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# Budgetary control and beyond budgeting from a historical perspective - insights from re-visiting the 1922 book by James O. McKinsey

Terje Berg<sup>a</sup>, Daniel Johanson<sup>b</sup> and Dag Øivind Madsen<sup>c</sup>

<sup>a</sup>NTNU Business School, Norwegian University of Science and Technology, Trondheim, Norway; <sup>b</sup>Department of Accounting, Auditing and Law, Norwegian School of Economics, Bergen, Norway; <sup>c</sup>Business School, University of South-Eastern Norway, Notodden, Norway

## ABSTRACT

In this essay, we provide a macro-level historical perspective on the emergence of Budgetary Control as a discipline about 100 years ago. The classic book by James O. McKinsey on Budgetary Control is compared with more recent works critical of Budgetary Control. The purpose is to unravel the origins and emergence of Budgetary Control and provide a reflective perspective on one of the 20th century's most important and studied management ideas and practices. We find that the normative descriptions of Budgetary Control from 100 years ago are less different than those portrayed by the supporters of more recent ideas on management control, such as Beyond Budgeting. Ideas of delegation, dynamic resource allocation, and the importance of using numbers to support and enable managers share strong similarities. Nevertheless, there are certain differences, particularly regarding fixed versus relative targets. Our essay provides a more nuanced view of traditional Budgetary Control than as expressed in the contemporary rhetoric of ideas critical toward Budgetary Control. Since we base our work on desk research, its empirical foundation is not finite. Future research could, for example, draw on bibliometric methods to map a more detailed pattern of Budgetary Control's historical emergence. Given the rapid diffusion of ideas in present-day organizations, examining historical ideas and their contestants could be fruitful. Practitioners may benefit from this essay as we will suggest that new ideas and innovations may not be as game-changing as claimed by their instigators' dramatic and even hyperbolic rhetoric. Organizations could benefit from a critical mind-set when considering and evaluating new concepts and ideas.

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Budgetary control; McKinsey; beyond budgeting; management accounting history; management ideas

## Introduction

This essay is inspired by the 100<sup>th</sup> anniversary of James O. McKinsey's book *Budgetary Control* (McKinsey 1922). We re-visit this first book (Flesher and Flesher 1985; Wolf 1976) on Budgetary Control and compare its central ideas and propositions with the more

**CONTACT** Terje Berg  [terje.berg@ntnu.no](mailto:terje.berg@ntnu.no)  NTNU Business School, Norwegian University of Science and Technology, P.o. box 8900, Torgarden, Trondheim N-7491, Norway

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recently developed ideas of Beyond Budgeting. This comparison is especially interesting since the rhetoric from the propagators of Beyond Budgeting ideas is directly opposed to Budgetary Control. The influential works by Wallander (1994, 1999) and Hope and Fraser (2003a, 2003b) are used in this paper to represent and capture these ideas and propositions. Budgetary Control, on the other hand, is represented by the book of McKinsey (1922). This paper aims to contribute to the literature about the history of management thought by describing the original idea of Budgetary Control and comparing it with more recent ideas of Beyond Budgeting. This could also contribute to the contemporary debate of Beyond Budgeting in the field of management accounting and control for instance (Berland, Curtis, and Sponem 2018; Matějka, Merchant, and O'Grady 2021; Nguyen, Weigel, and Hiebl 2018),.

Therefore, an important purpose of this essay is to better understand the emergence of Budgetary Control. We aim to sketch a picture of how part of past beliefs and practices are reflected in contemporary practice (Carnegie and Napier 2012), indeed being old wine in new bottles (Spell 2001). Or in the words of Jacques (2006, 43) we provide a snapshot 'to inform contemporary organizational theorizing.' According to Wolf (1976), McKinsey's intellectual heritage became a faint memory long ago, yet has been re-discovered by current scholars. Indeed, it is indicated that 'old ideas have been rephrased rather than abandoned' (Bendix, 1956, cited in Piazza and Abrahamson 2020, 277). Hence, by comparing these books, we shed light on whether we can convey the findings from strategy scholars, that there is also within management accounting an 'enormous influence of the past' (Wilson and Tilba 2023, 113) present.

