

Strategy and Budgeting Alignment

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Abstract

This paper seeks to gain an understanding of some of the processes of control that operate within organizations, especially those involved in parent-subsidary relationship. It provides information about how a Telecommunications company is complementing and interacting budgeting and nonfinancial performance measures, aligning budgeting with strategy in a highly customer-driven environment. It is based on a case study using the frameworks of Otley (1999) and Ferreira and Otley (2005) to gain a comprehensive view of Management Control Systems (MCS) and identify strengths and weaknesses of the systems in place. Using the “discursive” framework of Morgan and Sturdy (2000), it also provides a comprehensive description of how the company was able to improve the budget, make it a more efficient and reliable process, and align it with strategy. This was achieved through good communication, enhanced responsibility, feedback flows, and great recourse to non-financial key performance indicators.

The contribution of this paper is threefold. First, the paper explains how Vodafone, working in a competitive environment, has improved its budgeting system to enable the organization to stay alert and detect changes in time. Second, the research provides information on how the organization has linked budgeting to nonfinancial performance measures in order to provide a broader and more varied pattern of control and how discursively individuals explain themselves, their actions and organizations – both to themselves and to others. Finally, the paper discusses the usefulness of Otley’s (1999) and Ferreira and Otley’s (2005) frameworks in order to obtain a comprehensive and integrated view of MCS.

Keywords: Budget, Strategy, Discourses, Key Performance Indicators, Management Control Systems

Introduction

Traditional budgeting is a favourite topic of discussion in the management accounting literature. Numerous studies have pointed out the inability of budgeting regarding some of the roles theoretically attributed to it. There were claims that it is a time-consuming and short-term oriented activity that may disregard strategy and shareholder value, while becoming a scheming game (cf. Jensen, 2001; Neely *et al.*, 2001).

Strategy is perceived as very important for an organization since it is the key element leading the organization into the future - guiding actions, plans and results. At the same time, strategies need to reflect changes in the business environment. Markets are becoming more customer-driven, based on innovation and quality. If budgeting does not incorporate strategy, it may constitute a serious threat to the organization's future. "As strategies are changing in response to many competitive and structural pressures, it seems evident that new management systems are needed to reflect these new realities" (Bunce *et al.*, 1995: 253). Discussions in the literature revolve around whether companies should maintain, improve or abolish budgeting. Hansen, Otley and Van der Stede (2003: 108) sum up the discussion, questioning, "[can] budgetary control can be adapted to work effectively in unpredictable environments?".

Meanwhile, several articles and books have appeared that address the emergence of performance measurement frameworks using not only financial, but also nonfinancial measures, and relating them to strategy. For example, Hope and Fraser (1997) mention that in some companies that have rejected detailed budgets, business units set long-term goals based on benchmarks and measure key performance indicators (KPIs). Several frameworks – such as the Balanced Scorecard (Kaplan and Norton, 1992, 1996), Performance Prism (Neely *et al.*, 2002), Smart Performance Pyramid (Lynch and Cross, 1991), Results and Determinants framework (Fitzgerald *et al.*, 1991), Performance Measurement Matrix (Keegan *et al.*, 1989),

and the Business Excellence Model (EFQM, 2001) – have been proposed to define performance measures reflecting strategic objectives of organizations.

Although there is a significant amount of research in both topics, still more research is needed on MCS operating as a package and on the interaction between budgeting and nonfinancial performance measurements systems (cf. Malmi and Brown, 2008). Are they complementary, offering a broader and more varied pattern of control, or are they contradictory, as suggested by the literature on the Balanced Scorecard (BSC)?

The idea of complementary is based on different Management Control Systems (MCS) being implemented simultaneously to meet different organizational needs. Flamholtz (1983), for instance, claims that a successful MCS has four basic organizational processes: planning, which defines the objectives and means to attain them; operations, which enables the required day to day organizational activities; measurement, which monitors the extent to which the objectives are achieved; and, finally, evaluation and reward in relation to the results obtained. The idea of substitution has been claimed by numerous studies. Budgeting has been criticized for difficulties in guiding people's behavior due to the lack of flexibility and manipulation (e.g. Hope and Fraser, 1999). Budgeting has also been accused of being disconnected from strategy (e.g. Bunce *et al.*, 1995). Furthermore, budgeting is not reliable in terms of forecasts, either because the environment is unstable or because they are manipulated (e.g. Jensen, 2001), and is a poor tool to evaluate performance compared to the multi-dimensional approaches, such as the BSC. Special emphasis should be given to the Beyond Budgeting Round Table consortium that has sought to develop an alternative to the budgeting process. To overcome problems and to create a flexible organization, this consortium identified 12 principles: the first dimension (principles 1-6) refers to the fundamental values and the corporate culture in which authority is developed regarding employees; the second dimension (principles 7-12) refers to the optimal processes that an organization following the Beyond

Budgeting approach should use (Hope and Fraser, 2003; De Waal, 2005). Bunce *et al.* (1995: 253) summarizes the main idea when claiming that “traditional budgeting is dysfunctional, but the solution is not better budgeting nor stand-alone advanced budgeting systems”.

In order to study the processes of control operating at the Portuguese Vodafone subsidiary, the researchers had two theoretical perspectives in mind: a management control perspective to investigate the MCS used to ensure congruence between organizational members’ goals and organizational objectives, and an organizational behavior perspective to understand the human dimensions of control processes.

Anthony’s (1965) traditional definition of management control as “the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of organizational objectives” is no longer sufficiently broad to capture contemporary approaches to control because it has led to an emphasis on accounting-based controls that are losing importance to contemporary organizational needs in today’s uncertain environment (Otley, 1994; Langfield-Smith, 1997). Otley (1999) claims that academic research lags behind development in practice and proposes a wider framework to study MCS with the assumption that the main goal of MCS is to obtain the collaboration of organizational members working toward organizational goals (cf. Flamholtz, 1983). The main focus of this management control perspective is on objectives and adaptation, rather than being on the members of the organization. Therefore, we also use an organizational behavior perspective to look closely at the human dimensions of MCS. Our aim is to uncover managers’ views about the MCS in place. We are particularly interested on their perceptions about the use of the MCS and the reasons for such use.

After a brief literature review, discussion of research methods issues, and a description of the theoretical frameworks used, the paper presents the Vodafone case study. The contribution of this paper is threefold. First, the paper explains how Vodafone, working in a

competitive environment, has improved its budgeting system. Second, the research provides information on how the organization has linked budgeting to nonfinancial performance measures in order to provide a broader and more varied pattern of control. Finally, the paper discusses the usefulness of Otley's (1999) and Ferreira and Otley's (2005) frameworks in order to obtain a comprehensive view of MCS. Special attention is given to organizational culture.

Literature Review

Budgeting is the cornerstone of the management control process in nearly all organizations (Hansen *et al.*, 2003). Its role, advantages and limitations have been discussed in the management accounting literature. Despite its limitations, the use of budgeting is almost universal (Bunce *et al.*, 1995) due to its integration capabilities. As Otley (1999: 370) observes, "budgeting has traditionally been a central plank of most organizations' control mechanisms, as it is one of the few techniques capable of integrating the whole gamut of organizational activity into a single coherent summary".

In a paper very critical of budgeting, Bunce *et al.* (1995) recognize some positive aspects of budgeting since it brings together the goals, plans and responsibilities of the organization and, at the same time, achieves financial coherence for the enterprise. Furthermore, without the annual budget it would be difficult to set targets for people, or to appraise and control performance. Budgeting has been used as a good way to communicate information to shareholders and external parties (Ekholm and Wallin, 2000). Some degree of planning is always necessary, and with the modern IT, the process of budgeting could run faster and less expensive - improving the cost-benefit-ratio, and thereby leave more time for achieving strategic objectives.

However, over the last two decades traditional budgeting has been the object of criticism (Schmidt, 1992; Bunce *et al.*, 1995; Hope and Fraser, 1997, 1999; Ekholm and Wallin, 2000;

Jensen, 2001; Neely *et al.*, 2001). Budgeting is described as too time consuming, costly to prepare, and often counterproductive because it disempowers the front line people, and encourages gaming and dysfunctional behavior. Budgets are also incapable of meeting the demands of today's competitive environment, as they are a rigid ritual that is rarely strategically focused and ignores value creation by focusing on cost-reduction, the short-term, and financial numbers. Furthermore, budgeting reinforces vertical command and control and over-emphasizes variance analysis, leaving "how" and "why" questions unanswered.

