Exploring budgetary control change initiative in a bank

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**Abstract**: Drawing on Kasurinen’s revised framework of accounting change, this study explores the initiative to abandon budgeting in a multinational bank that resembles Handelsbanken in many respects. Analysing data from semi-structured interviews with the actors involved in, and affected by, the change initiative, this case study investigates the rationale behind the abandonment of budgeting and the challenges associated with it. While financial market’s stability and increased accountability of banks motivated changes in the case company, the appointment of the head of finance with expertise in beyond budgeting was the major catalyst of change. This change ‘leader’ was of utmost importance in providing relevant support and training, facilitating the change attempt, and overcoming the initial resistance to change. This research extends previous studies of beyond budgeting by analysing the change initiative in a context considered susceptible to beyond budgeting practices, but where the remnants of former budgetary control did not regress as intended.

 *Keywords*: beyond budgeting; budgeting; change; management control.

# Introduction

Many companies forming, or endorsed by, beyond budgeting consortiums claim to have abandoned budgeting or be on their way to do so, suggesting that the new management model built on operating without budgets is not bound in space (Hope & Fraser, 2003b). Whereas concepts with high level of interpretative viability are deemed to be more easily transmitted to new social settings (Benders & van Veen, 2001), the actual abandonment of budgetary control may be contradictory to the assertions of beyond budgeting propagators. This study hence explores such initiative to abandon budgetary control in a beyond budgeting context. Even though there is a regular call for studying contemporary and future professional practices in accounting (Johnson & Kaplan, 1991; Kaplan, 2011), a deeper understanding of the implications of changing or removing budgets is still lacking and more knowledge is looked-for to capture potential weaknesses and implementation challenges associated with alternative management accounting practices (Østergren & Stensaker, 2011).

Financial institutions are considered good candidates for decentralizing organizational structure and adopting alternative budgeting practices. Budgeting as a centralized control mechanism is somewhat in conflict with the management model in banks where employees are usually empowered at all organizational levels (Max, 2002), and pool organizations such as banks are argued to be more predisposed to this novel management control system than other institutions, especially those with considerable local complexity (Dugdale & Lyne, 2006). A well-known bank that is commonly associated with the beyond budgeting approach, Svenska Handelsbanken, has inspired companies in various sectors to reconsider their own budgeting practices (Lindsay & Libby, 2007). In 1970s it was a highly centralized command and control organization that took the decision to transform and was indeed able to change itself from top-down to bottom-up. Other companies have also been identified resembling Handelsbanken in its endeavour, yet their approach was somewhat different.

One common factor associated with the early identified companies that claimed to have abandoned budgets is their Nordic origin (Becker, Messner, & Schäffer, 2010). Nordic advances in novel management accounting techniques are usually emphasized as being concerned with the importance of such notions as trust and dialogue in stimulating organizational learning and managing loose couplings, which is contrasted with improving formal, top-down managerial decision-making and control (Jönsson, 1996). Accordingly it has been argued whether such radical management accounting change as beyond budgeting would be possible in other contexts and how adequate control over employees would be maintained (Lindsay & Libby, 2007). Instead, given that beyond budgeting practice is not so prevalent, this study focuses on the initiative to abandon budgeting in a context that actually resembles Svenska Handelsbanken in many respects, including its origin, sector and operations. A study is hereby employed in a multinational bank that has a strong market presence in the Scandinavian and Baltic regions. The Baltics have been dominated by Scandinavian banks shortly after the restoration of their independence, and hence might provide useful insights into the processes of budgeting and management control systems. Baltic countries as post-socialist societies also provide an interesting case where particular social-historical processes have accounted for a number of ethical problems at workplace and trust in the society is generally low (Pučėtaitė, Lämsä, & Novelskaitė, 2010). The empirical investigation thus addresses the following research question: How does a Scandinavian bank move from budgeting to non-budgeting?

The remainder of the paper is structured as follows. First it reviews the beyond budgeting practice and provides the theoretical framework for studying management accounting change. Then it outlines the research method used in this study, followed by the presentation of empirical findings. Finally, it discusses these findings and concludes the paper.

# Beyond budgeting

Budgetary control[[1]](#footnote-1) is one of the early management accounting practices that institutionalized in business firms as a definitive measure of administrative control. Initially underscored as a means to coordinate the activities of various functional departments and to execute centralized control (McKinsey, 1922), budgeting system has eventually come to serve other important functions including forecasting, planning and evaluation (Covaleski, Evans III, Luft, & Shields, 2003). Following its dissemination, many negative aspects associated with budgeting practice became evident (Hansen, Otley, & Van der Stede, 2003), and the rhetorical schemes used to institutionalize budgeting in the first place, i.e. environment turbulence and management emancipation, have become used for contrary purposes – attempting to deinstitutionalize the practice (Berland, Joannides, & Levant, 2014). Although the limitations of budgeting practice seem to be widely accepted (Ekholm & Wallin, 2000; Libby & Lindsay, 2010), the solutions are not (Otley, 2006), and concerns raised by the proponents against the budgeting practice have culminated in the beyond budgeting movement (Becker et al., 2010).

The Beyond Budgeting Roundtable, a study group established within an industry association in 1998, has evolved looking into organizations to find ways to abandon budgeting. The beyond budgeting movement has subsequently progressed from outlining the principles of the beyond budgeting model (Hope & Fraser, 2003a), and implementation beyond incremental change (Bogsnes, 2009), to understanding the model beyond command-and-control (Hope, Bunce, & Röösli, 2011). Two prospects are associated with going beyond budgeting, aside from abandoning the budgeting practice: one is adaptive management and the use of relative indicators for target setting; and the other is radical decentralization and employee empowerment. This adaptive and decentralized management model is said to be simple, low cost, and relevant (Hope & Fraser, 2003a); however the beyond budgeting approach then becomes coupled with the standard problems of relative performance evaluation and decentralization (Hansen et al., 2003). The main elements of beyond budgeting model include external focus, benchmarking competitors; explicit strategic and not only financial focus; common IT system to avoid duplicate effort; explicit forecasting model separated from financial management systems; and the effort to manage future results and not explain past performance, focusing on many non-financial actions.

