandoned and replaced with more dynamic management tools that have an increased focus on empowerment, involvement, and decentralization.

The rolling forecasts are updated quarterly and runs twelve month ahead, only focusing on key value drivers that explain the business. It is important that the rolling forecasts are “brutally honest” and realistic to reflect expected results and trends for the future; hence the process is separated from the target setting process and resource allocation. Each business unit has implemented the forecasting process differently, which has through an evaluation processes led to an implementation of standardized templates and a common “best practice” guideline for the whole organization.

5. Analysis

The purpose of this chapter is to address the problem statement of this study through discussion and analysis of the research questions, which builds upon empirical data and theory. The problem statement is as follows:

How does the use of rolling forecasts enable interaction on top management level?

The use of forecasting information cannot be analyzed in isolation, it has to be studied in context of other aspects of FiGo's "Dynamic Management", and how it is linked to the overall business model. As mentioned in the empirical chapter, FiGo's forecasting processes varies across the different business units within the corporation. This thesis focuses on how forecasting information is used and discussed in the top management group, hence we relate to the organization as one unit of analysis. However, through interviews, meetings, and reviews of internal documents provided by FiGo, some information about the forecasting process in different units will be used as well thus getting a better understanding of the link between the top management and the rest of the organization.

5.1 Top Management's use of Forecasting Information

5.1.1 Purpose behind Forecasting Meetings

After the quarterly forecasts are consolidated at corporate level, the top management conducts important meetings about the forecasts: First Glance, Business Review, and a report meeting with the Board of Directors. FiGo and the top management group are trying to give very different perspective on the forecasts through these three meetings, which acts as a forward looking and steering view of the company. The meetings conducted in the autumn, discussing the forecast for the next five periods, are the most important.

First Glance

First Glance takes place late October with the top management and division managers, where the CFO or Head of Forecasting presents the consolidated forecast. This meeting is supposed to be a brief overview, not delving into details, in order to give top management a clue about how the next twelve months looks like. The CFO of the Group explains:

“That is what we want to be the result of using forecasts in this process. I think, it is right to say, that (...) as soon as the output of the forecast [from the business units are produced] and we have run through and done some quality checks, and we are entering the top management meeting with a First Glance, which is typically 15-20 minutes, just one slide, showing this is what it... We have now consolidated all the bottom-up forecasts and this is what it looks like.” (Respondent 1)

This illustrates that the First Glance meeting is just for the top management to get an overview, which enables short discussions about the assumptions behind the forecasts.

Business Review

The most important meeting is the Business Review that takes place a few weeks after First Glance, where the different business units present both their ambitions and forecasts more in detail. The forecasts compared to targets are discussed in this meeting only. The CFO put it as:

“We were quite clear on the goal of the Business Review meetings... [There] they have to present the forecast, and the forecast has to be compared to the ambition and goals. And if there is any gap, how do you close it; what are your plans.”
(Respondent 1)

In this meeting the different business units present their realized results, forecasts, targets, and how to close potential gaps. The business units' goals and ambitions related to the most important performance drivers are also an important part of the discussions. There are also a presentation about their risk factors, and what actions to take to handle those factors.

New Business Review

In 2014 there were a separation between the Business Review meeting for the Finance Group, the consolidated subsidiaries; and the Business Review in new top management, which currently consist of top managers from both finance and the alliance cooperation unit.

“We have chosen to label both ‘Business Review’ but the content and the structure is very different. It is mostly restructuring and new objectives (...)”
(Respondent 1, Business Review 2014)

This Business Review meeting in the new top management group focuses to a larger extent on key value drivers, such as customer satisfaction, digitalization, and process efficiency. We will discuss this change to a larger extent further down in the analysis.

Board of Directors

A few weeks after the Business Review, the CEO and the CFO from the top management presents the consolidated forecast to the Board of Directors, which are directors from the owner banks in the alliance. The purpose is not to open up the whole discussion from the Business Review meeting, but to have minor discussions about the presented figures: how the company is doing, underlying assumptions, and uncertainties about market conditions such as growth.

After the forecasts from the different business units is consolidated at group level and discussed and approved in the three meetings, the Head of Forecasting delivers a detailed report to the Board of Directors.

5.1.2 Action-oriented Top Management

An important aspect of the meetings in top management, is the interaction that takes place: the discussion of presented figures, underlying assumptions, if the forecasts are “brutally honest”, if there are gaps between forecasts and targets – and what actions to take. The forecast becomes an important input and a useful tool because of the relation to targets, especially in the discussions at the Business Review meeting. A statement of the CFO supports this:

“I think, I would say, it gives me an idea about what the organization thinks, and it is really the Business Review meeting what the CEOs runs through more detail, the forecast and the ambition, and not to forget the discussion, what are the main... uh... what do you do to close the gap between ambition and forecast.” (Respondent 1)

Figure 6 illustrates how rolling forecasts are ideally used as a decision-making and action-oriented tool. The figure shows the actual development, forecasts, and goals. The forecasts should, together with trends, be used to discuss if the business units, or the organization in total, are on track in regards of meeting their targets. If not, they need to decide what actions to take to close the gaps. This whole idea behind rolling forecast is trying to connect

historical data, league table scores, forecasts, and ambitions. The planned actions are also embedded in the forecasts, thus the forecasts take into account how the actions will affect since the forecasts are “baseline plus anticipated events”. The latter is an important aspect of the purpose behind rolling forecast in FiGo: to observe gaps and make decisions about actions to close them.

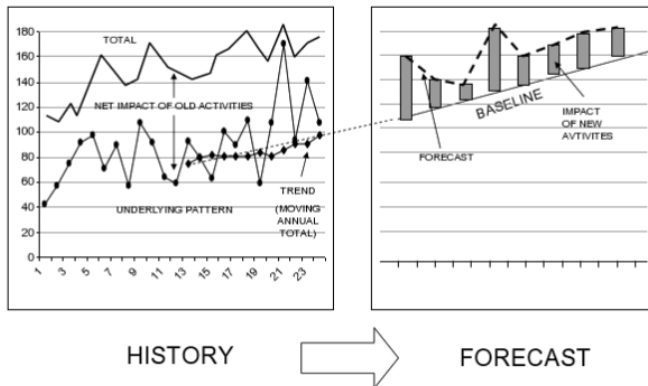


Figure 6: Forecasts – a decision making tool (Morlidge & Player, 2010, p. 119)

It is important to understand where the business units and the overall organization are headed. In the Business Review meeting they can have an in-depth view of gaps, and if actions and necessary activities are taken into account in the forecasts. Top management asks questions and challenge what the business units are doing related to ambitions and gaps, which is a value adding process to the overall business model. The general idea behind the this meeting is to get new initiatives through discussions, not to change the forecast, but let new initiatives be taken into account in the next forecast. As explained by Head of Forecasting:

““Why has this changed and what can we do about it?” And when you find out what you can do about it, then... we don’t do anything, we don’t adjust our forecast, because that’s the forecast we had to, you know, support this discussion. So in the next forecast process we can take in the effect, so whatever they decide.”
(Respondent 4)

This statement implies that the top management sees the rolling forecasts as an important tool to understand changes; hence an important basis for the discussion on what actions to take for closing gaps. As a result, rolling forecasts enables FiGo to be more action-oriented, and as in line with theory: they can react faster to changes. As expressed by the CFO in top management group:

“We have said that one of the aims of introducing forecasts, going back, was that forecasts should lead to better and faster reaction than otherwise we would have had without the forecast (...) That’s what I would put in the term of being action-orientated: better action earlier than we otherwise would have done.”

(Respondent 1)

There has been a large focus on cost reduction processes in FiGo, which has been an important activity to close gaps between cost targets. This and other important activities and actions for closing gaps are discussed in the meetings, as expressed by managers of various business units:

“So it is this general thing that we must simply reduce costs. And one of the important things to do it is to implement common processes, among other things, (...). We must standardize, and we must therefore get... We need to stop thinking geographic location. We need to think about organizing functions. And we must not forget the top line.” (Participant at Business Review 2013)

“The next step for the board is how much we coordinate the activities to exploit synergies” (Participant at Business Review 2013)

Top management finds it essential to discuss actions for utilizing existing opportunities within the organization in order to exploit future possibilities and come closer to targets. As one of the participants at the meeting stresses: improvement of the forecasting processes, and common and coordinated processes, are also important actions for closing gaps.

