

The Origins of Beyond Budgeting and of the Beyond Budgeting Round Table (BBRT) – an Interview with Jeremy Hope

The following interview is a shortened version of an interview for Juergen H. Daum's new book on "Beyond Budgeting" (to be published soon). This interview has been published in this form in: ControllerNews – Zeitschrift für Controlling und Unternehmensführung, issue 5/03, Vienna, November 2003, p.168-171.



Jeremy Hope

Juergen Daum: What was your initial motivation to start to work on "Beyond Budgeting"?

Jeremy Hope: Robin Fraser and I we both sensed independently from each other a growing dissatisfaction across the whole business community with the traditional general management approach, which is based on and much influenced by traditional budgeting as well as the pervasive budgeting culture with all its negative implications for successful enterprise management. Robin, then a management consulting partner with Coopers & Lybrand, participated in the Advanced Budgeting Program run by international research organization CAM-I in the mid 1990s that did some of the groundwork for what became known as Beyond Budgeting. That was the starting point of his Beyond Budgeting journey.

We met at CAM-I's 25th anniversary meeting in 1997 after both speaking on the problems of budgeting and it was this meeting that led to the BBRT.

Juergen Daum: And how did your own Beyond Budgeting journey begin?

Jeremy Hope: In addition to my experiences as a finance person and controller in several UK companies in which I had first hand experience of 'managing with the numbers', a major foundation for my Beyond Budgeting journey was the research work I did for two earlier books¹, which I wrote together with my brother, Tony Hope, a visiting Professor of Accounting at INSEAD. We both recognized that traditional accounting was no longer able to provide managers with relevant information for decision making in today's information and knowledge economy. So we first tried to develop new concepts to measure and manage the performance of an organization. With our second book "Competing in the Third Wave" we developed this theme further – that we need a new approach to management. The mission of our second book was to create the case for this transformation and to show how it might be realized.

Juergen Daum: Why did you end up with this emphasis on budgeting or, should I say, Beyond Budgeting?

Jeremy Hope: What we found was that most of the new tools and techniques that companies were trying to develop and implement were not fully working. Take the Balanced Scorecard as an example. The Balanced Scorecard was designed to enable managers to map and describe their strategy, to balance short- and long-term goals, initiatives and measures, to align the actions of the 'top floor' and the 'shop floor', and to focus on the real drivers of financial performance. This has created in many organizations a framework for a more flexible strategy management process geared much more to value creation. But if the budgeting system and culture remains in place, there is no way that the strategic management process will really change the operational manager's day-to-day behaviour.

Juergen Daum: Why?

Jeremy Hope: The budgeting system influences the behaviour of managers and employees in a way that is counter productive to strategic management. The budget ties managers and people to the old management system and its paradigms. This is the reason why many change management projects are failing. The budgeting system is acting as a barrier to fundamental change. Many well-planned changes and many attempts to shift the culture from one of compliance and control to enterprise and learning have foundered when management behaviour has been "snapped back" into its old shape by the invisible power of the budgeting system. If the new management model for the 21st century organization is to focus on strategic performance, value-adding processes and knowledge management, it is crucial that the

¹ Tony Hope and Jeremy Hope: "Transforming the Bottom Line: Managing Performance with the Real Numbers", Harvard Business School Press, 1995; and Tony Hope and Jeremy Hope: "Competing in the Third Wave: The Ten Key Management Issues of the Information Age", Harvard Business School Press, 1997

model is built on trust between managers, workers, customers and partners. But this trust can be easily undermined when managers are faced with short-term difficulties and are quickly driven back to “managing by the numbers”. So what we learned was that it is not the budget as such, but the behaviour it stimulated that creates the problem. It’s the central control mindset and what we call the “fixed performance contract” that are the root causes of the problem.

Juergen Daum: What do you mean by the central control mind set and fixed performance contract?