Following the survey of budgeting practice in North America (Libby & Lindsay, 2010) and the outlining of beyond budgeting theoretical concept and practical phenomenon (Becker et al., 2010), academic researchers have set out to collect empirical evidence of various organizations that have endeavoured to implement beyond budgeting ideas in the Nordic countries (Bourmistrov & Kaarbøe, 2013; Henttu-Aho & Järvinen, 2013; Østergren & Stensaker, 2011; Sandalgaard & Bukh, 2014) and German-speaking Europe (Becker, 2014). The case and field study evidence has shown that the adoption of beyond budgeting and its sustainability over time varies considerably across organizations. Becker (2014) illustrates how a skilful agency by dominant insiders helped to construct the need and manage for change, even though a number of antecedents to budget abandonment were already present.

# Management accounting change

This section introduces the framework used as a theoretical lens to investigate the reasons for change, the process of change, and the resistance to change in the case company. The emergence of new management accounting techniques and the changing roles of management accountants in contemporary organizations have led to an increased interest in the challenges associated with managing change. Organizational theorists view change in modern organization that takes form in material terms or rhetoric around social phenomena. The endeavour to understand management accounting change has accordingly given rise to various theoretical approaches and frameworks that vary in their level of analysis and angle, such as the diffusion theory of innovation, the planned change and organizational development theories (Granlund, 2001; Modell, 2007). The literature on implementation of management accounting techniques and the general framework for studying management accounting change has accordingly shown that implementation tactics need to be matched with particular environmental, technological, organizational and individual-level characteristics (Modell, 2007). Evaluation of accounting change could vary at different management levels, and change and stability have thus been identified to coexist together subject to some balancing of various sources of power in the organization (Burns, 2000).

Innes and Mitchell (1990) identified three factors that stimulate the process of change in management accounting, based on their nature and timing of their influence on change. *Motivators* are considered to be general changes in the organizational context, including market competitiveness, production technology and product cost structure. *Catalysts* are more directly associated with management accounting change, including loss of market share, deteriorated performance and other organizational changes. *Facilitators* correspond to necessary but not sufficient conditions that contribute to change initiatives, such as adequacy of staff, computer resources and authority linked to the accounting function within the organization. Interaction of motivators, catalysts and facilitators is essential to bring about change. Subsequently this model of change consisting of primarily external factors, drawn on comparative case studies, has been further developed in a longitudinal case study of changes in bank’s management accounting system (Cobb, Helliar, & Innes, 1995). The new model has included *barriers to change* that hinder, delay or prevent change, including changing priorities, accounting staff turnover, and resistant attitudes to change; *leaders*, certain change agents who influence how the process of change occurs within the organization, e.g. motivating people, enacting new strategies and even adopting new technologies and business processes; and the *momentum of change*, or expectation of continuing change. Whereas motivators, catalysts and facilitators may create the potential for change, action by individuals and sufficient moment are required to initiate the change and overcome the barriers to change. Commitment of change agents is pivotal in change initiatives, ensuring that employees understand the change process, and not communicating too late or inconsistently about the changes. Consequently, this model of change has been refined in another longitudinal case study so as to include a broad range of barriers to change, which are more easily recognized at the early stages of change initiatives in the organization (Kasurinen, 2002). *Confusers* refer to diverging goals of parties which may disrupt the case project, such as the uncertain role of the project. *Frustrators* are more general barriers which may supress the change attempt, such as organization culture and financial situation. *Delayers* may slow down the change process, relating to primarily technical and temporary issues by nature, such as revealing the difficulties in specifying the strategy. The study reveals that the implementation of the novel management accounting technique may be followed by unintended and unforeseen consequences. Figure 1 illustrates the concluding framework, which is especially potent at the early stages of a change process.

Figure . Accounting change model

Adapted from Kasurinen (2002, p. 338)

Motivators

Facilitators

Momentum

Leaders

Potential for change

Confusers

Frustrators

Delayers

Catalysts

ACCOUNTING CHANGE

The current study hence contributes to this management accounting change literature by providing a more detailed insight into how such influencing forces of change, as framed by Kasurinen (2002), affect the realization of change initiatives in the context of beyond budgeting. Analysing inhibiting forces of change could help organizations in their attempts to overcome these barriers in practice.

# Research method

A case study presents itself as a suitable method for studying an evolving phenomenon, providing an in-depth understanding of the complexity inherent within a case, and thus allowing for theoretical transferability of the study’s findings (Ryan, Scapens, & Theobald, 2002). Even a single case for studying a phenomenon grounded in a specific context can still be of general interest to public (Silverman, 1993). Additionally, it seeks to identify the conditions for radically changing budgetary control and the factors influencing the change process. Starting with an underlying assumption that all organizational activity is meaningful in practice (Hastrup, 1997), in a qualitative research there is a need to articulate organizational members’ ‘theories-in-practice’ and their motivations and relate those to observed activities (Ahrens & Chapman, 2006), whereas then it becomes not simply an empirical but a profoundly theoretical activity. The purpose of employing a case study is herein to delve into the decision-making behind management accounting change and how these change initiatives are used in different locales of an organization.