For some, budgeting has becoming an obsolete process, and even likened to driving a motor car solely by looking through the rear view mirror (Otley, 1999). Nevertheless, it is interesting to notice that most of the criticism comes from management consultants or gurus, who may have an interest in selling their own systems, by persuading organizations to change their MCS.

Often, this debate ends up questioning whether or not budgeting should be included as part of MCS. The advocates of *Better Budgeting* recognize that traditional budgeting is neither efficient nor effective, and there are several approaches and techniques – rolling forecasts, zero-based budgeting, activity-based budgeting, value-based management – that may help to improve the budgeting process. Nevertheless, none of these approaches provides a complete solution – just help to overcome some of the shortcomings identified. The new approach, *Beyond Budgeting*, claims that organizations should look to the whole value delivery system rather than to its individual parts. The idea is to create coherence between culture, strategy and MCS, avoiding bureaucracy and cost responsibility. However, this new concept draws on rhetorical devices that are typical from management fashions (e.g. "who needs budgets?", "budgets are dead"), and shows little evidence of its effectiveness, as the examples are repeated in each article. Furthermore, we may raise questions regarding its applicability in different cultures (Chenhall, 2003). Using Hofstede's (1984) study / matrix,

Beyond Budgeting requires the employees to have a low *power distance index* in order to accept their freedom and low *uncertainty avoidance* to accept the risk of overall performance responsibility. Mediterranean cultures rank high in both of these categories.

Using a case study, the present work discusses if it is really necessary to abandon budget, or if it is possible to improve it, achieving a more reliable and efficient instrument of performance, such as adopting a kind of collaboration between different systems, or even, improving the old budget with the best practices of other MCS.

A survey in Sweden made by Ekholm and Wallin (2000) finds that even though most of the companies queried agreed with the main elements of criticism, they intended to continue the annual budget. In this study 89% of the companies included in the sample use budgets and 60.7% say that instead of abandoning it altogether, they constantly try to develop it to meet new demands. Therefore, it seems that the budget complemented by other mechanisms still has a role to play.

Another important aspect that may explain and help us to understand the context and use of MCS is organizational culture. As Bunce *et al.* (1995) expressed, while there are many systems featured in traditional budgeting that may be changed to achieve the key goals, if the culture is neglected they will not be effective. In this way culture plays a crucial role in budgeting, as we will see in the Vodafone case. If a firm's culture and its core control system are not synchronized, it is unlikely that even a well integrated core control system will actually influence behavior in the way intended (Flamholtz, 1983).

One of the recurring criticisms levelled at budgeting is that it does not incorporate strategic issues. Strategy is a crucial point in the MCS: markets are becoming more competitive, customer-driven, and technology dependant, so it is really important to align strategy with the MCS. Here, as Kaplan and Norton (2005) observe, it is important for the organization to create and oversee the strategic management system, align the organization,

communicate strategy, review and refine strategy, manage strategic initiatives and then consult with key strategic support functions (planning and budgeting, human resources and knowledge management).

Kaplan and Norton (2004) also attribute a great role to intangible assets, as they are crucial for the correct execution of strategy. These are human capital, information capital (IT) and organizational capital (culture, leadership, alignment and teamwork /knowledge sharing).

Research Method

A good way to conduct research is to link the theoretical background with the genuine experience that people and organizations have. The mix between the discoveries made on theoretical grounds and the real-life context is the most important knowledge that can be achieved, because they can complement each other.

The study describes Vodafone's MCS and the role of budgeting within those MCS. The Budgeting and Controlling actions have an important weight in Vodafone activities and structures. The department responsible for these activities is the Planning and Business Support (PBS), which has about 38 employees.

The main research questions are: Is it possible to improve budgeting practices? How did Vodafone align strategy and budgeting? To answer these questions, a case study at Vodafone was conducted. This research was undertaken for three main reasons. First, it would be interesting to examine an organization that attributes an important weight to strategy. Second, it would also be useful to have a good overview of the links between strategy, performance, budgeting, motivation, and communication, and these were easy to observe at Vodafone Portugal. Third, Vodafone offered access facility, readily granting permission to carry out a detailed investigation. Adequate answers to these questions will enable a critical discussion of the whole gamut of MCS at Vodafone, challenging the traditional budgeting criticism, but also affording possible space for further improvements.

The case study approach seems most appropriate, given the research questions. It can be justified in various ways. For instance, Humphrey and Scapens (1996: 101) argue that “case studies have an important role to play in researching the day-to-day functioning of accounting in contemporary organizations, and in helping to enhance understanding of the many paradoxes inherent in the growing resort to accounting”.

Yin (1994: 13) defines a case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. Humphrey and Scapens (1996: 88) describe the role of case studies as “important vehicles for challenging existing, and for developing new, accounting theories”. Their great advantage is that they provide a systematic way of looking at events, collecting data, analyzing information, and reporting the results (Flyvbjerg, 2006).

Initial contacts were made while the first author was working at Vodafone, but it is important to note that a formal approach was made to the organization, and permission obtained, through its Institutional Communication Department. Working at Vodafone can be seen as having helped to identify in a better way all the complexity of the MCS, and to better understand the pros and cons of the budgeting process. However, with researchers’ triangulation and the fact that the first author left Vodafone one month after this research started, bias was minimized.

The research drew on a variety of sources of evidence. However, the two main data types were documentary and archival data, and semi-structured interviews. Other material was also collected, including annual reports, performance reports, website information, newsletters, internal reporting and budgeting processes. Data triangulation highlighted convergences or discrepancies within the findings (Yin, 1994). Interviews were conducted with different people, from Planning and Business Support area (PBS), the Consumer Business Unit (CBU),

the Human Resources and Institutional Communications department, and the person responsible for the commercial and marketing issues. It is important to address that we approached people from both the top structure (directors and managers) and lower tiers (Business and Human Resources analysts). Interviews took place from July to December 2007. Semi-structured interviews were used, based on the Ferreira and Otley (2005) framework, and took place in the organization's headquarters. The interviews lasted one to one and a half hours. Information was also collected (through email questionnaires) from the Human Resources department and Institutional Communications.

At the end of the study a preliminary version of the case study was provided to the company and to each person who was contacted, who reported back their accuracy as well as on any opinions or conclusions drawn.

To gain a comprehensive view of the MCS we used two main frameworks, Otley's (1999) and that of Ferreira and Otley (2005). These frameworks helped us diagnosing the different MCS, and they were a powerful tool in collecting, structuring and analyzing the data.

Otley's Framework

This paper focuses mainly on proposing a framework for research in the management control systems. Otley (1999: 363) argues that "management accounting has tended to restrict itself to considering only financial performance, and to use frameworks and theories drawn primarily from the discipline of economics". So, management control systems should look beyond the measurement of performance to the management of performance.

The author brought into this framework issues such as managerial motivation, behavior and strategic planning. It is important to say that this framework paid more attention to the elements neglected in previous MCS of strategy and operations, aligning the best interests of the firms with the changes they faced.

The author identified five main subjects (Figure 1): key objectives, strategies and plans, level of performance, rewards, and information flows. The first incorporates the stakeholders' aspirations and is concerned with the definition of goals and the measurement of goal attainment. The second is closely connected with issues of strategy formation and deployment, representing the intended means for reaching objectives. The third is more traditional and has to do with the convenient levels of performance. The fourth pertains to important issues in the MCS, how to link the performance of individuals to the best interests of the firm (through rewards/penalties) and the gaming and short-termism approaches. The final subject raises the issue of communication channels within the firms, and relates matters such as learning organization and employee empowerment.

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Ferreira and Otley's Framework

Ferreira and Otley (2005) claim that Otley's framework provides a structure for the analysis of companies' control systems and that it also has a general nature which allows other frameworks to be easily used to complement it. Two other strengths were identified: one, its application is straightforward, because the areas are clear and unambiguous, and two, the model has the advantage of simplifying the process of dealing with data.

These two authors also found some limitations in Otley's (1999) framework. First, a key aspect of organizations appears to be unexplored. In the earlier framework the vision and mission of the firms were not (at least explicitly) incorporated into the analysis of the control system. Second, Ferreira and Otley found that the framework is more focused on diagnostics controls, and so it overlooks the more subtle and less conventional uses of MCS, as described by Simons (1995). Third, the utilization of Otley's (1999) framework provides information

regarding the existence of MCS but not how they are used specifically. Finally, they point out that the framework tends to look at MCS from a static perspective, ignoring the dynamics of change and development.