With this as a background, the paper is guided by the following research question:

*How does McKinsey's 100-year-old book on Budgetary Control compare with the contemporary ideas labeled Beyond Budgeting?*

We start by providing a historical background to the emergence of Budgetary Control. This is followed by outlining the ideas under the label of Beyond Budgeting. We then justify the selected sources and possible shortcomings of the choices. Next, we analyze the sources in light of four chosen themes. After that, we take a macro-oriented approach and consider Budgetary Control and Beyond Budgeting as institutionalized practices, before we conclude the paper and suggest further research.

## **The historical emergence of budgetary control**

Whereas the 20th century was characterized by the wide dissemination and diversification of management concepts and ideas, the early 1900s was a period dominated by Taylorism and Scientific Management (Fleischman 2000; Keulen and Kroeze 2014). The period's management texts were primarily technical prescriptions for developing and implementing standard costing systems (Boyns 1998). Scientific Management of the shop floor prevailed (Karsten 2014). Business Budgeting grew out of industrial engineering and cost accounting and germinated slowly in the period 1895–1920 (Theiss 1937). However, James O. McKinsey's book stood out as a notable exception (Parker 2002) as its focal point was the role of Budgetary Control as a managerial tool. The 1922 book generated much interest in the business world, and Budgetary Control soon became part of management courses and curricula. Budgetary Control was first identified as part of

a Harvard Business School course on Industrial Management and Control in 1922–23 (Zeff 2008). However, it is worth noting that Budgeting was not part of first-year accounting textbooks used in the United States during the period 1901–1934 (Fleming, Graci, and Thompson 2004).

Budgeting and Budgetary Control represent a branch of cost management that seeks to control costs. ‘Budgeting’ is often narrowly confined to resource allocation, while ‘Budgetary Control’ is also about responsibility accounting and accountability (Marginson 2013). Over time, Budgeting and Budgetary Control have become one of the most researched topics within management accounting and control (see e.g. Luft and Shields 2003). The importance and interest in Budgeting may be illustrated by this quote: *‘Because it manifests the essence of management accounting, the blending of accounting and management. No sub-part of management accounting better demonstrates how accounting integrates with management and why the behavioral sciences may rank abreast in importance with economics’* (Horngren 2004, 210).

This essay relates to the literature strand that Napier (2020, 33) labels as ‘socio-historical accounting research’. We regard Budgetary Control as belonging to both the technical and social spheres of organizations. It is not only a form of technical measurement but also acts on people in organizations to affect and change their behavior in local time-specific contexts. However, there are many methodological and theoretical approaches to the study of management and organizational history (Mills et al. 2016). One approach is to use history to confront popular trends and their rhetoric to reveal their true characteristics and ideological biases (Kieser 1997). By departing from the first book on Budgetary Control, we use a snapshot of history (Rappaport, 1999) to consider whether one contemporary practice, Beyond Budgeting, is truly new. From a longer historical perspective, the popularity of concepts and practices is shaped by the dominant rhetoric and ‘zeitgeist’ in society and the organizational world. Barley and Kunda (1992) show how the rhetoric of managerial control has oscillated between the normative and the rational. They describe the period 1900–1923 as being dominated by scientific management and stemming from a rational approach to control.

## The contender of beyond budgeting

Budgetary Control has become much criticized by what can be called the Beyond Budgeting movement. The Beyond Budgeting approach has grown out of developments in business practice (Bogsnes 2009; Hope and Fraser 2003a; Wallander 1999) and can be considered a normative approach to managerial control. The core proposition of this movement is that organizations should abolish Budgets and Budgeting altogether.

The Beyond Budgeting concept is based on six leadership principles and six process principles ([www.bbrt.org](http://www.bbrt.org)) (Beyond Budgeting Round Table Principles 2024). The six leadership principles are divided into three principles regarding *Governance and transparency*: 1) Values: Bind people to a common cause; not a central plan. 2) Governance: Govern through shared values and sound judgment; not detailed rules and regulations. 3) Transparency: Make information open and transparent; don’t restrict and control it, and three principles regarding *Accountable teams*: 1) Teams: Organize around a seamless network of accountable teams; not centralized functions, 2) Trust: Trust teams to regulate

their performance; don't micro-manage them, 3) Accountability: Base accountability on holistic criteria and peer reviews; not on hierarchical relationships.