5.1.3 Learning & reflection

At the First Glance, the consolidated forecasts are benchmarked against each other, i.e. the updated forecast compared to the previous forecast. Top managers discuss changed figures,

and evaluate the variances, which make them reflect on possible causes. This evaluation gives the top management knowledge of what has happened, what underlying figures and key drivers that are important for the difference, and how it influence the inputs of the forecasts itself. Head of forecasting in the group explains this:

“So we try to comment the new twelve months compared to the previous twelve-month-forecast. And try to see if there is a change in the forecast, why, if it’s higher or lower than the previous. Try to explain the reasons for that; and that should be a good thing to support the discussions in their Business Reviews that follow the forecasting process. (...) 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... in itself. Because you either see you have to do something... or not.” (Respondent 4)

As the Head of forecast implies, the reflection and discussions in First Glance also supports the further discussions in the Business Review meeting. The knowledge that the top management gets from discussing the benchmarked forecasts is valuable in the process of taking proper actions. When the top management get a better insight and understanding of what the underlying drivers are, it might be easier to compare the forecasts to targets, and discuss actions on how to close potential gaps. In these discussions, the top management questions and follows up if earlier detected gaps and associated actions are met:

“In the last Business Review we... we...you said that you would try to do something with the premium within the insurance company in the corporate side because there you have a large gap between ambitions and where you seem to be heading. Do we see any change? Now, do we see... uh... what you actually said you should do? Are we seeing that in the figures of the forecast? Are you able to close the gap?” (Respondent 1)

In the Business Reviews they also look at charts that combines actuals, forecasts and targets for the different business units. The forecasts shouldn’t be measured against actuals, which is according to theory budget thinking. However, the forecasts are to some degree compared with actuals in the top management to get a better understanding of why the forecasts weren’t met. Head of Forecasts measures the accuracy of the forecasts from the different

business units and the consolidated forecasts, which is used for learning and detecting systematically biases. As explained:

“Maybe once a year we make charts that plot how they forecasted and how the actuals were for that period. And we have all the forecasting periods from when we started [using rolling forecasts]. So it’s basically... It’s a line [which shows forecasts equal to actuals] and then you plot how it correlates to that line.” (Respondent 4)

In the meetings, such as First Glance, the CEOs of the different business units are represented. Through discussions about important key figures and questions asked by the top management, the CEOs of the units can share their knowledge and thoughts about what assumptions they have taken in the forecasts, and what actions they have planned for closing gaps:

“They [top management in the First Glance meeting] were very interested in the key figures that are important for these League Tables in the companies of course, and actions. But of course the management from each company is represented in those meetings so they can [jump in] and they can answer about actions to achieve these key figures.” (Respondent 7)

The importance of knowledge sharing and learning is a longitudinal, but highly essential process. It may result in increased communication and open up for an enhanced business understanding of how each business unit contribute in the alliance. This applies to both the top management and the rest of the organization. Since the top management doesn’t necessarily have deep and detailed knowledge about what the business units do, these meetings with discussions and communication are highly valuable, which accounts for the business units as well. As mentioned in the empirical section, there are various forecasting processes in the business units, hence it is important for top management to spread their knowledge and teach the units about the utilization and benefits of rolling forecasts:

“We [in top management] actually discussed whether we should or shouldn’t introduce forecasts. Because we were afraid that the organization sort of wasn’t mature enough to use forecast in the way that they should be used. We were afraid that it would just be looked upon as a new budget run four times a year, not once a

year. An obviously we saw that very much in the beginning before we sort of educated the organization.” (Respondent 1)

As this implies, teaching the organization about how to use forecasts are a longitudinal process. The top management can through top-down communication increase attention on certain KPIs and activities, hence it is important for all the business units to have the right knowledge.

5.1.4 The Big Picture & Continuous Improvement

A longitudinal effect of “Dynamic Management” and rolling forecasts since its introduction, have been an increased focus on the big picture. Top managements’ intentions behind introducing rolling forecasts were increasing the business understanding in the whole organization. As the CFO of the group explains:

“We were very specific on that one of the aims on introducing rolling forecasts was that we wanted to build business understanding: greater business understanding within the organization.” (Respondent 1)

Different actions have lead to increased understanding, and helped the top management as well as the whole organization, to better see the big picture. Initially, decoupling their dynamic resource allocation from forecasts prevents the business units from competing against each other for resources. The investments are decided case-by-case, with a continuously focus on profitable investments, which emphasizes value creation and increased internal knowledge sharing. At business unit level a cross unit management team makes investment decisions based on the investments that creates the highest values across units and departments. The focus has shifted from cost to value creation, which helps both the business units and the top management to see the big picture when it comes to value-drivers.

Furthermore, forecasting key drivers helps to increase the business understanding. The top management, as well as the mangers of the business units, has managed to get a better insight of how the business works by looking at these numbers and benchmarking these drivers, hence comparing themselves against competitors:

“For instance the claims result. And that has given us more insight into how the business works (...) because they have focused on the drivers, they can perhaps better see... what they can do, compared with competitors as well in those leagues.”
(Respondent 4)

Forecasting performance is done in different ways in the business units, due to the fact that main performance drivers and KPIs⁴ vary. Discussions about key drivers and how they are broken down to benefit lower levels are an important part of the forecasting meetings in the top management group. The financial-driven forecasts supports mainly decision-making on higher levels in the organization. At lower levels, it is important to forecast performance drivers or KPIs. These processes take place on all levels, with different tools and frequency. Hence it is important that these processes are connected.

In addition, taking a closer look at league tables and benchmarking the units according to relevant competitors, gives an indicator of each unit’s relative performance. As the CEO of the insurance unit highlight:

“It has been our goal, and it is our goal, to get to a level of profitability in which we can follow the others in the industry. It has been our guiding light. It is quite amusing to see... Well, because it will mean that we measure ourselves in terms of how good the others are, and we know that we are in a good market right now (...) I believe we have the potential to be among the very best in the industry as a whole. It is very satisfying to see that this is the direction we are going in”
(Respondent 3 at First Glance 2013)

These performance indicators are closely linked to forecasts, since a lot of the figures they benchmark themselves with are drivers such as forecasted claims ratio⁵. The league tables and KPIs are also closely linked with bonus targets, since bonuses occur when a pre-defined position in the league table is reached. In the Business Review meeting, performance

⁴ Key Performance Indicator

⁵ Claims payable as a percentage of premium income

indicators and the relative performance of FiGo is very much highlighted by the CEOs of the units, which creates better understanding of the big pictures in regards of what drives performance and the overall value creation.

The Lean processes at operational levels, which focuses on continuous improvement in line with the principles of “Dynamic Management”, includes value chain enhancement, establishing structures, and mindset. In addition, it provides important understanding for the drivers of performance, which are as mentioned significant for the forecasting process and the overall business understanding. As the implementation manager expresses:

“My main focus is very much on lean. Which we found was the natural next step for us after... after introducing the Beyond Budgeting principles and... with the rolling forecast among other things. So in order to make the rolling forecasting and the relative targeting more successful, we need to work on peoples processes, or rather help people in the organization work on their processes.” (Respondent 8)

FiGo want to change the focus of business controlling from top level to support the whole organization, since much of the processes and decisions are taken in the business units. The lean projects focus on helping operational levels and the different units to develop KPIs, which then again helps enhancing forecasts and performance. It is important to ensure that improvement is enhanced over time, through teaching and getting the business units to create better KPIs, improve their performance, and make them understand the process. It also has a great affect on rolling forecasts: both in regards of making better forecasts, and using them not just as a reporting tool.

“It takes time to... I think that you can fully understand it on... on a mental level, but then working it, living it, takes time. And I mean, different managers have different perspectives on that also.... Some people are more... needs more command and control than others. (...) I think this is a continuum where you slowly mature and... and get better and better at it, as time goes by.” (Respondent 8)

It is important that people have the right mindset, to fully understand the benefits of rolling forecasts and be able to see the big picture, in terms of understanding how their performance affects the total. This is a continuous improvement process that takes time.

5.2 Top Management & Forecasting Changes

The forecasting process in FiGo has experienced a longitudinal change, which is highlighted by respondents. Implementing rolling forecasts and the new dynamic management model has changed different elements in FiGo, such as the forecasting process itself, the business culture and mindset, and the adaptation of “Dynamic Management”.

5.2.1 Changing the Mindset

Through observations of the top management meetings and interviews the overall perception seems to be that there have been a change in peoples mindset after implementing rolling forecasts and ”Dynamic Management”. As mentioned, *culture & organization* is regarded the most important project in FiGo’s new management control system, and in line with the Beyond Budgeting principles; successful implementation requires a change in culture, value, and leadership management. Both the top management and the lean projects at operational levels have been claimed as causes for this longitudinal change, and anchoring of the Beyond Budgeting mindset. As expressed by a respondent from the HR division:

“I think HR has done a good job there to anchor the mindset. I hear no one mention that they miss budgets anymore. So I think... I think it’s been done a good job at it. Yes... I think so. I think it has been a very... conscious attitude at the top as well.”
(Coach HR)

Furthermore, FiGo’s use of rolling forecasts has resulted in increased involvement and empowerment in the whole organization. The continuous forecasting processes have led to employees experiencing increased cooperation, interaction, involvement, and a more consistent flow of information throughout the organization. Besides, increased decentralization has led to better bottom-up information and knowledge sharing, which is important for the development of the organization:

“After a long life as a leader you see that it is often more potential among people than we as leaders are able to get out. In a way, you have to give people the opportunity. I am absolutely convinced that there are some who have not been entirely given the possibility.” (CEO, participant BR 2013)

“Yes, you get a greater openness in regards of communication, and when the leaders gets better in how to involve, ask the right questions etc. then you get many exiting suggestions into... up and forward. That allows those who may not said anything before, comes with suggestions they have been holding in for many years.”