Ferreira and Otley (2005) present a new framework, the performance management and control (PMC), which represents an evolution of Otley's five "what" questions to ten "what" and two "how" questions (see Figure 2). In the new questions these authors incorporate aspects such as: vision and mission (here they worry not only about how they affect control systems, but also how these issues are communicated to the whole organization); key factors (which activities and outcomes does the organization need to have success); the organization structure, and how it is affected by the changes in environment; key performance measures (the link between performance measures and individual behavior); environmental changes (does the firm anticipate these issues, how do they affect PMC?); and links between the questions (how strong and coherent are the links between PMC?).

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Nevertheless, they retained earlier questions such as: strategies and plans (but focusing more on the actions and goals that the firm needs to achieve success); targets (remained very similar although they introduced another question regarding the nature and type of evaluation – individual, group, and organizational – that companies make); rewards (but differentiating between financial and non-financial rewards); and information flows (remained unchanged, although now seeking to understand what is achieved with those feedbacks and feedforwards).

Management Control Systems and Organizational Discourses

Morgan and Sturdy (2000) propose a 'social' or 'discursive' approach which examines the 'languages, concepts, categories and their associated practices which actors adopt to make sense of, construct and act in the world' (p. 18). This approach can be termed 'discursive' due to the centrality of human discourse, as we begin as actors to explain ourselves, our actions and organizations to ourselves and others:

“[b]odies of knowledge are constructed which are often transmitted and translated by organizational participants into routines and procedures which, in turn, constitute or contribute towards the construction of new or adapted knowledges and practices. These bodies of knowledge become languages through which people speak about and understand organizational processes” (Morgan and Sturdy, 2000:18-19).

The approach focuses on changing structures, changing discourses and the effect of both these processes on power relationships.

Strategy has emerged over the past two generations as a dominant top-management discourse for looking at the world, making sense of complex futures and offering a form of rational control over contexts. “Strategy has become the main language through which actors make sense of, respond to and thereby help realize changes. It has become an over-arching framework for actors and organizations, providing a language of 'truth' to make sense of the world” (Morgan and Sturdy, 2000:122). Strategy typically generates a set of neatly coordinated (and often picturable) frameworks that assist the process of deciding and implementing specific strategic plans. Strategy complements these closed systems of planning-based control with a series of objective techniques to measure performance, tracking it against strategic goals and providing feedback.

Strategy thus establishes a crucial link with marketing discourse, which has emerged as a key way of connecting the coordinated and managed inner context of the organization with the less manageable, fluctuating outer context. Marketing provides mechanisms for understanding consumer needs, for segmenting them, and designing products and offers that exploit the relative efficacy and efficiency of particular distribution channels. This last step is

crucial because meeting the needs of customers is only relevant and valuable so long as it can be done profitably. This creates tensions within marketing. At the same time, it drives marketing into the arms of strategy as it is forced to focus on identifying potentially profitable consumers and/or selecting profitable products or services. Much marketing activity concerns the avoidance of competition and the dominance of markets, that is, “marketing benefits the firm not by satisfying customers but by establishing quasi-monopolistic power over them” (cf. Whittington and Whipp, 1992: 54).

Case Study – Vodafone’s MCS

Vodafone Group has about 60,000 employees and 200 million customers around the world. It is one of the world's leading mobile telecommunications company, with a significant presence in 60 countries in Europe, the Middle East, Africa, Asia Pacific and the United States. The Group aims to deliver innovative and compelling mobile services to customers throughout the world, providing them with a unique and top quality experience. This requires constant investment in new technologies and in innovative high quality services, to exceed customer’s best expectations, allowing it to lead the way in defining voice and mobile data services around the world.

Vodafone Portugal, totally owned by the Vodafone Group, is the second largest operator in the Portuguese Telecommunications market and the leader in the business segment. It is important to mention that Vodafone Group acquired Vodafone Portugal (earlier named “Telecel”) in 1999. At the present time, its activity focuses on mobile voice and data services, also providing fixed and Internet services, aiming to meet the customers’ total communication needs. It has a total of 1,641 employees and 5.6 million customers, with a market share of 40.2%. In terms of financial indicators, in 2008 Vodafone Portugal had a turnover of 1.473 billion Euros and a net profit of 275.2 million Euros.

Budgeting and Reporting

The budgeting process (see Figure 3) starts with the approval by the local management board of the assumptions and targets, based on the instructions and strategic guidelines provided by the Vodafone Group.

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Instructions and timetable are communicated to all areas of the organization by the Planning and Business Support (PBS) department. The company areas then integrate the data (financial and operational information, e.g. sales, cost of sales, capital expenditure, operating expenses, etc.) in an IT application. PBS analysts evaluate and validate the data collected. After the consolidation process, interaction and discussion between different units begins, through a series of meetings. When there is consensus among the PBS department and the different units, the document is presented to the Local Board of Management. Following Board approval, the data are submitted and the Group either accepts it or not. This calls for three different versions: a first submitted to the Board, a second submitted to the Group, and the final one. Following the approval process, the forecast package is loaded into the local intranet and SAP, in order to be available to all units.

Vodafone's budgeting process never rests. It has at least six different budgets in a year. First there is the Outline Budget (a simple version), then the Detailed Budget (the official one, embracing all performance parameters), and there are three revisions of the budget, 2+10, 5+7, 9+3 (the first number refers to the months of execution, and the second to the number of forecast months). The PBS department also elaborates a Long Range Plan (10 years), on a yearly basis.

The reporting process is made monthly. PBS analysts extract financial data from the SAP, Financial Repository and from the functional areas (financial and operational information).

All of this information is then aggregated into an Excel file, and submitted to the Group. The results and operational performance are discussed between the CFO, the PBS director and the managers, on a monthly basis, comparing the actual figures with the forecast.

Cost Accounting Systems

Cost accounting at Vodafone is made by customer type: Pre-paid vs. Post-paid; Consumer vs. Business; and also by segment (mobile voice, mobile data, and fixed phone). This cost accounting may also be divided, according to the firm needs, through pricing plan and distribution channel. The cost drivers are: customer's acquisition costs, equipment margins, internal and external commissions, maintenance costs, net costs, interconnection costs, customer's service cost and loyalty/up-grade costs.

In terms of customer profitability analysis, there is a scoring system that attributes a different score to each customer, according to the expected revenue associated with its average life expectation (it is similar to the customer's Net Present Value – NPV). If the customer's NPV is positive, much effort will be made to retain the customer. This score applies to the investments made in the customer's retention. Vodafone does not show prejudice regarding the less profitable customers, because customer's revenues are very volatile. For example, a 21 year old customer who currently has a lower profitability may have a higher one in the future. As the CBU director said, "if we discriminate against a young customer now, we may lose him or her, and then incur huge costs to acquire him or her again".

Vodafone's MCS (Otley, 1999)

We start by looking at the Vodafone case through the Otley (1999) framework. Note, the sub-headings "Objectives" was called "Vision and mission", "Strategies and plans" included "Key factors", "Target setting" included "Key performance measures", and "Rewards" included also "Performance evaluation" in Ferreira and Otley's (2005) framework.

Objectives

Vodafone Group's vision is to be the communications leader in an increasingly connected world. In Portugal, Vodafone desires to be the best Portuguese company, leading the way in the development of mobile-communications technology, contributing to the well-being of people, firms and society. The mission is to delight customers at every moment ("NOW"). This is conceived around Vodafone's values: Red, Rock Solid and Restless (see Figure 4). Some objectives are defined by the Group and others defined locally.

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Communication is transmitted in cascade, by the Group to Vodafone Portugal, by the president to the directors, and so on. However there is another mechanism that enhances communication. Every new employee has a welcome course, where (s)he becomes familiarized with the company, the vision, and the values (What are we? What do we want to be? Where do we go?). The mission is also stressed discursively at the annual meetings, in the press-releases, and through strong internal marketing. As the CBU director said, "I think that only those who are not paying attention will not be familiarized with Vodafone's vision and mission".

The vision and mission at Vodafone are important, and this is transmitted well to all parts of the organization. All the interviewees answered in a decisive and precise way when asked about this issue. They know what the vision and mission are, and how Vodafone wishes to achieve them. All those interviewed expressed the desire to become the world leader in the communications industry, and all of them focused on the attention and dedication attributed to the customers, which confirms the CBU director's remark.