Jeremy Hope: Organizations used to be smaller, more intimate places, where people trusted each other to do what was in the best interests of the business. But as the economy became one global market place and companies grew into multinational and transnational corporations, this trust broke down as these organizations gradually introduced systems of compliance and control that became more and more intrusive. Top management was afraid to lose control of these now very large organizations and tried to manage them by budget numbers instead of direct personal relationships – which seemed not to be possible any more due to their size and number of people to be managed. The result has been more time spent in internal negotiations, more parochial attitudes, and more value destroying gaming. People know that if they follow the plan and meet their annual fixed target, they will survive. Conversely, if they fail to meet their contracted numbers they will be punished. This can mean people losing bonuses and possibly their jobs. The pressure this exerts can lead to actions that defy common sense and that ultimately destroy the value of the company.

Juergen Daum: Can you give an example for such actions?

Jeremy Hope: Think about the actions of the sales force. When meeting the numbers proves impossible, the sales force leans on customers to order goods they have every intention of returning. And if by some chance a business unit looks like exceeding its target, customers are persuaded to have their orders delivered in the next fiscal period even if this means delaying valuable cash flows. But it is more how the budget system is used rather than the budget system itself that creates the problem. The pressure of the fixed performance contract is squeezing the life and spirit out of many organizations and their people. And this process of engaging huge numbers of people in a protracted cycle of detailed planning, and then making them march to the drumbeat of the budget, seems to us not just a waste of time, but also an insult to their intelligence.

Juergen Daum: And this belief was your motivation for starting the Beyond Budgeting Round Table?

Jeremy Hope: Yes. It was our belief that this was the hidden barrier to change that persuaded us to form a partnership with CAM-I and establish the BBRT. We thought that there must be an alternative management model that allows even the large organizations of today to act by using its full potential – without all the gaming and mistrust culture of the budgeting system. We also became convinced that the solution might not be found in a specific tool. We first need a new holistic management model within which managers can select and adapt the right processes, decision support tools and management culture that will enable them to build a lean, adaptive and ethical organization.

Juergen Daum: How did you start the research program?

Jeremy Hope: At the beginning we were not aware of any companies that had already abandoned budgeting. And only a few people shared our view. So the start was not an easy one. However, our prospects changed when we heard through Pertti Akerburg, then group controller at Valmet in Finland, that there were companies that had actually abandoned budgeting. Several of them were in Sweden, and one of these had worked without budgets for nearly thirty years – Svenska Handelsbanken, the most interesting case.

Juergen Daum: What was so interesting about the Svenska Handelsbanken case?

Jeremy Hope: Over the last 5 years we have written 25 case studies on companies that have abandoned budgeting in some way. But our greatest inspiration for Beyond Budgeting and radical devolution has been the philosophy of Dr. Jan Wallander, the architect of the Svenska Handelsbanken Beyond Budgeting Management model. When we wrote our first case report on the Handelsbanken model, we described it as “advanced”. After reading the draft, Dr. Wallander called us into his office to tell us we had got it wrong. The Handelsbanken model, he said, isn’t advanced: It’s simple!. And we began to realize what he meant. A flat, simple hierarchy with few controllers; well-trained staff; no budgets to act a barriers

to cost reduction; and a few simple-to-understand measures - these are all factors that contribute to maintaining a simple organization and a low cost base. The Handelsbanken management model introduced by Dr. Wallander is predicated on the belief that the only sustainable competitive advantage available to a firm in a fast-changing world, and especially in a service business, lies with its people – especially their creativity, insights, and judgements – a model in vivid contrast to the numbers-driven alternative so prevalent elsewhere.

Juergen Daum: What had been your objectives for the research program?

Jeremy Hope: We focused our research on three questions: First, how are leading companies that have abandoned, radically changed, or significantly de-emphasized their centralized planning and budgeting processes, now fulfilling their well-established purposes? Second, is there a coherent new management model emerging that will enable companies to introduce more effective management processes and steering mechanisms? And third, what lessons have been learned by those that have adopted the new model and how should it be implemented by others? In each case we found a range of options. So it became clear that the Beyond Budgeting model (as it has become known) is not a concept that you can apply quickly and easily. Instead it is a principles-based model that must be adapted to each organization's processes and culture.