(Coach HR)

According to these statements, greater openness and a decentralized organization, encourages value creation through increased involvement. It is important that the top management, as well as managers in the rest of the organization, is involved and asks the right questions, to help extract information and knowledge. Moreover, that has led to an increased up-and-forward flow of knowledge and information from lower levels. Involvement and autonomy is perceived as motivating and empower employees in the organization. All in all, it can increase both the quality of the forecasting information and overall performance.

Furthermore, through more communication and distribution of information, employees experience a better business understanding that simplify the decision-making process. The CEO of insurance express how interaction and cultural change is perceived in the unit:

“The organization itself is very comfortable with this, because they feel that they are now allowed to do it "the new way". They are allowed to bring improvements, and they are allowed to try things, [through trial and error]: "so this was not the right way. Is there another way? " You are right. It is a cultural change going on.“

(Respondent 3, First Glance 2013)

As the CEO of insurance stresses, there has been a cultural change in the organization. This change is closely linked to the forecasting process, and it has helped FiGo increasingly becoming more forward-looking and action-oriented. Moreover, it has been discussed as the cause of improved operational processes, and led to improved business understanding and firmness that strikes back on forecasts and cost measures.

The top management, and FiGo itself, has a desire to change employees' mindset and enhance their understanding of how actions affect the company's performance. The overall understanding of the purpose and benefit of rolling forecasts, and the awareness of how the

numbers are incorporated into the forecasts, is value adding and increases the reliability of the forecasting information. As mentioned earlier, the top management has a major focus on forecasted key drivers and how gaps can be closed in the forecasting meetings, thus having reliable forecast is essential. In regard of this, it is important to establish a culture and understanding for “brutally honest” forecasts. This is followed up in the discussions at top management meetings, and respondents have also implied that the finance functions have repeated many times the need for “brutally honest” forecasts. This focus from top management have led to employees becoming more conscious and making more reflections of why they are using rolling forecast, which indicates decreased confusion about the separation between forecasts and targets over time.

Even though the introduction of rolling forecasts and “Dynamic Management” has lead to a cultural change in the organization, it is a continuous process that takes time. This is supported by the HR coach, which has closely observed interactions within different business units:

“Still you have... old culture where people are careful about making decisions without having received approval. And I think we have still a way to go there... but somewhat better I think. A little better, but not much... That’s because we come from a culture of control, and if we are going to open that, that takes more than a night. It takes a long time...” (Coach HR)

This statement underlines the importance of continuous improvement in communication and involvement. Top management must ensure that empowerment, involvement, and interaction are credible implemented through all levels in the organization to emphasize the importance of being able to easily make fast, accurate decisions to adapt a changing environment.

5.2.2 Changing the Forecasting Process

As mentioned in the empirics, the forecasting process has been evaluated in the aftermath of its implementation. Top management’s motivation for the evaluation was from a desire to standardize the forecasting process, due to differences in the use of rolling forecasts. This was also demanded from the business units:

“Some of them said: We [Business units] need more than just you [the top management] telling us that we should present forecast, ambition, goals, gaps, and what to do to close the gaps. We need a bit more. We need some templates to be used.” (Respondent 1)

The Head of Forecasts express further reasons for the evaluation process from a top management perspective. First of all, the First Glance meetings didn't use the forecasts information ideally. Instead of being connected to ambitions, the forecast stands by itself and is assessed against forecast. Secondly, it was unclear to the finance group how forecasts were used in the business units, and to understand what benefits units got from the forecasts. Lastly, they wanted to make the forecast more forward looking. The use of rolling forecasts and the forecasting process had not been very accurate, but they saw how rolling forecasts had been an important instrument in building better business understanding within the organization.

“I think, we are driving the process to see, how this can be done better for the group as a whole and very much looking into the insurance companies. And they are still very much monitoring and developing their process within sort of their... insurance, but obviously eager to share the experience with the rest of the companies and the CFOs. We [top management group] have to try to standardize this process, trying to develop some templates that... now it is stated in the policy that it shall be used by all companies.” (Respondent 1)

As this indicates, the evaluation process led to standardized templates based on best practice of the insurance unit, and the forecasting policy mentioned in the empirical section. The policy was introduced in 2013, and the top management has an ambition that it should be practiced by the whole organization. There are still some uncertainties in the use of rolling forecasts and the standardized templates, because the business units are very diverse; hence the top management has opened up for some degree of local variation:

“Now it is stated in the policy that it shall be used by all companies. (...) [But] even though we are trying to standardize, we have opened up for obviously some kind of individual adjustments and adaptations.” (Respondent 1)

The change in the forecasting process, that the top management is trying to get through standardization, seems to be challenging in terms of the diversity in the organization. Moreover, this may create difficulties for the top management, and their use of the forecasting information from the units due to variation in format and quality.

5.2.3 Changing the Business Review Meetings

Changing the forecasting process through standardization of templates and the “best practice” policy, additionally led to changes in the format and content of the Business Review meetings. The initiative came from both the group and managers in the different business units, who wanted a standard model of how to present the forecasting information. This change has led to a better common business understanding in the Business Reviews and what to focus on, compared to the heterogeneity the meetings was built on before:

“There was a whole discussion going about standardizing the Business Reviews because there should be like three main parameters that the presentation should be built on; the goals, the actions and deviations. (...) The companies did not quite follow that standard [before], so their presentations were quite different.”

(Respondent 7)

In 2014 the format and content of the Business Review (BR) meetings changed once more. This new meeting includes managers both from the business units and the alliance cooperation unit, or the “back-office” function. Heads from the alliance cooperation unit is incorporated in the new top management group of FiGo. There is a separation between Business Reviews meeting for the finance group, consolidated subsidiaries; and Business Review in the new top management that includes both finance and the coordination unit. The content in this new Business Review has changed from focusing on P&L⁶, to an increased focus on drivers and KPIs, with even more follow-up on overall targets, objectives, and KPI’s for reaching those targets. The purpose is to gain insight in the problems that prevents

⁶ Profit & Loss

target achievements, prioritize which problems to solve first, and define actions to correct problems:

“The BR meetings from previous years were mainly focused on the daughter companies. In regards of a new top management group, there have been a process of changing the BR meeting, where they want to incorporate both people from daughter companies and the [alliance cooperation unit] which is heading business development, IT-operations, marketing and risk management. (...) 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”
(Respondent 1, mail correspondence/BR 2014).

Both types of the meeting are still called Business Review, but the content and the format are quite different. The Business Reviews between the finance group and the business units that focus more on the forecasts are still running, but on a local level:

“We do not have another BR meeting in [the new top management group]. The forecasts are used in the business areas and their "local BRs". The forecasts are presented for [top management] in the [First glance]. In addition, the forecasts are presented for the Board of Directors, either as a part of our monthly reports, or in a "stand alone" report. (...) The CFOs in the Group meet monthly and topics vary, including discussions about the use of forecasts, processes, tools etc. To a lesser extent we discuss KPIs, P&L, results, and the forecasts itself.”
(Respondent 1, mail correspondence)

As this implies, focusing on forecasts and targets are still very important at the top management, even though there has been a longitudinal change in the content of the Business Reviews. They are more focused on the “back-office” support, and the service delivery. Analyzing and observing the business review meetings, we see that there has also been a change in which business units the top management has their major attention on. In the new business review meeting they focus mainly on the insurance unit. Last year there were more participants from other business units, presenting their forecasted figures. The First Glance meetings experience the same trend. This may indicate that there is a gap

between what the top management declares that the outcome of the meetings should be, and what it actually is. It may be questioned whether it is the top management that has this priority, or whether there are managers from the units that do not see the importance of the meetings.

5.2.4 Adaption to Environmental Changes and Demands

In the new Business Review meeting, the top management attempts to point out and focus on difficulties that restrain them from achieving targets, by looking at underlying drivers that is not directly connected to forecasts. Adaption to technological developments and operational processes are highlighted. Potentials in increased revenues through digitalization processes, product variety, and cross-sales activities, which imply to close gaps between forecasts and targets, are discussed and emphasized in this new layout. Moreover, relative performance through benchmarking the different banks in the alliance is used to detect trends of improvement and fallbacks, as well as a relative measure of performance in line with Beyond Budgeting principles.