Since the case company has been in a continual process of changing its management model, the data collected is both retrospective and real time trying to explain the rationale behind management accounting change, the initiatives attempted, and the resistance encountered. The primary data collection technique used in the case study is semi-structured interviewing, where the purpose is to produce a reliable account of the phenomena given the interview data. Both the actors involved in the change initiative and those affected by it have been considered relevant for the interviews. These included financial officers, managers and controllers, both at the group, regional and branch levels (see Appendix). The bank was initially approached through a member deeply involved in the change initiatives, who in turn identified others relevant for the study. The discussions were guided by the developments within budgeting research and management accounting and organizational change research, although unexpected issues were allowed to emerge, as deemed important by respondents. Other data sources include e-mail correspondence, internal reports and publicly available documentation. Given that perceptions may significantly differ within the case of a single project, contextual validity has been assessed by comparing different kinds of evidence on the same issue, triangulating data and method (Ryan et al., 2002). To ensure procedural reliability of the study, all evidence has been recorded in a coherent set of field notes, whereas interviews, if appropriate, have been voice recorded and transcribed. Each set of interviews has been analysed prior to commencement with the following data collection endeavours. The qualitative content analysis has been based on identifying the timeline of events, narrating the change process, assigning key concepts to the data, and linking these to theoretical themes.

# Empirical study

The empirical case study took place in a multinational banking group that has positioned itself in several home markets: Scandinavia and the Baltics. For confidentiality reasons, the case company is hereafter referred to as NorBank. NorBank traces its roots back to the 19th century, when the first saving banks originated in Scandinavia. A number of mergers and acquisitions have taken place over the years, and NorBank expanded to the Baltic countries as full owners of the subsidiaries in the early 2000s. The corresponding banks in the Baltics were established in the 1990s and, prior to the acquisition by NorBank, were controlled by a bank in one of the Baltic countries.

Globalization and developments in information systems and technologies have been transforming the banking industry for the past several decades, constantly forcing banks to reconsider their management control systems to remain competitive in the current business environment. Recent financial crises have pressured banks ever more ‘to improve performance by adopting new management practices and technologies, to strengthen their capital base, reduce non-performing and toxic assets, bring down operational costs, enhance corporate governance, and sharpen customer-centric initiatives’ (Munir, Baird, & Perera, 2013, p. 197). In 2008 the financial crisis hit NorBank, and in the spring of 2009 the new top management stepped in to recover the bank. According to the respondents, the first two and a half years the chief executive officer (CEO) ran the bank conventional command and control way, and in the summer of 2011 the bank was ‘rescued’ – its balance sheet had already been restored and things were going quite well.

## Decision for change

In the fall of 2011, after NorBank has recovered from the financial crisis, the chief financial officer (CFO) was accordingly replaced by the former chief risk officer (CRO). Both the CEO and the new CFO have been perceived as having command and control type of personalities. Nevertheless, the ideas to change the management model in the bank have started to emerge, whereas organizational change is argued to be a result of a blend of intentions, random events and institutional norms, as opposed to the outcome of strategic choice or environmental influence (Czarniawska & Joerges, 1996). The new CFO has decided to keep in the bank a person who back then was the Interim Head of Group Control and Reporting in NorBank, and who also had more than 30 years of prior work experience in Handelsbanken, having held among others the position of the chief financial officer. To enrich the reproduction of the case, this person’s quotations will be used multiple times throughout the results section.

Now he [former CRO in NorBank], having been appointed a CFO, had a feeling, I think, that he wasn’t really into management accounting so much. So he asked me whether I could stay on that job and actually become Head of Group Finance and report to him. And my immediate answer was, of course, that ‘Well, you realize I could never work as Head of Group Finance in organization with a budgeting system’. And he said ‘I realize that, but we have decided to take that out’. (former Head of Finance, Group)

The ideas for change initiatives are often impersonally derived, which become appropriated by those with control aspirations in an event of idea manifestation, or which become attributed to somebody else in an event of failure. Handelsbanken has for at least two and a half decades been very open about how it is managed and what their management model is (Wallander, 1999), so the top management in NorBank expected to get some kind of inspiration from the former CFO in Handelsbanken.

Change thus becomes a process of learning from other organizations’ experience, where imitation is far from passive adoption but rather an ongoing and never-completed accomplishment. The distance between the leader and the imitator makes room for translations, fillings-in and various interpretations of the meaning of change (Sahlin-Andersson, 1996). According to the former Head of Group Finance, in already complex organizations the change initiative has to start as a top-down process, although some members in the beyond budgeting community do not see it that way. An important difference between NorBank and Handelsbanken is that in Handelsbanken the new CEO, namely Jan Wallander, came in with completely new ideas of how to manage the business. Jan Wallander was a person that made people discuss with him and made people feel that they were part of the change, which they not necessarily were, and he had convinced the board of directors in Handelsbanken that that way of doing it was the right way of doing, so therefore they supported him all along. In NorBank the situation was rather different. The CEO did not himself come up with the idea of changing everything, but the former Head of Group Finance played an inspirational role too, even not being part of the top management team. And yet, according to the former Head of Group Finance, the CEO and the CFO in NorBank were perceived to resemble Jan Wallander in Handelsbanken, at least at the time when the organization’s transformation was about to happen. This has provided some momentum to the change initiative that could actually come through.