Juergen Daum: How does Beyond Budgeting model differ from the traditional approach?

Jeremy Hope: Compared with the traditional management model, Beyond Budgeting has two fundamental differences. First, it is a more adaptive way of managing. In place of fixed annual plans and budgets that tie managers to predetermined actions, targets are reviewed regularly and based on stretch goals linked to performance against world-class benchmarks, peers, competitors and prior periods. Second, the Beyond Budgeting model enables a more decentralized way of managing. In place of the traditional hierarchy and centralized leadership, it enables decision-making and performance accountability to be devolved to line managers and creates a self-managed working environment and a culture of personal responsibility. This leads to increased motivation, higher productivity and better customer service. Individually these two main features can produce significant benefits, but it is in their combination where its real strength lies.

Juergen Daum: What are the benefits companies can expect from the Beyond Budgeting model?

Jeremy Hope: The overall effect of the switch to Beyond Budgeting is first, in the area of performance management, a performance management process based on a relative improvement contract rather than on a fixed performance contract. It assumes that it is not wise to make managers commit to a fixed target and then control their future actions against it when in fact the world is constantly changing. The implicit agreement is that executives will provide a challenging and open operating environment and that employees will deliver continuous performance improvement using their knowledge and judgement to adapt to changing conditions. It is based on mutual trust, but it is not a soft alternative to the fixed performance contract. High visibility of individual and team performance offers no hiding place. Managers must perform to high levels of expectations – relative to peers – or face the consequences. The result of applying the adaptive performance management principles includes the setting of more aspirational goals, reduced gaming, more ambitious strategies and fast response, less waste, improved customer service, and a greater focus on learning and ethical behaviour.

Juergen Daum: And what are the benefits related to the second area, the devolution of decision making to front line people?

Jeremy Hope: The delegation of decision-making and spending authority has always been one of the key functions of budgeting. However, this delegation usually occurs strictly within a regime of compliance and control. It differs significantly from the approach taken by Beyond Budgeting organizations such as Svenska Handelsbanken which have gone much further and transferred power from the centre to operating managers and their teams, vesting in them the authority to use their judgement and initiative to achieve results without being constrained by some specific plan or agreement. Thus devolution of responsibility is about enabling and encouraging local decisions, not dictating and directing them. The result of managing with a devolved organization include: a high-performance climate leading to sustained competitive success; the freedom to decide leading to innovation and responsiveness; team-based responsibility resulting in a greater focus on creating value and reducing waste; customer accountability leading to greater commitment to satisfying customers profitability; and finally, an information culture

based on openness and “one truth” leading to more ethical behaviour. What makes Beyond Budgeting different from other management models is that it provides a comprehensive management model that does not just look at one area or tool while overlooking others, rather it seeks to ensure that all the pieces of the management model are coherent with each other. It is because it is a coherent model in which all of its components work in harmony that it can produce outstanding and sustained success.

Juergen Daum: Let's come back to the BBRT. What exactly is the BBRT and what are its aims?

Jeremy Hope: The BBRT is both a research project and an active network of companies who are sponsoring the continuing research and are now at various stages of implementing the model. The aims of the BBRT are to develop a management model “beyond budgeting” and to help its members to implement it. The BBRT has been sponsored and funded since 1998 to date by over 60 companies, mostly large European multi-nationals – companies like: Anheuser Busch, Barclays Bank, Boots The Chemist, Clariant International, Coors Brewers, Diageo, Deutsche Bank, DHL, Novartis, Royal Mail in the UK, Scheider Electric, Siemens, SKF, Standard Life, Texas Instruments, The World Bank, UBS, Unilever Best Foods and many others.

Juergen Daum: How did the work on the BBRT evolve over time and what is its actual focus?