Customer Satisfaction & Technological Development

Customer satisfaction is strongly embedded in FiGo's vision, but lately they have experienced a significant decline in the private market, and partly in the corporate market. Customer satisfaction, which is one of the main KPIs, got strong attention in the last Business Review meeting. To increase revenue and close gaps through satisfied customers, top management stresses to realize a channel strategy that reflects customer expectation and availability, to build trust and commitment. This could in turn lead to increase cross selling of products and overall sales. FiGo has a strong focus on adapting to the fast changing environment, especially in regards to the technology developments, where customers increasingly expect digital solutions:

“We have lot of projects on digitalization with solutions, mobile solutions for buying. Or to reduce costs like automation for example.”

(Member of management team, Insurance)

As this implies, FiGo works hard to adapt to customer demands by introducing a high level of digitalization and simple solutions for their customers, which additionally can lead to better customer satisfaction and reach of target. Furthermore, an increased focus on developing new products that are more self-service oriented could also reduce costs over time. Solutions such as e-signings of loans and automated online-health evaluations, contribute to decreased need for employees that performed these services manually. This, together with constant operational efficiency, will reduce costs and help closing gaps between costs forecasts and targets.

For the top management it is important to understand the main drivers and assumptions behind increased or decreased figures. This was observed in this year Business Review as well, which gives a clear example on the top management desire to get better business understanding:

“What causes that? What are the main drivers?” (Respondent 2) “It is due... due to new sales solutions on digital surfaces, exclusively.” (Participant from Market)

Furthermore, the top management discusses increased sales volume of saving agreements from last year, which is also explained by improved information on digital solutions. It is easier for customers to be self-serviced and do more advanced operations themselves. Customers do not need or demand the same degree of interaction with advisors anymore, which has to be taken into account when developing new and simpler products:

“So there is more information out to the customer on digital surfaces. (...) So it is worth notice that again we get proof of that when we go out with good Internet solutions, the customer say “I’m capable to buy this without going through a advisor” right, and it is one of those...yes...it is a recognition that...that the banks must take into account, to speak.” (Respondent 3)

FiGo has experienced good performance in regards to digitalization. Even though there are positive figures, there is still a way to go, which makes it important for FiGo to have a dynamic management tool such as rolling forecasts, to deal with rapidly changing markets and technology. The potential is also presented in the Business Review meeting by the Head of Markets in the new top management:

“(...) Even though it is moving in a positive direction, [it] still remains relatively low share of sales that occur on digital platforms (...). But also a lot is done here. There is now a test of insurance solutions coming out and we see maybe more of the simple things on mobile surfaces.” (Head of Markets, BR 2014)

This implies continuous processes in regards of new and improved technological development and digitalization solution in the whole alliance. FiGo benchmark themselves against their most important competitors, to make sure they keep up with technology developments, digital solutions, and future plans. These processes help FiGo quickly adapt to environmental changes and making better forecasts, as well as closing gaps.

5.3 Challenges linked to Rolling Forecasts

5.3.1 Different use of Forecasting Information

As mentioned, FiGo has implemented standardized templates on how to conduct and present rolling forecasts. Nonetheless, there are significant variations in forecasting practices between the business units, due to high degree of decentralized and autonomous subsidiaries. There are both different forecasting practices and degree of implementation. This has led to some tension between top management and the business units about how the forecast should be conducted. On the one hand top management have an idea on how the forecasts should be done, but on the other hand there are no strict, detailed policies:

“Also we haven’t had very strict company policies, that “you shall do this...” or... “You shall not do it this way.” They all have to be part of the forecasting process, but we haven’t said exactly how they should do it in their companies. Except in our... where, say... [CFO of the Group] for instances is going around and talking about how we do it, how it should be done... But it takes some time to change... change people. And to get used to not having the budgets there.” (Respondent 4)

This seems to create a challenge when forecasts are consolidated and numbers are reported to the next level. Some business units, like the insurance unit, uses their forecasts as an important input in decision-making and to drive performance, while other business units uses

forecasts only as a reporting tool. The maturity of the business unit is explained as a reason for the differences:

“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 4)

Furthermore, some parts of the alliance, such as the alliance cooperation unit, still use budget as a management control tool, and they do not understand how the Beyond Budgeting mindset and the use of rolling forecast can increase adaption and interaction throughout their unit. Moreover, there is a perception that the forecasting process isn’t customized to fit the various business units:

“Managers in some subsidiaries perceive the forecasting process as a reporting [tool] because the process is not adapted to their business, and thus give little value” (Respondent 7)

As this implies, there are different understanding of the purpose and benefits of rolling forecasts, which explains why the business units have different approaches. In addition, there are differences within the business units as well, both in regards of the mindsets and the perceptions towards forecasting as a tool. On lower levels, the forecasting process is to a higher degree perceived as a reporting tool compared to managers on higher levels:

“(…) If you go further down the organization, then the management level in insurance company, they would probably say that this is a reporting to the next level.” (Respondent 1)

This implies that there are some challenges regarding how the forecasts are prepared, since forecasting is bottom-up process that involves many employees at all levels. Managers have to communicate the benefits of the dynamic business model, which is strongly built on a common business understanding and involvement.

Additionally, the degree of alignment between group and business units varies significantly in regards of localization. Some are close geographically, while others are not. Control and interaction are not as prominent when there is a physical distance between the corporate level and different business units. One from the top management confesses that they tend to

have a weaker focus on these units in regards of operations and management style. The Head of Controlling, has putted it bluntly as:

“Out of sight, out of mind” (Respondent 5)

This is also emphasized in earlier statements, where the insurance unit tends to be used as a blueprint for the forecasting process, both because of their maturity and physical closeness. This creates a challenge when the new management model is used throughout the alliance. The top management group has difficulties observing how the business units use standardized templates when conducting their forecasts, due to the localization challenges. On the other hand, the business units that are not localized close to the top management might also have difficulties understanding the value of using rolling forecasts. In the statement below, the CFO of the mutual fund express his view of rolling forecasts:

“If I should change that prognosis four times a year, I would be confused. So, I need to have a cost budget which is realistic and where we can focus on ending the year on the cost-side as we planned for. Then, budgeting our income is like budgeting the world economy. [...] Meaningless. It is complete nonsense. [...] If anything can be realistic, this [long average of the stock market] is more realistic because that is a kind of average over a very long run. And to say anything about how it will be next year, you know, that is just bullshit.” (CFO, mutual fund)

As this denotes, the mutual fund only makes quarterly forecasts as a reporting tool to the top management. It is difficult for the mutual fund to make “brutally honest” forecasts, and use the standardized templates because of high market volatility e.g. incomes are highly volatile due to market conditions. This points out some of the tension between the units and top management, and the challenges regarding having such differentiated units and not customized forecasting processes. Top management need to find a way to communicate their vision of dynamic management model and rolling forecasts, thus getting the whole organization on the same path - regardless of variation and localization.

5.3.2 New Tool, Old Mindset

FiGo’s “Dynamic Management” focuses on increased interaction and being more adapting through decentralization and having a high flow of information throughout the organization.

Even though the dynamic management model is well implemented and the mindset are focused on rolling forecasts and relative performance measurements, the old management model is still present in the mindsets. This creates further challenges that affect how well forecasts are used and incorporated into the management model. Different respondents stress this challenge:

“We also saw that (...) that the mind-set both of some of the CFOs, but also the CEOs, were [and still are] very much in the old budget-world (...) They are sort of in 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)

“You will not be exposed to the budgets, but you might hear... you will hear about it [the budget mind set]” (Respondent 5)

As this implies there are still problems with people in FiGo having an old budget mindset. The CFO in the top management, respondent 1, experiences that having managers with an old mindset affects the business units negatively in terms of communication and the use of forecasts. This especially accounts for managers at different levels that want to exercise management the way they are used to in the old command-and control structure. This top-down affect can decrease the quality of the bottom-up forecasts that are eventually sent to the top management. Respondent 5 also points out the budget mindset. Rolling forecasts and “Dynamic Management” was implemented in 2008, but even though no one uses budgets in FiGo, it takes time to adapt the mindset towards a more dynamic approach. In addition to having different managers with budget mindset, there are distinct differences between the business units in regards of budget thinking. The business units that don’t fully use forecasts and “best practice” as top management desire, are mostly the business units that still got budget thinking, as stressed by the Head of Forecasts:

“For example the insurance companies is, you know, very good, whereas some other companies because of some leaders perhaps that... you know, still hold on to the budget, hasn’t come very far.” (Respondent 4)

As this implies, the business units that still hold on to the old mindset, have not come very far in implementing and using rolling forecasts as intended. These units do not necessarily understand the value of using this tool, as discussed before, which again can compromise top management discussions and business understanding in the forecasting meetings.