Strategies and Plans

Leadership and growth strategy are centered on three differentiating key factors: Customer Relationship Management (the best customer relationship), Brand Value (the best mobile services' brand), and Innovation (the most innovative services). To address these factors, human resources are very valuable. Vodafone puts a great effort into employees' attraction and retention, valuing employees' skills and motivation.

Customers' satisfaction is the first objective. Vodafone wants to combine different services (integrated operator), allowing the organization to provide the best experience. Earning and keeping the customer's confidence is the critical factor, satisfying all their needs and desires. This attitude is evident, even in the PBS department, a back office department that has no contact with the customer:

Although we do not have this final relation with the customer, because we are talking about a support area, when I make any analysis (business cases) I know that if those analyses are good, they will have a positive impact on the customer. Even though it is not a direct relation, I feel that our work has a final impact on the customer. (PBS Analyst)

Vodafone puts a lot of effort into the Brand. In their opinion, they need to have a strong and recognizable brand. The brand needs to be well recognized, and for this, the way in which they communicate to customers is very important. They developed the Brand Essence (Figure 4):

Our Red, Rock Solid, Restless is who we are and captures the soul of our people and our brand – it is simple, actionable and memorable. We use it to shape and inspire our actions and it sits at the heart of everything we do, how we work together and whenever, wherever and however we touch our customers. (Intranet and Internet)

Vodafone is integrated in a telecommunication industry, where the innovation aspect is very important, so it has always to provide the best technology and the best service, improving the customer's quality of life. Here the commercial aspects are very important, such as best equipment, best design, and the perception of the customer in terms of pricing.

Figure 5 illustrates how the strategy is defined and executed at the Group headquarters. In Portugal, Vodafone has a local team, which is responsible for "translating" the global strategy into local terms. The PBS department is responsible for implementing the objectives for that

strategy. The process is: strategic plans, action plans, translation into economic indicators, approval, communication, and definition of targets for each area.

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On a yearly basis, the Integrated Business Plan (IBP) is prepared, where all the areas, business units, operational units, IT, engineering and financial staff come together to stipulate which projects will be carried out in order to follow the strategy defined. The IBP is then compared with the financial Long Range Plan. The latter is a ten-year plan that focuses on the strategy component, specifying the targets and distributing them to all the areas (marketing, commercial, engineering, etc.).

Vodafone focuses on the links between the general objectives and individual performance, “we have to be sure that every organizational objective is translated into the personal objective of the person responsible for the specific issue” (PBS director). The financial translation of the plan must always be linked to the individual financial objectives. “We do not have any entry in the Profit and Loss Account that does not have a person responsible for it. If some issue does not have a person responsible for it, it is guaranteed that nothing will happen” (PBS director).

In terms of communication, the budget is made in a collaborative way with the business units. Every director knows after the budget approval what his target is.

Target Setting

Vodafone has six KPIs that are defined by the group for Vodafone Portugal. Those KPIs are then divided by Vodafone Portugal into other KPIs for each unit (financial, marketing, commercial, etc.). The company compares the result against the previous year’s and against the targets set at the beginning of the year.

When Vodafone has trade-offs between different KPIs, it chooses them according to the implied profitability, without forgetting the medium-term impact. As the PBS director said, “people will be here to respond in the future”. What is really important in any KPI is the strategy alignment. Of course, the KPIs must answer to the organization’ needs and environmental changes.

A distinction should be made between the weight of financial and non-financial KPIs, which will change according to the area that we are concerned with (typical financial versus commercial). The PBS department is more specialized in financial (quantitative) measures such as EBITDA, Capex, and Opex. This department studies common measures in this industry such as, ARPU (Average Revenue per User), or MOU (Minutes of Use), but also others, including operational measures (number of calls, bad debt level, number of days collecting, number of top-ups, number of projects carried out in the IT infrastructures). As the PBS manager claimed regarding operations measures,

We are not so worried with the numbers, but more about trying to understand potential problems, or obtaining more valuable information, like the distribution of minutes per day, per week or month, in terms of net service. We have to bear in mind the process, what were the hours with most traffic...

In contrast, commercial and marketing areas have specific needs, and will focus more on quality and customer satisfaction. Of course some attention is given to financial measures, but these are secondary to qualitative indicators. Here, typical issues such as market share, number of complaints, and distribution channels are studied. These issues are monitored through time spent with the customer in the branches, customer satisfaction per branch, CDI (which looks into Vodafone’s competitive position, benchmarking and how the customers perceive different factors) etc. The commercial KPIs are seen almost daily, and have a significant weight in a business unit. The financial KPIs are seen monthly, and the customer satisfaction per branch is seen weekly. “If I had to attribute a weight to the different KPIs, I

would say that in this business unit, 30% of the KPIs we see are financial, 40% are commercial and 30% relating to the customer” (CBU director).

It appears that the financial indicators are easier to obtain than the non-financial. Regarding the non-financial indicators, the organization has to use external parties (market studies, statistics, etc.) and here the information is not always available. The quality indicators are extremely important, however, and the organization uses an impressive quantity of different KPIs (see Figure 6).

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Insert Figure 6 about here
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Rewards

Individual performance evaluation is based on two components: Group instructions and Individual directions. The Group provides general performance drivers (Figure 7) for each position or function; specific objectives are defined locally for each person. These objectives are evaluated yearly in a formal manner, and reviewed half-yearly, in meetings between the superiors and the employees. Important to note is that Vodafone is seeking to change the evaluation into a bidirectional scheme, where top-management evaluates their staff, and they in turn are evaluated by the employees.

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Insert Figure 7 about here
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The evaluation process is continuous. Teams meet weekly and departments monthly. In these meetings are discussed not only process problems but also the team, department, and organization performance levels. Regarding corporate performance, macro KPIs are measured and reported on a monthly basis. These general KPIs are then translated and measured into different KPIs for each unit.

Vodafone uses benchmarking, with its peers and economy as is also imperative to make comparisons with other international operators and within the organization. Again, we should differentiate support areas (PBS department) from marketing and commercial areas. In a support unit it is difficult to measure the targets or indicators, as these units focus mostly on qualitative analyses rather than quantitative ones. However, in a commercial and marketing unit, things are different. Such a unit knows exactly what is expected from it, and there is an effective pressure and control over target attainment. Here, performance mainly regards the commercial aspect, and is visible in the variable remuneration, which is the typical among commercial agents. However, quality must always be guaranteed:

Commercial agents are entitled to the variable part, related to their performance. But we do not just look to the quantitative aspect, we also focus on the qualitative aspect, for instance for those who are entitled to the annual bonus. This will depend on KPIs such as the customer satisfaction, in global terms, but also at a lower level, for the time spent with each customer at the branch... (CBU director)

Vodafone seeks to counter short-termism, through stability in management functions. When Vodafone establishes its objectives, it focuses on the medium term, in order to maintain or increase the firm value. To avoid compromise, it imposes limits on certain values or areas that are expected to be important in the coming years.

In terms of rewards, Vodafone gives a bonus to all employees according to their performance, evaluated according to two components: the individual performance and organization results. A minimum value is required in each component. For instance if the organization has a good performance, but the individual had a low performance, the bonus will not be paid, and vice-versa. This will, Vodafone believes, forge a stronger link between individual and organizational goals.

Another type of reward takes place, on a yearly basis. If Vodafone has a good corporate performance, shares may be distributed to all employees, the so called "all-shares program". There are also "performance shares" for managing positions, determined by individual performance.

Information Flows

Vodafone has a very informal culture; enhancing the feedback and feedforward flows. Due to the flat structure (Figure 8), questions or suggestions are easily directed to the necessary people. There are multiple formal channels for this, such as weekly staff meetings, monthly department meetings, and in some units, suggestion boxes. There is also a global annual survey (“people survey”), where all of the employees around the world give their opinions, not only about if they do or do not like working at Vodafone, but also about the national operation and their specific department. Portugal has a high participation rate (about 90%).

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Insert Figure 8 about here
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All employees involved in the customer chain may discuss the opportunities, process improvements, and customers’ complaints in a CRM (Customer Relationship Management) forum. The CRM enhances the relationship with the customers and studies how Vodafone can delight them. It has many IT applications collecting information that will help to implement the marketing policies, and serving as communication tools.