[The CEO], as I have come to know him, is a really open-minded kind of business leader. … And he has a way of looking at people and seeing people in his organization as potential performers, which has made him, as far as I understand it, very open to beyond budgeting ideas. … But it is my impression that [the CEO] really has thought about these things. He has not only read them and he has not only discussed with me and other people expressing these ideas. He has thought about it and he has come to the conclusion: this is really the right way of running a complex organization in a service business. ... And that actually goes for the CFO too, even if his personality is even more commanding. ... So I am pretty convinced, and that’s important for me personally, that these two people – they are really corresponding to Jan Wallander 43 years ago. These two people do have the will and the understanding and the conviction that this is the right way to do it. And we are ready to do it. (former Head of Finance, Group)

Change, sometimes viewed as imitation, is dependent on the match between situation and identity, based on the appropriateness and sense-making. For instance, the presence of conflicting interests among organizational members and associated changes to budgeting practices through the initial development or breakdown of routines and structures could potentially generate conflict and hinder organizational decision making (Covaleski & Dirsmith, 1988a, 1988b; Czarniawska, 1997). And so an idea for change is usually ‘anchored’ with potential allies prior to the formal decision-making process, whereas decision-making itself becomes a legitimizing ritual, barely confirming what is already irreversible (Czarniawska & Joerges, 1996). Eventually, the decision to scrap the budgets in NorBank was not really a board decision, even though the board had already thought about that. The board was informed and the decision was anchored with at least the chairman of the board, which the former Head of Group Finance had to make sure was actually the case. This instance of bringing forward to the board the decision to take out the budgeting system in NorBank has similarities to what had happened in Handelsbanken in 1970.

In a board meeting, a board member asked the new CEO, Jan Wallander … (now this is the December board meeting, this is the meeting where we usually decide about the budget for next year) … ‘Where is that? I can’t see it on the agenda’. And Jan Wallander said ‘We don’t have a budget any longer’. ‘Oh, I see’. And it was no longer there. (former Head of Finance, Group)

## Timing of change

Still, there are important differences to how this change came to be in NorBank compared to Handelsbanken. It can be argued that for people to be receptive to new ideas, crises are a prerequisite. NorBank was in a crisis in 2009, but certainly not after 2011, and hence there was no sense of urgency to make people feel that it was necessary to change the way NorBank was led, whereas Handelsbanken in 1970 did perceive that they were in sort of a crisis and had to really cut their costs.

Jan Wallander has stated very clearly, when he describes the situation, that he would really underline the difficulty that Handelsbanken was in. And he would admit too that maybe he underlined that more than was the actual case, but he found that it was helpful to keep the people in that special perception that the bank was really in big trouble and now we have really to fight for it. ‘To be able to survive as a bank, we have to bring down costs’. They didn’t have to bring down costs. (former Head of Finance, Group)

According to the former Head of Group Finance in NorBank, during his 35 years of tenure in Handelsbanken they went through two financial crises and various deregulations in a decentralized management model and still behaved better and more successful than any of the other comparable banks. And so he was convinced that relying on people that really know what’s going on in the market place is ‘the right medicine’ to make sure that the whole organization ‘does the right thing’. Accordingly his feeling was that, when NorBank left the financial crisis in 2008-2009 behind, it was an excellent timing for a bank like NorBank to empower its business organization much more and get rid of the detailed formal planning mode. This in turn would be the right way to meet harder competition, larger growth, more regulation, and whatever might be the challenges going forward; and this corresponded to the perceptions of many other people in the bank too. Yet it was not his but the top management’s decision to make.

I have to admit I don’t really know whether one of the reasons that top management felt that this would be the right time to make the business part of the organization more autonomous and empowered, to make the right decisions and to come closer to the customers, and all that. I don’t know whether they felt that the timing was right because the market was not so competitive any longer, or that things weren’t changing that rapidly, or that digitization, for instance, didn’t go as rapidly as it proved to do only a year later or so. I don’t know whether that was one reason why they thought that ‘Let’s take this risk of relying on people because nothing can go very wrong right now anyway’. (former Head of Finance, Group)

In addition to the advancing forces of change initiative described above, the relevance of budgetary control had also been contrasted to the changing banking environment, comparable to that of utilities, where nobody expects big growth. According to the CFO of Baltic business area, in stable markets budgeted numbers are not usually very different from actual numbers achieved last year, hence the relevance of budgetary control is lower and the importance of following up on actuals is higher.

I think we caught up in this quite quickly in [NorBank] that the banking sector is not going to be a high-growth sector anymore. … So the question is: do you gain a lot by comparing with a budget or comparing with last year’s actuals? (CFO, Baltics)

Simple planned changes can be explained reasonably well by leader’s ingenuity and/or environmental pressure, such as crisis management; however what usually happens is that organizational change materializes from unplanned or even undesirable antecedents (Czarniawska & Joerges, 1996). The belief of the former Head of Group Finance hence remained that it is really up to the CEO and the CFO to convince the board fully to support the organizational change. And only then, when times change and problems arise, can the new management model sustain and not move back to command and control mode of management. Although ideas turned unattractive may still be stored in organizations for a possible future use, deinstitutionalization is characterized as the process by which institutionalized standards, explaining the right way of organizing, gradually lose their position (Røvik, 1996), and that was the idea behind the change initiatives happening in NorBank.

The next subsections describe the change processes that initiated in two NorBank’s main business areas and the unforeseen consequences that followed.

## Scandinavian business area

You scrap a couple of columns in the management report, that’s all you do. It doesn’t exist any longer. (former Head of Finance, Group)

It may appear that it is simple to take out the budgeting system after the decision is made, but there is much more that needs to happen in parallel within the organization in the way it works, enabling and empowering the business part of the organization to work in business sense with its customers. And hence the former Head of Group Finance, after taking on the position offered by the CFO, contributed very concretely to the change processes in NorBank. On top of the conceptual discussions with the top management, he was working on financial steering: changing the measurement systems, making them work better, more credible, more trustworthy, so that people in the business organization could trust that they had the right information to make informed and enlightened decisions in business matters. This was supported by having meetings with lots of people in the organization, both one on one and in larger meetings, where he would explain why Group Finance was performing the change, how these changes would affect the measurement of financial steering, how it would impact the way bank works with customers and the market. According to the former Head of Group Finance, people in NorBank did not really understand the meaning behind decentralization or the concept of beyond budgeting and how it really supposed to work.