Moreover, traces of budget mindset create a challenge in regards of making unison forecasts, which are delivered and consolidated at the corporate level. However, FiGo's top management has a persistent project of trying to unite the whole group and alliance cooperation unit to use the dynamic management model and rolling forecast. This has proven to be challenging, as management in different business units are skeptical and do not understand the value of the new model and tools. This also applies to the Board of Directors, who also needs to be convinced:

"...They are very much budget-minded and have not really bought into the whole philosophy of Beyond Budgeting and abandoning budget." (Respondent 1)

Furthermore, discussions among top management in the Business Review meetings have revealed how they strive to exclude the budget mindset. Discussions tend to focus too much on details, rather than what is going on in the business, in terms of important key drivers and actions to close potential gaps, as stressed by the CEO of the group:

"But I do not really feel like we should sit and discuss balance items in the Business Review." (Respondent 2)

This challenge seems to be present in several meetings, where they tend to start discussions about figures and details that are not relevant for the purpose of the meeting, or the forecast itself. The intension of the meetings e.g. discussing gaps and what actions to take, can be reduced and the outcome of the meetings can be less valuable.

It is hard to change the mindset in an organization that has been using traditional management models for many years. This implies that communication and conscious actions related to the forecasting process are important, and a continuous and longitudinal work. The CFO of the group points this out:

“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)

To be able to implement dynamic management at all levels, it is important that the top management understand that what they do affects the rest of the organization. Moreover, that could have a positive top-down effect on communication, use of forecasts, and increased business understanding in the whole organization.

5.3.3 Rolling Forecasts as a Decision-making Tool

FiGo’s ideal use of rolling forecasts is that it should be an important factor in business management, and have a consistently use of “best practice”, implemented through continued dynamic performance management. Rolling forecasts are meant to be an important tool for decision-making, as illustrated in figure 6 described earlier in this chapter. The challenge, is as mentioned, that the use of rolling forecasts varies in the organization. The insurance unit uses this management tool nearly completely, while the other units are more fragmented and looks more at forecasts as a reporting tool to the top management level. Using it as a reporting tool could diminish the purposes of forecasting meetings such as Business Review, which is an important arena for discussing the forecasts and actions. Additionally, there isn’t always time to have internal processes ahead of the meeting due to lack of time, which can reduce the quality and outcome:

“The challenge up to the Business Review meeting is that... 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 affects the quality and the outcome.” (Respondent 1)

This implies that the outcome of the Business Review, such as decision-making and reflections regarding what actions to take to close gaps; and the overall business understanding on how the organization is doing, can be reduced. Nonetheless, if that isn’t the case, the meeting could be an important arena for discussing the forecasting information and making decisions:

“But a part of being a leader is making decisions. And an important message from me is to be fast enough, because when something goes wrong, you must correct it

early enough. I think I could repeat myself on that... It is an important exercise for a leader to constantly think about what it is I can adjust. And to always be aware, really. Both to consider the strategic picture, but also be sufficiently down in the mud and the figures to see how it actually goes.” (Respondent 2, Business Review 2013)

As respondent 2 expresses, decision-making is an important aspect of being a top manager. It is important to be able to make quick decisions in a highly uncertain and rapidly changing environment. Theory on rolling forecast emphasize the importance of understanding the difference between forecast and target, and that forecast should not be compared to actuals. However, internal discussions in FiGo indicate that not everyone always understand this difference, even though there has been a reduction in this confusion, as mentioned earlier. This implies a challenge in regards of using forecasts as a decision-making and action-oriented tool.

5.3.4 Forecasting Challenges

“Brutally Honest”

The use of rolling forecast increase the quality of the forecast compared to budgets. As discussed in the literature review, forecasts are supposed to be realistic and “brutally honest”, while targets should reflect what you want to achieve. FiGo’s forecasts are not connected to resource allocation, performance evaluation, and target setting as in line with theory. As a result, it is easier to create “brutally honest” and unbiased forecasts, in addition to reduced gaming behavior. According to the statement below, forecasts discussed at the Business Review meetings are unbiased:

” 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. So there is a big difference there, compared to how the budget was previously. Because there you... you know... you knew that you should meet the budget at year-end. And when gave your forecast then, you had to present something that made it look like you are going to meet the budget at year-end. So that was biased.” (Respondent 4)

On the other side, it might be challenging conducting “brutally honest” forecasts, due to influences of historical trends, actual numbers, and wanting to close gaps between targets. Observations from the meetings in the top management group shows that forecasted variables are discussed and questioned in order to reveal credible assumptions, to make sure managers have a realistic view of the future, thus unbiased forecasts:

“We believe that in this. It is ‘brutally honest’. We think, that if we were to set a target, it would of course have been over, at least not under. (...) In my view, this system should have had greater ambitions for distribution than what we visualize in this forecast, because this is ‘brutally honest’. This is what we believe we can achieve.” (Respondent 3, Business Review 2013)

This implies that there is an understanding of the difference between forecasts and ambitious targets, where forecasts are understood to be realistic hence they shouldn’t reflect ambitions. Furthermore, observations show that there are variation in responses about having unbiased forecast. Not all forecasts appear to be “brutally honest”, which is noticed and questioned in the meetings. The statement below expresses the response when a forecast of corporate costs appear to be based on experience rather than realistic assumptions:

“Seriously. The prognosis should be brutally honest. Do we or do we not have any plans? This cannot begin to resemble a budget process.”
(Respondent 3 First Glance 2013)

These reflections and discussions, illustrates that making “brutally honest” forecasts might be difficult, but the top management stresses that the forecasting processes shouldn’t be a budget process. However, rolling forecasts as a dynamic management tool is, in a longitudinal perspective, highly valuable for FiGo, even though it is difficult to make accurate and realistic forecasts. As the CFO expresses:

“Perhaps we are not being very accurate, which we have been challenged quite a few times by the Board of Directors. But after all, this instrument [rolling forecasts] has built a better business understanding within the organization has a value in itself. (...) We think, it has a value whether you sort of are accurate or not with your forecast. (...) Having managers sit down four times a year and ask: “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)

As highlighted by the CFO, the forecasting meetings in the top management are valuable for the organizations when they ask themselves, at an increased rate, where they are headed and what they are going to do in terms of actions and activities. Furthermore, even though there seems to be variation in terms of forecasting accuracy and “brutally honest” forecasts, FiGo experience improvement. As mentioned earlier, the forecasting accuracy are analyzed, which shows an overall improvement of forecasting precision, and it also detects which units that typically over- or underestimates their forecasts:

“... Some companies are getting better and better, 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.” (Respondent 4)

This indicates that forecasts have improved as a result of experience and learning, which can be seen in the context of better business understanding and enhanced mindset. Besides, it implies the importance of continuous communication of forecasting accuracy from managers at all levels, to enhance the use of rolling forecasts and the overall “Dynamic Management” model.

Financial & Non-Financial Figures

FiGo’s rolling forecasts are as mentioned focused on financial indicators and key drivers, e.g. combined and loss ratios, which are important figures on corporate level. Non-financial indicators such as customer satisfaction, which also is an important KPI, is challenging to translate and be tangible enough to be used efficiently further down in the organization. As illustrated by the CFO of the group:

“If you look at the insurance company, the key figure there is the “combined ratio” which is always a finance figure. But also “market growth” within important segments, and also “customer satisfaction” is, but the problem is that the forecast is very much on the financial side. We sort of don’t do forecast on customers

satisfaction or other important drivers further down the organization.”

(Respondent 1)

As this implies, these top-down forecasted financial drivers and main KPIs are challenging to break down and communicate to lower operational levels. Lower levels in the business units might not see the effect of their actions on the overall business performance, since these drivers and KPIs aren't adjusted to their level. This difficulty is noted by the CFO of the group:

“Because we see that further down in the organization, they need help to develop good KPIs, they have to... they have to have...help to sort of translate the output or the forecast in a way that makes the forecast useful also for them. (...) How do we sort of get this process running in a good manner that also helps the middle managers and lower managers see the forecast and the process as a good process, meaningful for process that adds value.” (Respondent 1)

After changing the content of the Business Review meeting, top management have a higher attention on non-financial indicators that are important to their business performance. As mentioned by the CFO of the group: forecasting customer satisfaction is a challenging procedure. FiGo therefore use a general measurement tool of customer satisfaction to both benchmark the different banks internally, and the whole organization externally against competitors. To manage to close the gaps between forecasted customer satisfaction figures and target levels, FiGo is dependent on all the various banks and business units in the alliance.

5.3.5 Uncertainty of Forecasting Information

Forecasted Figures

Uncertainty of information is always an issue when doing forecasting, or dynamic planning. There are uncertainties in terms of market expectations and volatility, and some financial figures are more difficult to forecast than others. For instance Head of Forecasts claims that cost figures are easier to forecasts than sales figures:

“They are good at costs. Their costs are very accurate. But when it comes to financial results, it's more: “your guess is as good as mine.”” (Respondent 4)

At the top management meetings, such as First Glance, sales and the associated uncertainty are discussed. One of the reasons why sales forecasts are highly uncertain is FiGo's distribution system, or in other words: the banks in the alliance that are selling the products. In comparison to cost forecasts that are to a larger extent dependent on less uncertain figures, such as product development strategy, operational process improvements, and FTEs. CEO of insurance explains some of the challenges about the distribution system linked to sales forecasts:

“It is simply because that here [in insurance] we sit and pull so many of the levers ourselves, except the weather levers and the greater damage levers, but on population trends, we are so dependent on the distribution system, and we cannot get the growth in the numbers, which we believe we should have, so far.” (Respondent 3)

Moreover, through observations the top management meetings are criticized of having insufficient focus on sales. This might be because of the uncertainty linked to sales forecasting, or the history of major cost focus and cost reduction projects. To make more accurate forecast, it is important to have a large focus on sales, to raise awareness around these numbers and discuss how to increase them.