The six process principles on their side, are divided into two principles regarding *Goals and rewards*: 1) Goals: Set ambitious medium-term goals, not short-term fixed targets, 2) Rewards: Base rewards on relative performance; not on meeting fixed targets, and four principles regarding *Planning and controls*: 1) Planning: Make planning a continuous and inclusive process; not a top-down annual event, 2) Coordination: Coordinate interactions dynamically; not through annual budgets, 3) Resources: Make resources available just-in-time; not just-in-case, 4) Controls: Base controls on fast, frequent feedback; not budget variances.

The principles are supposed to move organizations beyond 'command and control' structures. However, it has been pointed out that Beyond Budgeting consists of an unclear set of design elements and elements from different innovations combined into a new 'housing' concept (Ax and Bjørnenak 2007). The most advocated alternative controls in Beyond Budgeting are Benchmarking and Rolling Forecasts (Bogsnes 2009, 2023; Hope and Fraser 2003a; Player 2003; Wallander 1994).

## Method and sources

This research's inspiration and departure point, and hence its primary source, is the book *Budgetary Control*, written by James O. McKinsey, first published by the US-based Ronald Press in 1922 (McKinsey 1922). Our interest in tracing the origins of modern "Budgetary Control, has grown out of the vast literature criticizing the behavioral aspects of budgets as a means for managerial control (Afzalia, Sagala, and Muda 2022; Argyris 1953; Bedford, Speklé, and Widener 2022; Chong and Mahama 2014; Searfoss 1976). The objective was to dig into, what it is probably fair to characterize as *the source* of 'modern' Budgetary Control (Flesher and Flesher 1985), although its contribution seems to have become little more than a faint memory (Wolf 1976). It is not mentioned as a notable accounting book by Richardson (2008). Neither is it considered one of the most influential management books of the 20<sup>th</sup> century (Bedeian and Wren 2001), nor as a distinct school of management thoughts. To the degree the name 'McKinsey' is recognized, it concerns the renowned consulting firm (see for instance Keulen and Kroeze 2014). In any respect, this is the first scholarly book on Budgetary Control in private enterprises. Moreover, the fundamental arguments McKinsey (1922) used for relying on Budgetary Control, are considered conventional wisdom and can be found in almost all contemporary textbooks in management accounting and control. However, the textbooks do not reflect the growing diversity of control practices, and indeed, '*The idea that a standard approach exists may no longer apply if it ever did*' (Marginson 2013, 25). Therefore, we compare this book with the first books that challenged traditional Budgetary Control (Hope and Fraser 2003a; Wallander 1994). Jan Wallander's book: *Budgeting – an unnecessary evil* ('*Budgeteten – ett unödig ont*'), provided a critical perspective on Budgetary Control from the perspective of the CEO of a Swedish bank ('Handelsbanken'). From the more consultancy-based ideas about 'Beyond Budgeting', we have drawn on one of the pioneering and often cited works: Hope and Fraser's (2003a) *Beyond Budgeting: How managers can break free*

from the annual performance trap. Wallander and Svenska Handelsbanken are acknowledged for giving birth to controlling companies without budgets (Matějka, Merchant, and O'Grady 2021). Hope & Fraser are included because they were the first to argue 'most forcefully' (Libby and Lindsay 2010, 56) against what they call traditional budgeting, and indeed coined the term Beyond Budgeting through a series of articles from 1997 to 1999 leading up to the founding of the Beyond Budgeting Round Table and then their 2003 book. As noted by Ekholm and Wallin (2000, 520), even though Budgeting was a popular subject for academic research, this research seemed to ignore the criticism raised by practitioners and consultants. The focus was more on improving Budgets rather than abandoning them (Hansen, Otley, and Van der Stede 2003). Today, research on Beyond Budgeting has a strong foothold in academic research (Nguyen, Weigel, and Hiebl 2018).