Vodafone’s MCS (Ferreira and Otley, 2005)

There are some issues that were not covered in Otley’s (1999) framework that were subsequently incorporated into Ferreira and Otley’s (2005) framework. These issues play a great role in describing the MCS, and are dealt with below.

Change in the Dynamics of MCS

Changes in MCS have focused on a higher commitment between individual performance and overall achievement, and a higher weight attributed to non-financial and quality measures. The PBS manager stated,

As soon as the firm grows and markets get more mature, there's a need to reinforce those mechanisms, and also with lower annual growth there is a particular need to see where we can be more efficient, to tighten up the control.

In more commercial terms, information is very valuable. The last years have seen a great effort to capture more information, especially with regards to customers.

The performance measurement has gone from a typical interview with no support, to a specific balanced and equitable process, with specific and general drivers. Vodafone is endeavoring to implement the bidirectional evaluation process, not only top-down but also bottom-up, e.g. in the "people survey", in which employees are asked to evaluate their supervisors.

External factors, such as the implementation of the Sarbanes-Oxley Act (SOX) are important. Vodafone is quoted on the New York Stock Exchange (NYSE), obligating to introduce a number of control mechanisms and processes.

In terms of control, we observe a significant limitation, deriving from the Group. Vodafone Portugal has little autonomy to change the control system, and must follow the Group recommendations.

Organization Structure

Vodafone has a very flat structure (see Figure 8) for responding to environmental changes, shareholders' interests, commercial terms, market operations, type of products, and competitors. The company also pays a great deal of attention to issues of responsibility. In the PBS director's opinion, "no matter what the organizational structure is, the most important thing is that you have a person responsible of each subject". Even though it is a flat structure, this organizational model may have the boundaries of a typical large organization. For example, some problems may arise between the different areas, as a PBS Analyst remarked,

We have a flat structure. However, many people work here. Sometimes some problems arise regarding the relation between the different areas. For instance, we have some problems concerning the IT use.

Links between the MCS Components

It was interesting to see that at different levels people may have different opinions. For instance, the PBS director said,

Our budget exists with only one strategy; we give particular importance if the numbers reflect the strategy. What is really important is that the firm should define the strategy, translate it into a global sphere, then apply it to an operational level, and finally link it with personal objectives.

The PBS manager agreed,

I think that the relation with strategy, and also with all the areas (marketing, commercial, etc.) is very high and productive. We have a mutual knowledge, and also the processes are very efficient and optimized.

But at the same time, one PBS analyst said that the relation with the other areas is still a bit old-fashioned, that it is not yet a clean and institutional process, and that it should be more automatic and practical.

As a result, there seems to be room for improvement. The process of interaction between different units needs to be improved, at least at a lower stage. The platform (CPM) should be a driver for this interaction between the units, and could allow a faster process.

The rewards' process is linked to negotiation between Portugal and the Group, in order that it may affect the way things happen locally. The PBS department seeks to be the key point between the local interests and the Group interests, striving for realistic budgeting, as the PBS manager stated, "because if we do not do that, we will lose our credibility, our "negotiation capital". However, he adds that this process of negotiation may not be perfect.

Organizational Culture

Neither Otley (1999) or Ferreira and Otley (2005) explain the role of an organization's culture in their framework. This study shows that it is an important subject, because it can transmit and pull together the MCS in a beneficial way. From organizational culture we can observe the way in which the processes and dynamics of MCS flow.

Organizational culture is an intangible asset, which means it is difficult to measure. However, its role can be very important, and can help determine the success or failure of MCS. MCS may be well designed, and its systems may be well implemented, but if the MCS

do not fit into the organizational culture, or if the culture is not adapted to the MCS, it is certain that they will fail.

Vodafone was born into a challenging environment that it restructured with its own practices. This has made an indelible mark on the firm's culture. Vodafone has a fast and flexible decision structure; all decisions are made in a short period of time. This is due to informality, nonconformism, and responsibility. As the slogan (RED, ROCK SOLID and RESTLESS), says it is an irreverent attitude, it is a posture of having always the desire, and the ambition of changing, and of making things happen.

Vodafone values derive from its four "passions": customers, results, people and environment. With these passions Vodafone tries to provide the best service to customers and to provide a service differentiated from its competitors. Another important aspect is the social responsibility associated with its activities, such as environmental defence and preservation, social activities, and Vodafone foundation.

All the interviewees agreed on this culture definition, and they all stated that Vodafone people are very dynamic, energetic, courageous, and ambitious. This may be due to the employees' average age of 32/33 years, a very young staff. As the PBS manager stated, "although we depend a lot in this sector on the engineering side, the most important asset we have is still people".

Alternative or Complementary MCS

We seek to study the possibility of changing or complementing the MCS at Vodafone. This issue was discussed in the interviews with the managers and directors, in order to see if they were satisfied with the MCS they have or if they wished for change.

In recent years some organizations have adopted the BSC, which have been much discussed in the literature, so there were some comparisons with this one. Interestingly, one

limitation that was pointed out to the adoption of BSC at Vodafone was that it would bring more dependence on IT and technology. Like the PBS director said,

Our business is very dynamic, markets grow a lot, the technology revolution is brutal, so our metrics need to be changed all the time, and even their selection. In more mature industries it is easier to do, but in ours it is difficult. Balanced Scorecard is more stable, you cannot change it easily.

Nevertheless, Vodafone seeks to obtain the main outcomes of the BSC. It measures performance but in a less “formal” way. As with the BSC, Vodafone focuses on strategy. Another common point is the performance perspectives. Vodafone also measures performance in the four perspectives of the BSC. Looking at the KPIs used at Vodafone (see Figure 6) we can see, for instance: EBITDA, Profitable growth, Opex (Financial perspective); customer’s loyalty, market share, customer’s satisfaction (Customer perspective); level of bad debt, service delivery, time-spent with customer (Internal processes perspective); and development of staff skills, training, staff’s average age (Learning and Growth perspective).

The most important tool of the Balanced Scorecard is people interaction. What Vodafone should do, therefore, is to link their MCS and KPIs to their one employees’ evaluation. For example, it could link the employee survey or the annual evaluation to the global KPIs or even to specific KPIs. It should have a distribution of objectives and targets from top down to lower staff that allows them to permanently and effectively measure their performance. It could also be a good way to further motivate the lower staff.

Discussion

A central issue at Vodafone is the value and the importance of customers in the design and use of MCS. This is a crucial aspect in Vodafone activities as competitive pressures have increasingly forced the company to address better the needs of consumers:

Customers are very important. For instance, when we budget the Churn [number of lost customers], we know what objectives or issues will have an impact on that level. To reach those objectives, we need to have a good performance in terms of satisfaction, in terms of how we deal with our customers. So, the budget has typically financial measures, but behind them are always non-financial measures and objectives (CBU director).

Nevertheless, meeting the needs of the customer only works as long as it can be done profitably. This requires selecting profitable products and profitable customers, but in a market where everyone else is pursuing the same targets with similar marketing-led strategic approaches it is not easy, not to mention that the cost accounting systems in place are not very sophisticated. So the business theory is easy. Gordon (1998: 40-46) suggests that organizations should “decide the customer mix and the level of resources to be committed to each customer” (p. 41). This requires that organizations know the ‘cost-to-serve’ of each customer in order to obtain an integrated view of customer profitability. He claims that it is “appropriate” to map customers according to their current and future profitability. Organizations should *reward and invest* in ‘ideal’ customers (profitable now and into the future) by assigning them the best staff, giving them more service time, providing access to new technologies, and rewarding them financially. Customers that are currently profitable, but potentially unprofitable, need to be *managed* to ensure the continuation of profitability. Customers that are currently unprofitable, but potentially profitable, should be *disciplined* either by changing the processes used to service them (cost reduction), or by charging them a fee. Gordon claims that “some customers are unprofitable today, will be unprofitable tomorrow and do not merit further attention by the company. Let them become someone else’s problem or opportunity. *Fire* them” (p. 46, emphasis added). Nevertheless, he stresses that “terminated customers, like terminated employees, should leave feeling good about the relationship in which both have invested but which, for whatever reason, no longer create the value now important to you”. Kaplan and Narayanan (2001) discuss customer profitability issues and they seem also to suggest that organizations simply have to give up selling to their least profitable customers in order to increase their overall profit. In practice, however, first-mover advantages get competed away, and as more sectoral players follow the same “prescriptions”, there is a sense of uncaring marketing manipulation.