Jeremy Hope: Our work is driven mainly by the interest of our member companies. The first focus of our work in the BBRT was to identify those companies that had abandoned the budgeting model, visiting them, and through case reports and presentations, reporting back to the BBRT members, who were funding our research with their membership fees. After this first phase, by extracting best practices, we gradually pieced together a coherent set of common principles that form the framework of what has since become the Beyond Budgeting model. This was the second phase. Having now successfully finished the two initial phases of our mission, we are now focusing on implementation. That includes for example the development of a so called web-based diagnostic tool: you can log on to our website at www.bbrt.org and, guided through a questionnaire, evaluate against your peers the effectiveness of your performance management model according to the Beyond Budgeting principles.

Juergen Daum: How do you see the future evolution of the BBRT?

Jeremy Hope: One of our focus areas for the future is to grow the BBRT internationally. We found that the interest in Beyond Budgeting is rising rapidly and we need to set up the infrastructure from an organizational point of view to support this very positive development. In fact we have already set up ‘sister’ BBRT’s, in addition to the European BBRT, in North America and in Australasia. Other areas of focus are further research in implementation issues and providing strategic support to our member companies by helping them to make the case for change and to develop high level change management programs. Another new initiative is the BBRT “Community of Practice” which enables the leading group of implementers to share ideas and experiences between themselves. We are also considering setting up special interest groups for specific themes. We believe that Beyond Budgeting is just in the starting phase of becoming one of the major management themes for the future. Plenty of work is remaining to be done for us and our member companies, as well as interesting and challenging times ahead.

Juergen Daum: Mr. Hope, thank you very much for this very interesting interview.

Jeremy Hope is, together with Robin Fraser and Peter Bunce, the founder of the Beyond Budgeting Round Table (BBRT). Together with Robin Fraser he has led the Beyond Budgeting research program of the BBRT since its inception in 1997. He is co-author of two management books and co-author (with Robin Fraser) of many articles on performance management. His recent book, co-authored with Robin Fraser, “Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap” (Harvard Business School Press, 2003) is the outcome of the first five years of the BBRT research program.
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Juergen H. Daum is an internationally recognized expert, author, speaker, and consultant in enterprise management. He currently acts as the Chief Solution Architect of the Business Solutions Architect Group at SAP AG and advises senior executives, CFOs and finance professionals in finance transformation and enterprise performance management best practice. He is a frequent speaker on enterprise and performance management topics and a frequent contributor of articles for leading journals. He is the author of the book *Intangible Assets and Value Creation* (John Wiley & Sons, 2002) and is connected with the Beyond Budgeting Round Table since several years.
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“Fixed budgets don’t work today. A budget is a too static instrument and locks managers into the past - into something they thought last year that it was right. To be effective in a global economy with rapidly shifting market conditions and quick and nimble competitors, organization have to be able to adapt constantly their priorities and have to put their resources where they can create most value for customers and shareholders. In order to do that, they need the right concepts, management processes and tools – concepts such as the Beyond Budgeting Management Model. The introduction of new management instruments such as the Balanced Scorecard, which help to better align the entire organization with corporate strategic objectives and to focus it on the essentials, has created the right foundation. Because if corporate strategy and the objectives are clear for all people in an organization, one can principally react faster to changing market conditions. But then the fixed budget comes into their way and prevents them from really doing the right things. Though what is often missing is a more flexible operational planning and control model. The Beyond Budgeting model wants to fill exactly this gap.”

Jürgen H. Daum

Visit Juergen H. Daum’s [Beyond Budgeting Info Center](http://www.juergendaum.com/bb.htm) (<http://www.juergendaum.com/bb.htm>) - that provides insight material about the Beyond Budgeting concepts such as articles and interviews with BB pioneers. Here a selection:

[J.D.'s insight article "Beyond Budgeting"](#) | [Interview with Lennart Francke, CFO of Svenska Handelsbanken](#) | [Panel Discussion with Borealis, Nestlé, and Unilever](#) | [Interview with J.D. on finance and IT](#) |