The books have, in particular, been read with an eye to what is salient for addressing the issue of how past beliefs and practices (i.e. Budgetary Control) are reflected in more recent ideas (i.e. Beyond Budgeting). This comparison allows for reflecting on how 'old' ideas could possibly be resurrected as 'new' ones if the wheel of fashion has turned again (Czarniawska and Panozzo 2008, 6). The research approach can be described as interpretive (Remenyi et al. 1998). It is acknowledged that we make our associations and create subjective meanings. This has shaped not only how our sources were selected but also how the content was interpreted, understood, and presented. A team of three research scholars has conducted the research to reduce the likelihood of biases. The research process can be characterized as an iterative process where we discuss the sources in light of four themes which are outlined below. Hence, we do not discuss the findings *in situ* (Cordery et al. 2023), but as of today. Also, even though the primary books must be considered at the micro-level (Cordery et al. 2023), we aim to shed light on the macro-level.

Furthermore, our method considers the literature we study as the research object. By analyzing these documents, we contribute to a thematic debate (Ferri, Lusiani, and Pareschi 2021). This hermeneutic approach allows for taking certain case objects, the books, as part of a greater landscape: the historical context of management accounting and control ideas.

Based on prior theory and literature, we have chosen four themes to structure the analysis of the books. The first one is *Views of Budgetary Control and its central problem*. This theme is based on a central tenet within management accounting: that plans in some sense are regarded as necessary to control costs due to the presence of scarce resources. Budgetary Control is inexorably connected to the execution of cost management through people (Marginson 2013, 9). The second and third themes, relate more generally to management and organizational history. *Organizational purpose* directs attention to the normative issue of why organizations exist and for whom, i.e. which stakeholders are important (Cyert and March 1963; Rappaport 1999). *The approach to control* relates to how control is exercised in an organization (e.g. Barley and Kunda 1992). In the context of this essay, it mainly refers to centralized versus decentralized approaches to control. The last category is similar to the first one, derived from the management accounting literature. It relates to the maybe most critiqued feature of Budgetary Control: the fixed view based on one budget for a given calendar year. This is subsumed under the theme of *Static or*

*dynamic control* (e.g. Bjørnenak and Kaarbøe 2013). The following section compares the books based on these four themes.

## Analysis of sources

In the following, we compare the classic work on Budgetary Control by McKinsey (1922) with two of the most influential works on Beyond Budgeting: Hope and Fraser (2003a) and Wallander (1999). The Beyond Budgeting works are best known for criticizing traditional Budgeting and Budgetary Control. They are also more recent than the Budgetary Control book, although they are old enough to be referred to as classics of the Beyond Budgeting idea.

We present excerpts from the book by McKinsey (1922), as well as books and articles by Hope & Fraser (2003a, 2003b) and Wallander (1994, 1999). The articles are included because they sometimes contain more refined statements than the books, due to their more academic style. Our main point of interest is to elaborate on specific issues. Excerpts may, of course, be biased but are, in any respect, essential for the subsequent discussion. To answer our research question, we structure the discussion along the four themes justified in the previous section.

## Views of Budgetary Control and its central problem

McKinsey (1922, 3) expressed a strong belief in planning: *“That comprehensive planning is necessary for efficient administration may be regarded as an axiom of the present-day philosophy of business administration. Business executives have come to realize that they can perform properly the tasks of today only if they have planned those tasks yesterday, and planned also the tasks of tomorrow. But McKinsey seems to acknowledge that the planning horizon cannot be one size fits all: ‘The usual length of the budget period is for three, six or twelve months. Some firms state their general plans for one year in advance to have a goal to work for, but work out detailed schedules for only one month at a time’* (McKinsey 1922, 34).

Even though proponents of Beyond Budgeting outright reject the use of budgets, their view on planning is less clear. One of Wallander’s (1994) eye-openers for getting rid of budgets was his work at the Swedish National Bureau of Statistics, where they had problems making reliable forecasts: *‘The problem for a business is how hard it is to predict, as well as change direction, and indeed to absorb information and translate it into action’* (Wallander 1994, 60 and cover page).<sup>1</sup>

Interestingly, McKinsey’s book emphasized that Budgetary Control cannot replace management. As McKinsey (1922, 424) writes: *“The limitations of budgetary control may be stated in outline form as follows:*

- (1) *The budgetary program is based on estimates.*
- (2) *Budgetary plans will not execute themselves.*
- (3) *Budgetary Control cannot take the place of administration.*
- (4) *Budgetary Control cannot be perfected immediately.”*