When I joined this bank 2.5 years ago, I noted that in a lot of written documents and in the way people express themselves how [NorBank] really works, they would say that we have a decentralized organization. And they would say ‘We need to have decentralized organization because we want people out there meeting customers to feel that they are mandated to do as good business as possible’. But at the same time as they said that, they had all these management tools that would tie everyone up in following a specific plan, in maximizing short-term sales, … to bring down costs. And all that would be imposed on people. And if you impose all these things on to people, and at the same time we wanted to feel that you are empowered to do things, it doesn’t work. (former Head of Finance, Group)

According to the former Head of Group Finance, an organization cannot move slowly into a new management model, it has to make the transformation in a short enough time for people to see the full transformation. People have to see ‘we left this place’ and eventually ‘we’ll go to this place’ in management model terms.

What immediately happened in NorBank when it took out the budgeting system was that the reward system has also become uncoupled from these estimates. 3-year postponement of rewards was introduced based on the Group’s overall performance. Also a couple of pages were added in the management report where regions were compared to regions and business units to business units. Even though a financial reporting system to branch offices in NorBank was already in place at that time, it used to be a rather detailed plan set for each branch office, where of utmost importance was the fulfilment of the plan rather than scoring in the ‘benchmarking thing’. Identifying the high/low performers is considered as easy in a beyond budgeting organization as it is in a budgeting organization, and so the worst performing managers would also receive guidance to improve their position. But if a branch manager is identified as a credit manager with bad judgment, fails to keep up a ‘tidy business’ in audition terms, consistently underperforms in profitability terms, or fail to adapt to the corporate culture in some way, e.g. having more than normal amount of customer complaints, then he would be offered some other job in the bank.

The planning became focused only on measurable activities and not at all on financials, done on a yearly basis whereas in some branch offices even more regularly than that. The forecasts were still present, but the steering process was not so extensive, which was more of an input for further decision making. The focus in the performance review meetings moved away from comparing forecasts at different time periods to examining actual trends and developments. Originally, the forecast was whatever the management compared it to when measuring performance. As the comparison became less and less useful the forecasts were tended to be rolled more and more, putting more effort into changing, mitigating the forecasts to make them more aligned with actuals.

The first performance review meeting I went to in the spring of 2011, as the Chief Accountant then, they spent two hours discussing why rolling forecast one was different than rolling forecast zero that year. They didn’t touch on actuals at all. It was just one dream compared to the other dream, and why is this dream different from the previous dream. I found that extremely amusing and really shocking for someone who had worked for 36 years in organization always analysing actuals and only actuals. And suddenly I was in a meeting where they would just discuss various guesses. … I haven’t met any company that has moved from budgets to rolling forecasts that haven’t actually kept budgets but under a new name. … Now [NorBank] would not have a rolling forecast and a budget, but we always compare actuals. (former Head of Finance, Group)

Resource allocation, or investments, is considered really important to a bank, planning and reasoning business cases out of each project, such as an IT investment portfolio, which in itself is a strategic decision for the future. And even though this separate decision-making process could not be decentralized in NorBank, where the CEO, the CFO and the Chief IT Officer would oversee this process, budgeting was not seen as helpful. The discussions on the cost allocations for this were down in the ordinary transfer price committee.

That was one of the ideas I brought with me. And that was something that was very easy to implement here. They could immediately see the problem and how the solution could help the bank. (former Head of Finance, Group)

What also happened in NorBank is that in the beginning of 2013 it changed its organizational structure, attempting to move the decision-making authority closer to the customers. A full management layer that coordinated the six Scandinavian regions has been taken out, and instead of one manager representing all Scandinavian regions, which account to about 60% of the bank’s gross revenue and net income, every regional manager became part of the top management. These changes were intended to introduce a different leadership, which is more supportive, reserving, not hanging on to everybody and following in detail what they are doing, but nourishing people to work more autonomously as leaders. In complex organizations the initially top-down formal process of implementation, dominated by senior management, may become inverted as a means of lateral and bottom-up communication, embodying and reinforcing trust. Accordingly, at that point in time the former Head of Group Finance left his position to become the coach of the Scandinavian regional managers.

I didn’t become a member of the Group Executive Committee, and I thought at the time that that wouldn’t have been a good idea because being outside that particular group of responsibility I would be able to work more independently myself, and in certain matters probably support staff units’ view and in other matters support business view and in other matters support the CEO and whatever I could do. (former Head of Finance, Group)

Regional managers discussed the change initiatives with the former Head of Finance and thus through formal and informal meetings communicated these ideas to the rest of the bank. Regional managers can hence be viewed as opinion leaders, informally influencing their subordinates in order to create acceptance of change; and also as change leaders (Cobb et al., 1995), initiating and implementing changes in their area of influence. However there were still challenges to empower branch managers in Scandinavian regions to work more autonomously. Regional controllers have since seen their own role convert towards increased business orientation, where the responsibilities have somewhat shifted down to the branch managers. Even though the plans and the budgets as a tool were no longer there, there was continuing micromanagement towards the branch managers by the regional managers, which at that stage NorBank tried to change.