Growth

One of the most crucial challenges on the sales side is growth figures and assumptions, which is closely linked to the key figures: market share and cross sales. Growth is a highly uncertain factor, which is also deeply dependent on the distribution system, and perceived to be the most difficult element to forecast. Through discussions at the top management meetings about the growth factor, the benefits of closing gaps between growth targets and forecasts are highly stressed, and alleged to have high potential value:

“We see that the underlying business is so good that we are going higher. And this is not particularly expansive in terms of growth. So that's what also...the product profitability on the insurance side is also now under control. So if we just could manage to increase growth, you know... Then we would benefit properly (...). If we don't manage to increase growth over the next few years, we will begin to struggle on the cost side. Because there is not much to do either... to lower the costs around...” (Respondent 3 First Glance 2014)

The challenge regarding growth is that FiGo doesn't sit with all the levers as they do more or less with costs. It is important to have realistic underlying assumptions, and adequate tools to manage to increase growth. FiGo is dependent, as mentioned, on the distribution system in terms of sales figures. To be able to get increased growth, it is important to cooperate with the banks and try to reduce some of the uncertainty, to gain market shares and increase cross sales.

League Tables & Benchmarking

Some of the forecasted financial drivers are used in league tables as measures of FiGo's relative performance against competitors. A challenge discussed in top management meetings in regards of this, is finding relevant competitors to benchmark against. FiGo is a highly diversified company, thus finding the most relevant companies to benchmark against are proven to be challenging.

“Then we had a discussion the last time about the league [table] for the Group, and this time the main focus the league for the [whole] alliance. What we have been looking at: if it is possible to find bank-alliances or bank groups that are more comparable with FiGo banks.” (Respondent 3, Business Review 2014)

As this implies, there is difficulties in regards of which competitors to include, and how many. In absence of anything better, the league tables consist of competitors that fit fairly well to more or less satisfy overall requirements. This could indicate a potential tension, and be less valuable than a more fitted league table. Besides, on lower level in FiGo, it is even more difficult benchmarking by using league tables, since it only works for broader product categories:

“Because at the company level we have these league tables and KPIs where we can benchmark and set relative targets. But the further down the organization you come, it is difficult to find benchmark[s], to start with.” (Respondent 1)

This denotes some of the challenges between top management level and the business units, and the importance of translating overall KPIs and targets to be understandable in lower levels of the organization. This is important for the top management in regards of getting better business understanding in the whole organization thus getting better forecasts, and the top management can make better use of the forecasting information as well.

Sensitivity Analysis & Scenario Planning

There haven't been much attention on sensitivity analysis and scenario planning in FiGo. The Board of Directors called for consistency in the forecasting assumptions at the meeting last year, and that the top management and the business units should include and conduct sensitivity analysis. The uncertainties in the forecasting process make it highly relevant to conduct sensitivity analysis, which is also addressed at this year's First Glance meeting:

“When we talk to the board, we need to include some sensitivities as well, okay? We make some sensitivities (...) it is very appropriate now. It is volatile out there, and it is important to focus on... what can go wrong and what are the consequences?”
(Respondent 2 First Glance 2014)

When there is growth and positive trends in the underlying assumptions of the forecasts, managers tend to look on the upsides of possible scenarios, more than downsides. It is important to look at different scenarios when forecasting uncertain drivers, and make sensitivity analysis to better understand the effect of e.g. increased interests rates and a volatile stock market. As the quote above implies, the top management have started to understand the importance of more in-depth analysis of risk factors and uncertain forecasting figures, even though it is to a limited extent.

Time-dimension and use of Forecasting Information

The adopted time dimension is fixed at quarterly forecasts with twelve months rolling horizon, which suits some business units, but not all. The time horizon might be challenging depending on the type of business, due to differences in market conditions and how they are affected by environmental changes. The Head of Forecasts exemplifies the demand for various time dimension of the forecasting process in each business unit:

“So, their forecasting horizon is maybe too short or maybe too long, depending on how you will get it, because... So that's something we haven't done yet. We have a fixed forecasting horizon, but for instance, for [one unit] 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; like 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 4)

The statement above implies that some business units might perceive the forecasting process as too fixed and does not suit their business, thus contributes to little value. Some business units need to make forecasts each month, which makes the quarterly reported forecasts to the top management quickly outdated. In contrast, other business units have a demand for longer forecasting horizons. The fact that the business units are required to adapt to fixed time horizons, which creates invaluable forecasting information due to outdated forecasts, creates a tension between the units and the top management. The business units might want to use rolling forecasts, and understand the value of having better-customized processes, but are required to follow the policy made by the top management. On the other hand, top management want the whole organization to use the “best practice” of rolling forecasts and are perhaps somewhat blinded by how they want it to be used, rather than using it the best possible way.

Another top management discussion related to the time-dimension, is that they experience challenges getting the right data at the right time, which can decrease the output of the forecasting meetings, as well as the reliability of the forecasting information. This causes frustration, as stressed by the CEO of insurance, getting financial input to the league tables too late:

“We don’t have updated figures, yet. My response back to [the external provider] was that if they cannot be faster than this, they have no value” (Respondent 3, Business Review 2013)

This implies that the top management, in some cases, bases their discussions on forecasts and figures that they know already are outdated, which limit the discussions and the outcome of the forecasting meetings in top management.

5.3.6 Conflict behind Purpose of Meetings and Forecasts

Purpose of Meetings

At group level and at top management meetings, the forecasts are as mentioned used for presenting and discussing what direction they are headed, and getting a better understanding of underlying assumptions and challenges. At First Glance, the consolidated forecast, is as

mentioned, compared with the previous forecast, and the purpose of this is expressed by the Head of forecasts in Group:

"We also in our presentations try to have focus on their rolling twelve months. (...) We try to comment the new twelve months compared to the previous twelve-month-forecast. And try to see if there is a change in the forecast, why, if it's higher/lower than the previous, try to explain the reasons for that; and that should be good thing to support the discussions in their Business Reviews that follow the forecasting process." (Respondent 4)

The way top management uses the forecast in First Glance; comparing forecasts with forecasts, contradicts what they want forecasts to be compared against, which is namely targets. This doesn't align with Beyond Budgeting principles of being forward-looking:

"On First Glance, you report, you write a long memo on how the forecast looks. And then you compare it to the last forecast. And I am thinking; "Why do we do that?" The forecast is supposed to be connected to the goals, not to the last forecast. So... (...) Why do we use the forecast like this, why is it? Is it because we don't know how to use it, that we use it against the last forecast? I don't think this is the use in the life and non-life-insurance company. I think they have managed to use this more in the right way than Group Finance does." (Respondent 5)

As this implies, there are some confusion in the top management if the forecasts and meetings are used in the right way, and this could also be linked to the fact that some top managers doesn't understand the separation between forecasts and targets. Such confusion can lead to reduced quality of the forecasts and a biased understanding of the business performance. The top management challenges each other on forecasted figures to make sure they are not actually targets:

"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 but I see that it tends to be a discussion where we sort of end up with: Ok, that is where the forecast becomes the goal and ambition. (...) CEO of [the mutual fund] was like:

“Okay, that would be my goal or target for the costs...” and we were: “No, no, this is the forecast. The goal setting ambition... That is something quite... this [forecasts] is just telling you where the organization think you are heading, giving what they know today and about... what you have planned to do.” (Respondent 1)

As this indicates, the top management tends to dig into details in the meetings, which leads to the forecasts becoming ambitions, instead of being a projection of where they think they are headed. This is a challenge that are questioned in the top management, and where especially the CEO tends to make sure that managers from the business units understand the difference:

“Is it a target, or is it a forecast? We say that we should have...operated by measure. And I did not see the targets very evident in what was here. It was forecasts, and if targets and forecasts are not consistent... It could not possibly have been for all the areas you showed.” (Respondent 2, Business Review 2013)

The CEO and the rest of the top management want to avoid that forecasts sometimes are wrongly interpret as “targets”, while the real targets are defined ambitions. This can be perceived as a contradiction, since the understanding of the separation is questioned in the top management meetings, there isn’t only misinterpretations further down in the organization but also at the top. This could have a negative affect on the rest of the organization and the overall business understanding.