The integration of strategy, budget, and performance evaluation is a positive aspect at Vodafone. They have a well defined strategy plan aligned with clear objectives (short and long-term). The connection of the previous aspects with evaluation is also essential for the Vodafone mission and strategy attainment. As the CBU director stated,

We do not just have typical objectives (EBITDA, operational costs) we also use the ones linked to important issues for the business strategy or Group. It is not enough to have high revenues growth, we also need to have higher revenues in data services, because the strategy department thinks it will have an important role in the future. Because it will represent a higher weight in the future revenues we should carry it on right now.

Another positive point is the interaction between different units. This is seen not only in the budgeting process but also in other stages such as business cases, which enhances the coherence of the different links. Both areas analyzed in the interviews recognize the importance of each other, and this interaction value:

In our department we have teams specified for the support to different areas, like marketing, operations, financial, technology. They are interlocutors between the departments and each unit. In terms of business cases we have a solid relation with the areas, for new tariffs, new products (PBS manager).

The relation with PBS department is essential. It is reciprocal, it is not possible for the PBS department to forecast without having minimum information about the specific business unit, without the reasons that are behind the business itself, nor for the Business Unit to accept the objectives and targets without having a word, without cooperating on them” (CBU director).

Vodafone’s budgeting process seems participative, as the PBS director claims, “we do not have numbers imposed without participation”. This may be because if the numbers are imposed, then the business units would not recognize either the targets or the variances, which could imply a lower responsibility.

Although Vodafone has a participative process, and an effective negotiation where both parts (PBS department and BU) try to be very realistic, in the last stage the process suffers from a problem. The problem is that the numbers must always answer to the Group’s needs and instructions, so in this last stage some numbers may be imposed or adjusted, which forces the different departments to negotiate not their numbers, but instead, the Group’s numbers. Another negative issue deriving from the international context is the fact that sometimes

Vodafone may have the temptation of applying the same measures, indicators, or objectives for different countries, without taking into consideration the different realities. These two things may introduce a risk of an anti-group feeling, which if not dealt with properly, may create a sense of “we and them” at a lower level within Vodafone Portugal.

In national terms, it is easier to get the consensus, we discuss with all the areas [...] until the final consensus is reached. The problem may be the Group, who has the final word (CBU director).

At first, the cycle of interactions in the budgeting and reporting processes seems a bit dysfunctional (six budgets in a year, and reporting the information monthly or even in some cases weekly). It is a very time consuming process that requires many resources (about 38 employees) which could be applied to more valuable activities, such as analyzing the business, creating new products, satisfying the customer, studying the competitors (creating more value for either the company or the shareholder). As one PBS analyst stated, “I do not believe that the strategy changes radically every two months. Since you are always reviewing the budget, you do not have an idea of the continuity perspective. However, a more detailed analysis shows that although budget usually is perceived as a system to stabilize organizations, in this case these interactions enable Vodafone to stay alert and detect changes and problems in time. The budget works as an “organizational tent” that needs to be restructured relatively easily as outer conditions change (cf. Hedberg and Jönsson, 1978).

In addition to the budget, the organization has a Marketing Information System that has a broad range of environmental information, like demographical and consumer data. These systems expand from only monetary measures, try to deal with uncertainty, diversity, and change signals and are consistent with the organizational discourses of strategy and marketing. “Ideal designs should balance organizations’ exploration of the unknown futures and their exploitation of the known pasts” (Hedberg and Jönsson, 1978: 50). Furthermore, these are simpler and less prestigious MCS that efficiently can handle a few key (mostly

commercial) variables and which can be restructured relatively easily as outer conditions change.

Vodafone is also improving its MCS. They are implementing the CPM platform, which will allow the process to be more efficient and even provide a higher interaction between the different units and the Group. They are also planning the incorporation of some nonfinancial KPIs in the budget itself, such as those which are defined in the strategic plans (e.g. net quality, customer satisfaction, employee's satisfaction). This would increase everyone's responsibility. Nevertheless, working in a competitive environment, Vodafone was able to make the budget into a more efficient and reliable process and align it with strategy. Contrary to what the literature on the BSC suggest, Vodafone was able to interact budgeting with nonfinancial performance measures to provide a broader and more varied pattern of control.

Conclusions

The analysis of the MCS was carried out based on Otley's (1999) and Ferreira and Otley's (2005) frameworks. These frameworks are useful models for obtaining a comprehensive view of MCS and make it possible to identify strengths and weaknesses of the systems in place. Nevertheless, neither framework covers areas such as culture or other organizational contextual factors such as external environment, size, technology or ownership structure, because the authors view them as "contingent variables that might explain why certain patterns of control are more or less effective, rather than characteristics of the control system that need to be incorporated into a description" (Ferreira and Otley, 2005: 16).

Ferreira and Otley (2005), provide a good tool to conduct the interviews and help us to understand the whole gamut of MCS. Nevertheless, in the interviews process and in the content analysis, it was difficult to separate some areas. When there are twelve questions there is a possible problem: to analyze separately, what should be seen as whole. For example, Ferreira and Otley's (2005) questions had to be joined into the previous framework

(Otley, 1999). A structure of 5 + 3 + 2 questions was used. First, the five Otley (1999) sections (objectives, strategies, targets, rewards and information flows) were used. Key factors were added into strategies and plans; key performance measures into target setting; and processes of evaluation into rewards. Then three Ferreira and Otley sections were used (change in MCS, organization structure and links between MCS). Finally we added two new areas (culture and alternative or complementary MCS).

Theoretical Implications

This study demonstrates that organizational culture is an important tool to understand the links between all the components of MCS. If an organization's culture and its core control system are not synchronized, it is unlikely that even a well integrated core control system will actually influence behavior as intended (Flamholtz, 1983). This may point to a lack in both frameworks because they should take into consideration the effect that culture may have in the success or failure of MCS, as this is a key element. For instance, in this Vodafone case study it was useful to study and interpret the MCS context. All of the Vodafone employees interviewed recognized themselves within the Vodafone culture, which means that Vodafone has a specific identity that allows it to differentiate itself from others, and that permits the MCS to flow well.

Vodafone faces a specific environment (competitive climate) where innovation, quality, service, and customers are crucial factors. Clearly these factors are embedded in the top-management discourse that is used to make sense and explain actions and organizations. So the MCS need to answer to all of these pressures. A flexible and practical MCS was the choice Vodafone made. Instead of using alternative MCS, Vodafone opted for improving and adapting their budgeting process to the market needs.

The alignment between budgeting and strategy is achieved at Vodafone through five issues: culture, communication, responsibility, feedback and nonfinancial KPIs.

The Vodafone **culture** results mainly from its human resources. As the PBS manager stated, “although we depend a lot in this sector on the engineering side, the most important asset we have is still people”. This greatly influences the attitude, posture and day-to-day life at Vodafone. They have a young, dynamic and irreverent way of being, which contributes to the success and implementation of strategy. Their informality, speed of decision making, and flexible structure enhance the MCS flow. The Vodafone culture is the key link between the different components of MCS (objectives, strategies, targets, rewards, and feedback).

Strategy will be effectively implemented only if all the employees understand the company’s vision and mission. Vodafone seeks constantly to keep all employees familiar with the company’s strategy, which may bring more consistency to the activities. This **communication** process is a great tool that Vodafone possesses.

The third issue is **responsibility**. Vodafone endeavours to connect the positive and negative results with its employees’ activities. It maintains that it is crucial for the organization’s evolution that all matters have a face associated with responsibility. It focuses on a commitment between performance and rewards. But the most interesting thing is that, it focuses not only on the individual performance, but also on the organizational performance as a whole. Rewards are attributed only if the results of both are reflected in results of the overall organization, therefore enhancing the performance systems and creating a common spirit. Everyone works toward a universal objective.

Feedback flows may show whether or not an organization makes use of its internal knowledge and learning system. At Vodafone this process is greatly valued; people have many of meetings, suggestions, and internal evaluations.

Vodafone strategy focuses on the customer, innovation, and quality, so it is expected that these issues be measured. It was interesting to see that not only are these factors valued, many

non-financial KPIs are examined. There are KPIs for customer satisfaction, quality, innovation, brand, logistics, collections, and IT.

However, there are also some aspects that could be improved. Vodafone's budgeting process is a participating process; the relationship between the different units is especially interesting, because they understand the importance of each other. The overall effort is visible in the budget, but this process has some drawbacks, which are the Group impositions. Although the budget is discussed and negotiated internally, the Group always has the final word, which may affect the overall results, actions, and effectiveness.