## Baltic business area

Scandinavian management is usually considered to have low workforce mobility, low power distance, teamwork and a democratic but relatively slow decision process (Johanson, 2013), whereas the management style in the Baltic banks and the autonomy of branch managers in particular has been rather changing since the 1990s. Even though banks were highly centralized at that time, managers were in a certain way more autonomous because management tools were not so advanced. But as the management tools became more sophisticated, the monitoring by top management increased and the plans became much more detailed, which has not changed much since the financial crisis in 2008.

Distances that stretch between societies, e.g. cultural, linguistic, mental, can hence be influential barriers to change within organizations (Ax & Bjørnenak, 2005). In the Baltic countries it hence seemed to be not as necessary to transform a management model as it was in Scandinavia, because Baltic countries were seen more as emerging markets rather than a mature market and the financial market there is not as complex. Also, Baltic banking operations comprise less than 20% of the whole Group’s gross revenue. There were changes happening in the Baltics, but in another direction: digitization, reorganization of technical-administrative staff, and not really the change of leadership. Organizational setups in each of the Baltic countries became ‘identical’ in 2013, and in order to try to get as much synergies as possible between the countries, pan-Baltic competence centres were formed, which strengthened a competitive advantage in the region. The Group’s belief has been that ‘true’ decentralization should rest on a conviction of trusting each individual member in the organization – making it possible for them to run the business more autonomously at the branch office or the business unit. However, the advantages of the decentralized organization in the Baltics were seen as not possible to be achieved at that moment. In certain senses the market in the Baltics was not perceived as mature enough.

Because they have been educated and they have been fostered in a highly centralized culture, highly centralized organization, where they hadn’t really even asked for understanding, they haven’t really been required to understand what they were doing, but they have just followed the instructions and orders that have come. (former Head of Finance, Group)

One explanation for the continuing use of fixed targets is that employees in the Baltics are not used to working without the predetermined targets that have to be attained, in contrast to the state of affairs in Scandinavia.

So even if they say they do, they don’t really understand the concept. And therefore they still think ‘budget’ even if it’s not budget. (CFO, Baltics)

We have had some pilots where it [target setting] is more flexible, then it doesn’t work really – people are getting immediately too relaxed and then they don’t know how to still make sales at all. (CFO, Latvia)

The reason why [Scandinavian] culture differs from the one here on the other side of the Baltic sea is that people, who work here, they are in a way oriented towards a certain precision, a somewhat clearer understanding of the goals and broader discussions in general, like ‘what are we going to do, how are we going to plan’. Maybe this is very clear to [Scandinavians], but it is not always so on this side. (CFO, Lithuania)

Using the concepts of budgeting, forecasting and target setting interchangeably was rather common. According to a financial officer in the Baltics, they perceived their practice as budgeting, which was called forecasting, where the processes have not changed much but the emphasis of delivery and the language were different.

We are more like changing our mindset as we go rather than now we do beyond budgeting from 2014. It’s not the case. So we are transforming in this, kind of going away from the hard budgets, but we still have budgets. We still have, you know, we have the budgeting tools the same, we still follow-up on budgets. … So you are not so hardly attached to a certain budget, but it is evaluation. And evaluation still against, I would say, we call it forecast. It’s more like we have gone from the budget to more forecast language. (CFO, Latvia)

I am sure that we from time to time have, for instance, cost targets and then you can always debate what’s the difference between a cost target and a budget, but it is only one percent of the total costs that has a target… Where do you draw the line? (CFO, Baltics)

The struggles to change the management model were also reflected in how forecasts were coupled with budget type of thinking. Even though there was no requirement from the Group Finance to make any budgets, everyone had to do forecasts. It’s a tool used in order to give inputs for what decisions to make. ‘When we do forecast, forecast should be really the best forecast to the best of your abilities. There shouldn’t be any buffers in the forecast. They shouldn’t be conservative. The forecast shouldn’t be a happy forecast. It should just be your best estimate at this moment in time.’ And so the Baltics still did budgets annually with a monthly split and high grade of thoroughness and the local management followed up as if the budgets were made by the Group.

I mean that has happened. We send in our forecast for the Baltics to Group, and then we get a signal back from the Group saying ‘You have to reduce your forecasted costs by X, Y or Z’. Then it becomes a budget. (CFO, Baltics)

From a 2013 point of view, the Scandinavian regions were increasing their costs, hiring new people, whereas the Baltics were very much in a cost saving mood. Yet, the level of costs in the Baltic countries in 2014 has reached such a low level that the focus has changed towards ability to grow revenues, and if that would not happen, then the emphasis would go back to traditional style of management, cutting costs. But then, the perception of performance review meetings in the Baltics was also different from that in Scandinavia.

We are no longer using this [benchmarking]. ... There are so many nuances, such as internal transfer pricing, which are not really under my control, but which are dragging me down... and I don’t really feel like discussing this [with the Group]. ... Also, we have reached such a level that there are no more unprofitable branches. … I can no longer say ‘I am closing you because you are bad or your client base is poor or your potential is unrealized’. Hence this [benchmarking] criterion is no longer as effective. (CFO, Lithuania)

## Aftermath

The change process that had initially caught on very well has after a while hindered. The managers sent strong positive signals when they got to know that they were about to work more autonomously and self-manage their business units. But then top management got distressed, feeling that the market was changing more rapidly than expected, the competition was increasing, and the new regulations put a big strain on the whole organization to adapt to them. In 2009 and up to 2011, NorBank made a Group budget and had a more extensive and formalised annual budget process, and the financial result was compared with budget for the respective period. The budget process was completed with a mid-term plan where a 1+3 year forecast was performed, which was made approximately six months after the budget process and worked as an input to next year’s budget process. In 2011/2012 the budget was replaced by quarterly rolling forecasts, and in 2012 the rolling forecasts were completed with formal cost targets for each area and the Group as a total. The cost targets were back in 2014 since the focus on operational costs had an increasing importance in the preceding years. This is something that influenced the financial steering and planning processes.