Furthermore, it is also perceived that the Business Review meeting isn’t conducted the way it is intended to:

”And then, perhaps two weeks later there is a business review that is supposed to be more active than the first glance. At least that’s the idea of it. It’s a still a bit difficult, it’s not... we are not there yet, so... Today it’s maybe at least in the [top management group], it’s more... maybe more reporting than discussion... That’s not the idea of the Business Review. It should be... you know, “Why has this changed and what can we do about it?” And when you find out what you can do about it, then... we don’t do anything, we don’t adjust our forecast, because that’s the forecast we had to, you

know, support this discussion. So in the next forecast process we can take in the effect, so whatever they decide.” (Respondent 4)

This implies an important challenge amongst top management, which has a negative affect on the rest of the organization. Using rolling forecasts as a reporting tool, as the Head of Forecasts stresses, is a bad example for the rest of the organization. It is important that the top management group set a good example on how to use rolling forecasts, and follow the “best practice” and standardized templates they want the business units to follow.

Purpose of Forecasting

One of the largest problems in FiGo seems to be a conflict of interest related to rolling forecasts. The financial divisions and the top management are very interested in forecasted financial drivers, such as combined ratio, growth, and customers satisfaction. On the other side, the business units are more interested in operational drivers and KPIs. The top management experiences difficulties translating the financial drivers to operational drivers, and connect the whole process chain:

“I think, there is a line somewhere in the organization where... where the process from the top management and the lower level is sort of de-coupled. (...) [The top management want a] process that is well connected from the very bottom; the KPIs, and the meetings that is on the lowest level where they run through the KPIs, and [link it to] the forecast process; which is very much finance orientated. (...) How do we get sort of... get this process running in a good manner that also helps... the middle managers and lower managers see the forecasts and the process as a good process, meaningful process that adds value“ (Respondent 1)

As this implies, the top management desires a well-connected process that is meaningful and adds value to the whole organization. However, they see a decoupling that comes from the lack of translation top-down financial drivers into operational drivers that suit lower levels of the organization. Various respondents criticized this weakness of the forecasting process. In addition, the implementation manager of lean processes also addresses the need of a business controller.

“But the problem is that we help the leaders to develop their KPIs, and to follow up the KPIs, and we help them see how it affects the main targets for the company. But

the problem is that they need something there, closer to them in their everyday life to help them understand that: “if my KPIs are in this direction, how does that effect the figures?” And “if I get a different target” or “if I need to deliver on some figure” – “What do I have to do with my KPIs? Which KPIs do I need to have? What do I have to look for? And what level should they be?” This whole translation of the KPIs to the key figures, or the figures in large... There is no one there to help them do that.”
(Respondent 8)

The lean processes at operational levels helps managers understand and develop good KPIs, and a controller could help the business units understand the direct effect of what they are doing, in regards to business performance and value creation. Additionally, uniting the financial and operational levels will link the different needs and purposes, translate the forecasts into figures, and the figures into business or processes. Overall KPIs and targets are somewhat scaled down, but the process does not seem to be carried out to the lowest level in the organization:

“[Managers] have come quite a far way in.... scaling down the overall goals from the companies further down. But it is... it sort of stops at some level. And I think, when you come beyond that level, the managers don’t relate that much to the... uh... forecast as a management tool, as they do further up in the organization. And that is where we are...both [Head of Controlling, Group] and myself, have an ambition that we should try to get the company controllers closer to the... to the business managers and help them... [Understand that forecasts are] more than being a reporting tool.”
(Respondent 1)

As mentioned, the overall goals tend not to be translated throughout the organization, and seem to stop at some level in the business units. This can be seen in relation to the dynamic management model and rolling forecasts being less deeply rooted further down in the organization, and the forecasts being used as a reporting tool. It is extremely important that the business units understand what drives performance, both for increasing the performance and getting a better business understanding. If the business units doesn’t know what drives the figures behind the forecasts and targets, it would be difficult for top management to follow up, understand and make reflections on how the organization is doing, and what

actions to take in the meetings. Moreover, if the daily activities on operational levels aren't reflected in the quarterly forecasts discussed in the top management meetings, the value of the forecasting discussions and reflections can decrease as well as the business understanding.

6. Conclusion

This study reports on a large financial organization's use of rolling forecasts in a Beyond Budgeting environment. We have examined how rolling forecasts influence interaction in the top management, which contributes to an understanding of how a dynamic management control system is adopted. The purpose of this chapter is to present the conclusion on the following problem statement of this study:

How does the use of rolling forecasts enable interaction on top management level?

The chapter includes a summary of the main findings based on the research questions and the overall problem statement.

6.1 Main Findings

6.1.1 Research Question 1

How does top management make use of forecasting information?

The study finds that the forecasting process is a bottom-up process, where the forecasts from the different business units are consolidated at group level. Top management make use of the forecasting information at forecasting meetings, which are important platforms to inform, exchange, and discuss the business with CEOs from the various business units. The discussions and reflections made in these meetings help providing knowledge about underlying assumptions, challenges, and opportunities. The top management strives to get the whole organization to have an increased business understanding, hence the forecasts should be “brutally honest”, action-oriented, and driven by expected outcome.

The consolidated forecast is presented and compared to the previous forecast in the First Glance meeting. The study finds that the top management uses the forecasting information in this meeting to get a quick overview of underlying assumptions, but most of all an idea about developments and where FiGo is headed. It helps the top management to get a better business understanding, but on a highly general level. The reflections made in First Glance are an important input for further discussions at the Business Review meeting, where the

business units present their forecasts, ambitions, and actions to close gaps. The forecasting information becomes a useful tool, since the forecasts are compared to ambitious targets. In 2014 the format of the Business Review changed, and focuses to a larger extent on key value drivers for performance, which are important underlying drivers in the forecasts as well.

Planned actions are embedded in the forecasts, since the forecasts should be “baseline plus anticipated events”, which makes the top management focused on observing gaps and discuss actions to close them. The study finds that the discussions at the forecasting meetings tend to have a historical focus whether the actions to close gaps have happened, and less proactive discussions. This makes the forecasts more of a reporting tool at top management level. However, they perceive the forecasts as an important tool to deal with environmental changes, and they can incorporate reflections and discussions through adjustments of key figures, activities, and actions in the next forecasts.

An important part of the meetings are discussions about forecasted key drivers. Together with high attention to KPIs, rolling forecasts have made it possible for top management to follow-up and monitor effects. The top management, and FiGo itself, doesn't need to see the actual or detailed figures, instead they can compare planned action with what has actually been done. The reflections and discussions around changed forecasted figures and variances, gives important knowledge of what has happened and most important key drivers. This learning and knowledge sharing is valuable, and creates a better understanding of the big picture and increases the business understanding at the top management level.

One of the overall goals in FiGo is getting a high level of profitability through following others in the industry. In the Business Review meetings, performance indicators and the relative performance are very much highlighted by the CEOs of the units. The performance indicators are closely linked to forecasts, since a lot of the figures they benchmark themselves with are key drivers, such as claims ratio. It is important for the top management to have a continuous improvement, thus a longitudinal perspective on making the rolling forecasting and relative targets more successful, through working on the mindset and the business understanding on operational levels.

6.1.2 Research Question 2

What changes have occurred in the forecasting processes that influence top management?

The study finds a longitudinal change in the rolling forecasting process in FiGo, which is closely connected to changes in the business culture, mindset, and how people adapt to rolling forecasts and the dynamic management model. Rolling forecast has increased autonomy by delegation of decision making to lower levels, which has made employees more accountable and responsible for taking action. Furthermore, decentralization and bottom-up forecasting processes has led to increased involvement, collaboration, and knowledge sharing within all levels. As a consequence, better business understanding has resulted in more accurate forecasts, which is reflected in top management forecasting meetings, and influences the discussions.

The forecasting process has been continuously evaluated, which has initiated the need of standardized processes. The top management hopes to facilitate and encourage the business units to better adapt to the “Dynamic Management” model and the benefits of rolling forecasts, through standardization and using the “best practice” forecasting policy. The study finds that the variation of forecasting processes has been reduced and the quality of information has increased, which affects top management strategic discussions. The Business Review meeting at the top management level incorporated this year the back-office unit to include an important perspective, thus better adapt to changing market demands. The meeting has modified the focus to mainly look at key driver e.g. customer satisfaction, digitalization, and product range, which enhance top management understanding of the big picture, and increased knowledge about the overall performance. Forecasting is perceived as a much more action-oriented form of governance, which has become a key activity.

The study has emphasized a longitudinal change in how the organization understand the value of rolling forecasting, and how this has resulted in more realistic and “brutally honest” forecasts, and increased ownership towards the business and forecasts. The top management and the rest of the organization have had a longitudinal change in mindset and business culture. These changes influence the top management’s use and understanding of the forecasting information. Increased realistic and “brutally honest” forecasts cause more accurate forecasts and correct picture of performance. Moreover, increased understanding of

value drivers, and ownership of the rolling forecasts throughout the organization, makes it easier for the top management to get all business units to work towards common targets. These longitudinal changes have in addition made the top management even more forward-looking and action-oriented, thus enabling quicker adaption to environmental changes.