This Group influence is observed, in the budget, the global KPIs, and the global strategy, and is understandable because they are the shareholders. This is a delicate issue because this may create within the Vodafone staff an anti-group feeling, which may affect motivation and performance. The relationship between what is decided locally and globally should be clearer. More autonomy and independency could help the situation.

Managerial Implications

This study has several implications for managers. The main conclusion of this work is that it is possible to improve the budgeting practices through a better alignment between budgeting and strategy, which may give budgeting a more reliable and effective role in MCS. A key insight gained from this case is the position of MCS in the organizational culture of a company, and how it can be a powerful tool to put budgeting and strategy onto the same track. Vodafone has many nonfinancial KPIs and a well defined strategy. The employees know the strategy well, but a higher commitment between those KPIs and performance measurement should be sought. For instance, it could be useful to incorporate such KPIs into the budget and transform them into individual and team targets, in order to have a greater responsibility.

Research Limitations and Future Directions

It should be recognized that this case study has some limitations that can be viewed as opportunities for further research. The first limitation is related to its being a case study. As a result, the findings can provide little basis for generalization, although this is not the aim of a case study (Yin, 1994). The second limitation is related to time constraints. It is a brief study that took place from July to December 2007. Although there were interviews with lower staff employees, the study focuses on individuals and aspects at the top of the hierarchical structure. Since Vodafone's strategy focuses on the customer, it could be useful to see how the MCS are carried out at the lower and operational levels (branches, customer service support). The ownership by an international group has a pervasive influence on all of its activities, and additional areas of research or improvements could arise from this, namely, the role of the integration of Vodafone Portugal within the context of the Vodafone Group, and how this can influence the strategy and budgeting alignment.

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Figure 1 - Otley's (1999) Framework