We didn’t know what target we were going to have in the beginning of the year, because we were told that we’re going to set our own targets. And we did and we set, not the target but which indicators and what we were going to follow up in each region, and then our regional manager went back and said ‘This is my target’ and he made a commitment with [the CEO] and that was part of his target for this region. And then they came back, I think in May, and then they changed it. … Today we have got cost target for the region and we are thinking of setting cost targets also for the branches for the next year. (Regional controller, Scandinavia)

In this particular situation, as they feel, they cannot rely on people doing the right thing up there in the business organization. … And I think that is the general instinct of so many top managers in complex organizations. They don’t trust people around them to be able to make the right decisions and take the right actions as well as they themselves are able to make decisions and point to the directions people should move in. (former Head of Finance, Group)

The team that was formed in the beginning of 2013 to coordinate the whole change process was already dissolved by the summer of 2013. Instead the responsibility for coordination went back to the top management with the CEO on top of it, who instructed the internal consultancy unit to produce an operational plan where all the changes should be put into, which could be seen as an attempt to gain legitimacy for the CEOs change initiatives. And so the operational plan was decided and presented to the board, which the Group Executive Committee felt quite happy about, but which returned the organization to the planning mode, even if the plan was to make the organization more empowered and more decentralized. The written plan was eventually supported and sponsored by the board, making everything top-down once again. The situation also seemed to have changed once the former Head of Group Finance, being a strong leader, has taken on other responsibilities, which reduced the motivation to adopt the beyond budgeting ideas in NorBank.

And you might very well say that what I was doing was replaced by a 36 pager called the operational plan. … And it fell out of my hands, so to speak. (former Head of Finance, Group)

This change of responsibilities of the former Head of Group Finance was also reflected in how the CFO was receptive of the succeeding Heads of Group Finance that worked in this role.

So every once in a while when I speak with [current Head of Group Finance], I tend to feel that he is overly pessimistic, because he himself would like things to be different. But he is, of course, under great pressure himself, being now in charge of Group Control and feeling, maybe, that he doesn’t fully share the ideas on how Group Control should be pursued with the CFO. And, after all, he has to adapt to what his boss says.

I maybe didn’t have to do that so much. I was able to be a little bit more independent in my way of thinking from the CFO. And it appeared to me that he appreciated having someone very close to him that could challenge his way of thinking and his way of acting. And I could do that because I am so terribly old and I am so independent as an employee. I don’t need to be here for any private financial reasons. But I was really happy to be able to see if one could make this bank more adaptive to its market and its customers, and, by doing that, make it more profitable and successful in the long term. [Current Head of Group Finance] doesn’t have that privilege. (former Head of Finance, Group)

Planning and performance appraisals, though, seem to have changed in NorBank as well.

When you do your follow-up, it doesn’t really matter what you compare with as long as it gives the insight of what’s going on. … You have an explanation of why did the income increase, for instance, compared to last year, what are the reasons, and also what are the reasons for deviation from the forecast. (CFO, Baltics)

All units have to have a financial forecast. We will not call it a budget; we will call it the financial forecast. But I mean what’s the difference? … The board will receive forecasts. So [the CFO] will follow up the forecast and compare it with last forecast and see what has changed. (Head of Finance, Group)

I know that the forecasting that is going on in this bank is forecasting not only costs but also revenues, which might be fun to do but is pretty useless. And if you make these forecasts on revenues as well for business units, which are bound to be wrong because you don’t know what will happen in the market place next year and then you start to assess actions to that forecast, then of course you are in a worst kind of budgeting mode and that doesn’t work. (former Head of Finance, Group)

Another introduction to NorBank, a transfer pricing mechanism, called the buy-sell forum, was initially intended to bring down costs, especially in Group staff entities, where everyone could discuss the distribution principles, but everybody had to pay. However, the expectations were not met and thus in the middle of 2014 cost targets were reintroduced onto business units, restricting the total cost development and losing on some potential profits. And that is different from how Handelsbanken would set cost targets from time to time, where no region of part of the business would be cost controlled not knowing what kind of business was possible in the following year.

So it’s back to step one again, because we were not ready as an entity. The organization could not handle not having budgets. As soon as we didn’t have budgets, costs started to keep away. ... So basically our CFO has instead come in and set cost targets for everybody, which is the same thing as saying you have budgets. (Head of Finance, Group)

So this thing with not having budgets and the buy-sell forum, they are very closely interrelated, but they are not exactly the same thing. But having the buy-sell fora in a way is a prerequisite for us to even start to try to attempt not having budgets, because you have to have something that keeps a pressure and make sure that your costs are not just going wacko. (Head of Finance, Group)

The thing is, the [NorBank] operation has not been mature enough to handle this and to get this sort of perpetuum mobile going. … I would say our organization is not there, they do not understand the cost structure well enough, because they haven’t had this kind of transparency historically. … People are scared that there will be future budgets put on… cost cuts put on them. So they tend to… despite that you have this kind of way of following up… they tend to then keep a buffer. … We will see how maturity sort of develops over time. … So by keeping the buy-sell forum and by trying to utilize some of the positive spin-offs, remains to see how much of those we will find, hopefully we can slowly prepare the company for a sort of more mature businessmanship, where we eventually can actually plan and buy and sell services in a way that we keep each other under control without needing a CFO saying ‘You can’t increase you costs’ and so on. (Head of Finance, Group)

# Discussion and conclusions

In this section, Kasurinen’s accounting change framework is applied to the case of NorBank, analysing how and why the change initiative happened within the bank. The advancing forces of change were all present during the change initiatives in NorBank. Motivation to change budgetary control within NorBank along with its management model was influenced by several general factors. Relative market stability that occurred after traces of financial crisis have disappeared seems to be the general motivator of change in NorBank. Certainty in economic conditions and unaffected level of competition in the financial market motivated NorBank to reassess its management structure and formal budgeting system, since it did not aid managers in their decision-making process to simultaneously meet the plan and satisfy customer needs. In the Scandinavian banking context, the successful implementation of beyond budgeting ideas in Handelsbanken is not sufficient for changes to materialize in other major Scandinavian banks, but it motivated NorBank in its endeavour. It is important to constantly monitor external environment to be aware when change in management accounting systems is required.