Furthermore, the study has discovered a change in top management interactions and discussions. The top management has changed their focus towards key drivers that satisfies external environmental demands, and enables quicker adaptations to external influences. FiGo strive to gain stronger customer position through increased focus on technology development. High degree of competition requires FiGo to adapt to customer demand by developing simple solutions on digital platforms, thus provide information and perform services that no longer require advisors. The dynamic management model and rolling forecast has increased involvements at all levels, which have resulted in decreased distance to customers that allow faster adaption to changes in demand.

6.1.3 Research Question 3

What are the challenges that affect top management's use of forecasting information?

In regards of forecasting practices there are variations between FiGo's business units, both in terms of different practices and degree of implementation: ranging from a rather reporting-oriented role towards the group, to a strong use of forecasts as a management tool in daily practices. The study finds that this is due to a high degree of decentralized and autonomous subsidiaries, localization issues, and lack of monitoring. Besides, some parts of the organization still got a budget-mindset; hence they haven't seen the possible values and benefits of rolling forecasts. Furthermore, there are differences in the mindset and perception towards forecasting as a tool, especially lower levels in the organization haven't fully adapted to the "Dynamic Management" model. The forecasting process is to a higher degree perceived as a reporting tool compared to managers on higher levels. Such differences create tensions between the top management and some business units, since they don't use the rolling forecast to enhance and drive performance the way top management intend to. The underlying business model influence the use of rolling forecasts in FiGo, where top management commitment to its use and usefulness is the key for fully adaption in the whole

organization. It is crucial that top management must “lead the way” to create commitment and involvement at all levels in the organization.

The study finds that there are conflicting agendas behind the rolling forecasts. The top management group, at least from a financial point of view, has standardization in mind. Organizational effectiveness should be ideally secured through the standardized templates implemented by the top management based on the “best practice” policy. Top management tries to get comparable forecasting information to see how the business is doing relative to competitors, while the business units are more interested in how to operate their business using rolling forecasts. Across the business units there are different ways of forecasting performance, hence different degrees of alignment with the top management templates, which is also related to the units different business models.

The challenge is that even though the top management wants standardized forecasting processes in the whole organization, it isn’t necessarily possible for all units. There are indications that some units additionally perceive standardization as a “project” owned by the top management group. On the other hand, the standardization templates are not to a large extent detailed and strict, which has, as the study finds, opened up for some different local adaptations. Nonetheless, this creates a tension in regards of the how forecasting information is discussed at top management meetings, and getting comparable forecasting information could be difficult to achieve.

Another large challenge observed in the study, is that the forecasting process is fragmented and the timeframes are short, which makes it difficult for the business units to process the forecasts largely before it is consolidated. Hence, the quality of the forecasts can be reduced since there might be something lacking in the forecasts, and the discussions and the output of top management meetings might be decreased.

Furthermore, there are both top-down and bottom-up processes within FiGo, which has increased the interaction and involvement throughout organization. The top management aims to have a well-connected forecasting process that is meaningful and adds value in the whole organization. However, the study finds that the top management experiences a decoupling due to lack of translating top-down financial drivers into operational drivers that are useful for the business units. The top management is highly interested in financial drivers

e.g. combined ratio and growth, which is also reflected in overall targets and benchmarks. It is difficult for the business units to understand their contribution to these financial corporate drivers; thus they need to be scaled down to make them more operational. In this context, there is a missing link between the financial and operational processes to help with communication, and reduce the distance between the top management and the rest of the organization. This missing link can decrease the value of the forecasting information discussed at top management meetings, since a lack of understanding financial drivers can influence the bottom-up forecast processes.

Finally, the study finds contradictions between top management's ideal purpose of the meetings and what's done in practice. Comparing the forecast to the previous forecast that is conducted in First Glance, is not value creating and in line with theory. On the other side, comparing forecasts against forecasts gives the top management knowledge about why the previous forecasts weren't met, and also help detecting systematical biases. The idea is to compare forecasts against targets hence being forward looking and action-oriented, and plan activities on how to close gaps. Nevertheless, the study uncovers a challenge that top managers have difficulty separating forecast and target, which lead to implications in their discussions at the meetings. This is found to affect the rest of the organization negatively, and hamper the business understanding.

Another challenge associated with contradictions in the top management, is the ambition problem related to target setting. Regarding the big picture and overall business model, the organization is decentralized when it comes to reaching overall targets, and setting KPIs that allows for realistic bottom-up ambitions that secures ownership of the forecasts at lower levels. When it comes to target setting, it can be understood as an increased centralization. This has led to power shifting upwards, with less vertical integration, which is closely linked to the missing link between financial and operational drivers. The top management set the overall KPIs and relative targets through competitors in the league table, which risk destroying value creation if this leads to even a greater decoupling between top management and the rest of the organization.

6.2 Concluding Remarks

This study reports on a large financial and multidivisional corporation's practice of rolling forecasts in a Beyond Budgeting environment. We have examined how top management adapts to a management control innovation or 'idea' such as Beyond Budgeting, and how rolling forecasts as a dynamic management tool enables interaction. Despite the increasing interest and application of Beyond Budgeting principles in organizations, there has been scant research on how it is applied and used in organizations. This study contributes to a practical understanding of how a dynamic management tool, rolling forecasts, operationalize the Beyond Budgeting ideas, and how it, in a longitudinal perspective, affects top management interaction. Our study illustrates both intended and unintended consequences of applying rolling forecasts.

The forecasting information is supposed to give the top management an overview of the development, including changes and challenges, and enable the possibility to identify gaps and actions to close them through discussions and knowledge sharing. In a longitudinal perspective, the evaluation process of rolling forecasts in FiGo has changed the forecasting process as well as the interaction. Standardized templates has led to a better understanding of forecasting drivers in the business units, and what the top management want to be presented at the Business Review meeting. This has made it possible for the top management to enhance discussions and knowledge sharing through forecasting information, since it is more comparable.

The study finds that the top management faces a big challenge avoiding "old budget-mindset", and for the rolling forecasts to be used as a reporting tool. The different business units are highly diversified, and use the forecasts in various ways. This affects how the numbers are discussed, and creates a tension between the top management level and the parts of the organization that isn't using the forecast "the right way". It is a problem that the top management lack business knowledge about the various business units, and perceive the various use of the forecasting practice as a problem. On the other hand, it might not be the optimal solution to use standardized processes in the whole organization, due to the diversification and different needs for time horizons, and uncertain and difficult forecasting figures.

FiGo has come a long way implementing and using rolling forecasts, and the study finds that there has been a continuously cultural change, which has helped increasing the overall business understanding. There are still some differences in the organization, and it is crucial that top management “lead the way” to create commitment and involvement in all levels in the organization. They need to find a way to communicate their vision of dynamic management model and rolling forecasts, thus getting the whole organization on the same path - regardless of variation and localization. As a result there could be enhanced performance and increased business understanding throughout the organization.

Another finding is that there are tensions regarding rolling forecasts being rigid in terms of fixed horizons. Deciding in advance of having forecasts four times a year isn’t necessarily very dynamic. Top management strives to be action-oriented but it is difficult to a full extent, due to fixed forecasting horizons and not using some sort of event based forecasting. Besides, increased involvement in the forecasting process can lead to unnecessary use of resources, and the process can be perceived as a budget process conducted four times a year. A result might be increased complexity and dissatisfaction with the tool, thus it is important for top managers to follow-up and guide the forecasting processes to decrease possible negative effects with rolling forecasts. On the other hand, the introduction of the standardized templates and “best practice” can be interpreted as control mechanisms, and the top management risk decreased motivation, communication, and knowledge sharing. In addition, it can be perceived as of lack of trust that according to Bogsnes is one of the most important elements in the Beyond Budgeting philosophy.

Moreover, the study observes that there seems to be some issues in regards of anchoring the Beyond Budgeting mindset. The literature emphasizes the importance of a thorough understanding of the benefits and importance of this dynamic management tool. If the mindset isn’t thoroughly anchored in the whole organization, there is a risk of not utilizing the fully potential and positive effects of rolling forecasts. Furthermore, it is important that the top management’s mindset is deeply rooted, thus it can easier be reflected and translated down in the organization. This can also help reducing the decoupling between the top management and the operational levels, and increase business understanding and unite the different business models in the organization.

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This thesis is a case study exploring the practice of rolling forecasts as a dynamic management tool within an organization. Increasingly complex and dynamic business environment has led to the introduction of contemporary management control systems and management accounting innovations, such as rolling forecasts that is an important tool in the Beyond Budgeting philosophy. Through qualitative research method, this study aims to get an in-depth understanding of how forecasting information, in a longitudinal perspective, affects top management interaction. Specifically we investigate: (a) how top management make use of forecasting informatin; (b) what changes has affected the forecasting information and influenced top management discussions; and (c) what challenges in regards of forecasting processes have affected top management attention.

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