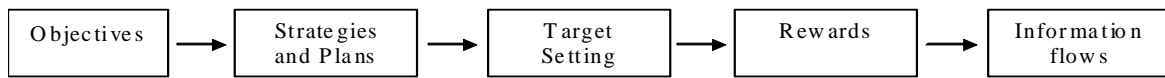


Figure 2 – Ferreira and Otley's (2005) Framework

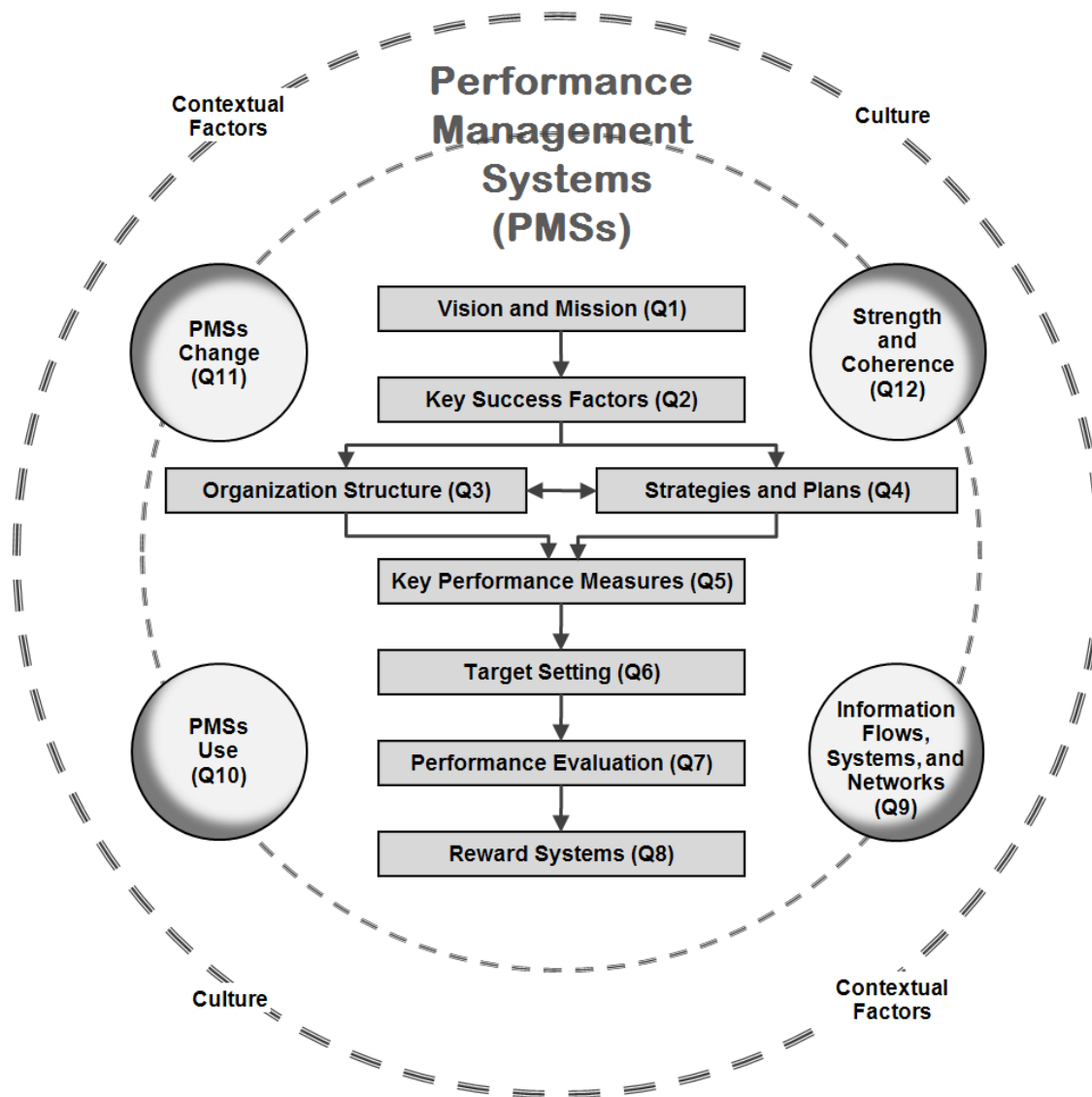


Figure 3 – Budgeting and Reporting Processes

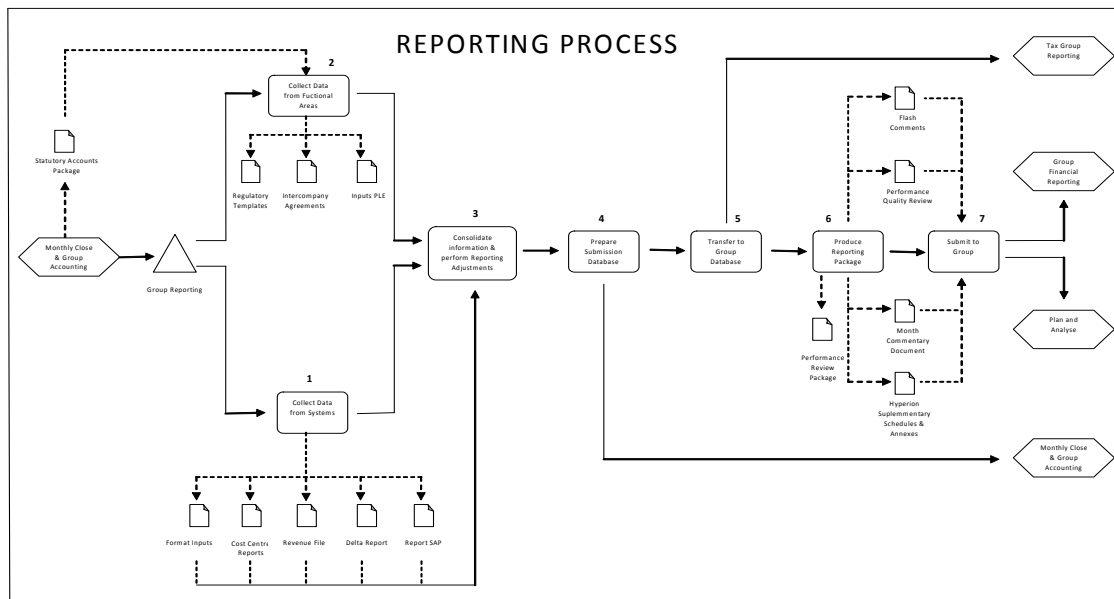
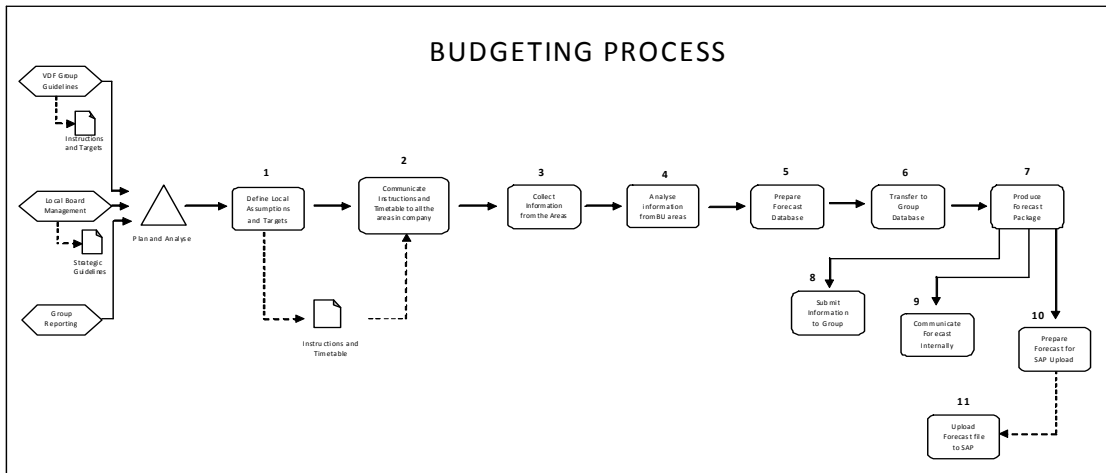
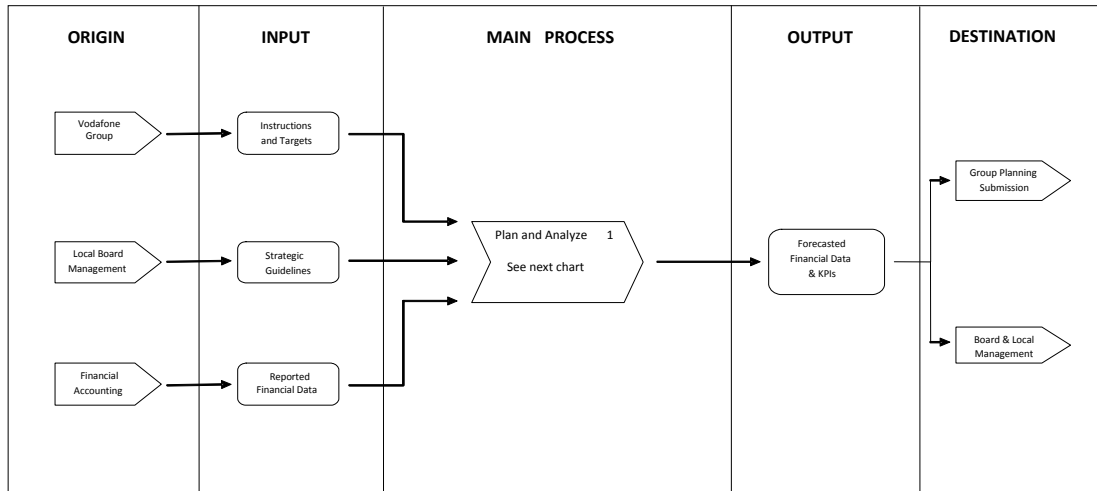


Figure 4 – Vodafone Brand Essence

The DNA is our essence. It translates our personality and our attitude.

RED

It's the passion and spirit guiding our actions. It's the colour of our emotions.

ROCK SOLID

We are of total confidence, fiable, and secure. We provide confidence through our services. People trust us.

RESTLESS

We are never satisfied; we have a constant challenge, to do the best.



Figure 5- Global Strategy

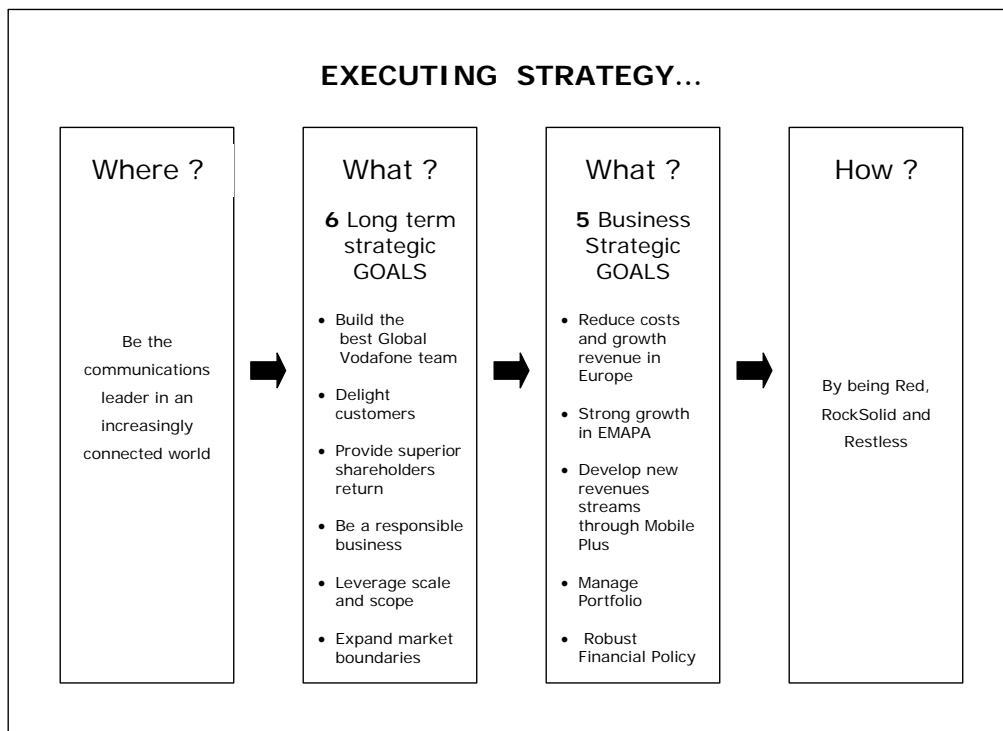


Figure 6- Examples of KPIs

Financial:

EBITDA
MOU (Minutes of use)
ARPU (Average Revenue per user)
Acquisition Cost per gross add
Retention Cost per upgrade

Non-financial:

Net Adds (Margin between the new and lost customers)
Churn (number of lost customers)
Market Share
Internalization Rate (roaming)

Quality / Innovation:

Perception of operator with lowest prices
Perception of operator that sells the best phones at best prices
Perception of operator with best handsets/service offering
Most Innovative Operator
Most Advanced Technology

Brand:

Brand preference
Spontaneous Awareness

Customer Care:

Perception of best support service
Customer Satisfaction
Direct Cost per answer called
Offered calls
Answered Calls
Abandoned Call rate
Handling time
% Resolution on 1st call
Complaints

Logistics and Shipping:

Shipping cost / sale unit
Cost per delivered unit
Service Support
Stock Rotation in days
% Production on Schedule
% Total non-delivery

Payment and Collections:

Bad debt (service)
collection actions per post paid EOP
net deactivated due to non-payment
Bill printing costs
Postage costs
Cost per bill printing unit
Cost per expedition unit
Finishing SL

Post-sales Support Repairs:

Post-sales Support Cost
Total Repairs
% Relapsing Repairs
Average Repair time

Network:

Number of base stations
Number of lines
Population Coverage
Territory Coverage
Call setup success rate
Dropped calls rate
Customer Satisfaction for quality communication
Customer Perception of inside building coverage

IT:

Total top-ups
Top-ups failed
Invoices' time from cycle end to production

Figure 7 – Performance Drivers

- **Customers on first**
 - Recognize the customer’s value and profitability
 - Understand and listen to customer’s needs
 - Provide an excellent customer’s service
- **People’s success**
 - Motivate staff
 - Flexibility
 - Talents identification
 - Team spirit
- **Delivering Results**
 - Motivation
 - Objectives orientation
 - Focus
 - Cost conscience
- **Environment Change context**
 - Overview perspective
 - Imagination
 - Judging / decision capacity
- **Make the difference**
 - Courage
 - Confidence
 - Responsibility
 - Curiosity
- **Communicate with impact**
 - Enthusiasm
 - Inspiration

Figure 8 - Vodafone organizational structure