While the motivators signalled NorBank of the need to adapt its management model, catalysts are more directly associated with the forces stimulating change. The increased pressure on banks to enhance their accountability can be argued as the initial factor for change in NorBank. The major catalyst for change was the appointment of a new Head of Group Finance that had many years of prior expertise from Handelsbanken. Being close to the top management in NorBank he was able to support such change initiative all along.

Although facilitators are necessary for initiating change, they are not sufficient. Establishment of a change transition team was the factor that facilitated the introduction of change. This transition team was the core behind the implementation process. Equally the change process was supported through regular formal and informal meetings across various hierarchical levels in NorBank, where appropriate technical support was available at all steps. The profile and personal characteristics of the former employee from Handelsbanken were important aspects in easing the change process within the bank. Hence beyond budgeting related discussion stimulated at least some members of the management team and legitimatized the concept in the organization. This seems to have lowered the threshold to change budgetary control in NorBank and hence facilitated the initiative.

To get the change initiative going after being influenced by the motivators, catalysts and facilitators, sufficient momentum is also needed. The potential momenta for change in NorBank can correspond to several events. On top of the change in NorBank’s organizational structure, decentralizing its Scandinavian operations, the formation of change transition team maintained the ongoing status of changes in NorBank.

Another factor used in Kasurinen’s revised accounting change framework is leadership. In this regard, the former Head of Group Finance had an influencing role in ‘pushing’ the process of change forward, being a catalyst for change and creating the momentum at the same time. Having former CFO of Handelsbanken, who is knowledgeable about beyond budgeting, made the realization of change initiatives in NorBank possible. His role could be titled ‘corporate champion’, supporting the beyond budgeting ideas and actively communicating the need to change management practices in the organization. His knowledge provided a potential way of educating managers at all hierarchical levels in NorBank.

Along with the advancing forces of change which prompted NorBank to engage in the change initiatives, there also were several barriers hindering, delaying and preventing change. Change attempts do not always result in successful implementation even if skilfully managed. Confusers, or barriers that may disrupt the change, can be grouped around the change leader described above. The dissolvement of the transition team is the major confuser influencing the process of change. This caused uncertainty about the future role of the change initiative and disrupted the education process of managers. The lack of motivation to continue with the change initiatives, proposed and emphasized by someone else, so-called ‘not invented here’ phenomenon, began to emerge, decreasing the initial priority of the change process. Among others, the financially unsound situation had increased the priority of cost control.

Other barriers that may suppress the change attempt, or frustrators, were also present in NorBank’s case. Some resistance to change can also be depicted in employees’ experience with prior budgetary control practices. Most managers in NorBank were not accustomed to working without budgets and at the same time not micromanaging, which was attempted to be overcome by decentralizing the organizational structure in Scandinavia. The organizational culture also had an influence on the change initiative in certain parts of the organization, including the Baltics.

Ultimately, delayers, or the barriers delaying the change attempt, were also identified in NorBank. It mainly concerns the general understanding of the management model that was supposed to be changed. As to the concept of beyond budgeting, the lack of clear goals was a significant barrier hindering change, which may even ‘push’ the change initiative in the wrong direction.

The present findings allow us to reflect on the budgetary control change initiative in the context of beyond budgeting and identify implementation challenges associated with this new mode of management. It appears that budgetary control never really ceased to exist, although disguised under different names and processes. What calls for more attention is that such radical management accounting change as beyond budgeting is not as easily transferrable even to organizations that are alike Handelsbanken in many respects, including common industry, country of origin and operations.

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# Appendix. Interviews

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Position | Location | Duration |
| October 10, 2013 | (Former) Head of Finance | Group | 140 min. |
| February 14, 2014 | Chief financial officer | Baltics | 95 min. |
| March 20, 2014 | Chief financial officer | Lithuania | 75 min. |
| April 1, 2014 | Chief financial officer | Latvia | 55 min.\* |
| August 26, 2014 | Head of Finance(former CFO, Baltics) | Group | 60 min. |
| August 27, 2014 | (Former) Head of Finance | Group | 60 min. |
| August 27, 2014 | Regional controller | Scandinavia | 70 min. |
| September 1, 2014 | Manager of Forecasting | Baltics | 60 min.\* |
| October 13, 2014 | Director of Analysis and Planning | Lithuania | 60 min. |
| October 13, 2014 | Head of Retail Banking | Lithuania | 70 min. |
| October 16, 2014 | Branch manager | Lithuania | 60 min. |
| October 16, 2014 | (New) Chief financial officer | Lithuania | 50 min. |
| \*telephone interview |  |  |  |

1. Budgetary control basically involves the following essential features: ‘the statement of the plans of all departments for a certain period of time in the form of estimates, the coordination of these estimates into a well-balanced program for the business as a whole, the preparation of reports showing a comparison between the actual and the estimated performance, and the revision of the original plans when these reports show that such a revision is necessary’ (McKinsey, 1922, p. 8). [↑](#footnote-ref-1)