Hope & Fraser (2003a) on their side, emphasize that Beyond Budgeting *‘is not just another tool. This book offers an alternative general management model’* (Hope and

Fraser 2003a, ix). Where McKinsey recommends estimates, Wallander (1999) says that one should simulate the effect different courses of action will have on the profit and loss statement and balance sheet. Hope & Fraser (2003a, 2003b) recommends Rolling Forecasts for foreseeing cash needs and capital expenditures. Hope & Fraser (2003a) stated that plans are not executed merely by being plans: *'Leaders need to act'* (Hope and Fraser 2003a, 15), while Wallander (1999) claimed: *'What you should do is to constantly observe how your company is doing and discuss and formulate plans for action as the performance of your company or changes in the economic conditions give an indication that something should be done'* (Wallander 1999, 415). Also, Hope & Fraser (2003a) acknowledge that the new management model cannot be perfected immediately, or in their words: *'Changing the centralized mindset is a tough challenge'* (Hope and Fraser 2003a, 161).

In summary, Budgetary Control is certainly based on a fundamental belief in Budgets, something that Beyond Budgeting rejects. However, there seem to be similarities when it comes to the translation and execution of plans. Budgetary Control stresses the importance of Budgets as a means for guiding action, which must be carried out through leadership. Leadership is also the foundation for Beyond Budgeting, generally outlined by Wallander, refined by Hope & Fraser (2003a), and later even more specified by the Beyond Budgeting Round Table through its six principles as described earlier on in this paper.

### **Organizational purpose**

Beyond Budgeting is typically promoted as a philosophy with a more human-centered approach to people and organizations than the traditional Budgetary Control approach. One would then expect that the Beyond Budgeting movement had distanced itself from the sole goal of maximizing shareholder value. This is, however, not the case as Hope and Fraser (2003a) suggested that abolishing budgets would *'build trust with investors.'* Furthermore, they referred to research which they claim to underpin their view: *'He [Alfred Rappaport] believes in the power of shareholder value measures to evaluate and reward executive performance [ . . . ] This approach supports the general relativity principle of the Beyond Budgeting Model'* (Hope and Fraser 2003a, 118). They adhered to an established doctrine of maximizing shareholder value (Rappaport 1999; Rappaport and Mauboussin 2022).

Wallander also emphasized the importance of a high return on capital: *'The new goal was to have the lowest costs of all banks.'* Indeed: *'The fundamental purpose of a firm in a market economy is to deliver as high a return on the capital invested in the company as possible'* (Wallander 1999, 414).

Interestingly, the view of shareholders as residual claimants and prioritized stakeholders was also emphasized by traditional Budgetary Control. McKinsey (1922, 21–22) wrote: *'In the corporate type of business organization the ownership is vested in the stockholders.'* Furthermore: *'The stockholder invests in the corporation for two purposes: (a) to secure the preservation of his capital, and (b) to secure an income from the use of the capital in the business.'* One can acknowledge that maximizing profit is not the ultimate goal, yet profitability must give a proper return: *'He desires consequently that the dividend rate be sufficiently high to afford him a proper return on his investment, and he desires that this dividend rate be maintained regularly if possible.'*



In conclusion, both Budgetary Control and Beyond Budgeting have the fundamental purpose of maximizing shareholder value, rather than considering the interests of broader stakeholders such as employees, or the local community.

### **Approach to control**

McKinsey's approach to control was based on the separation of ownership and leadership, and the delegation of power within the organization: *'The ultimate control of a business is with the owners, but in the modern corporate enterprise their control is in the main exercised only indirectly. Most of their authority is delegated to a board of directors, who in turn delegate a large part of their authority to the general officers of the corporation. The general officers in turn entrust the execution of many policies of the business to subordinates, and these subordinates employ services of assistants who are directly in contact with the workers'* (McKinsey 1922, 21).

Wallander, on the other hand, advocated decentralization: *'If you have two alternatives, always choose decentralization'* (Wallander 1994, 96). Hope and Fraser (2003a, 110) built further on this view: *'to transform organizations from centralized hierarchies into devolved networks that allow for nimble adjustments to market conditions'* (Hope and Fraser 2003a, 108). This is further emphasized by the statement: *'In an empowered organization, people are free to make mistakes and equally free to fix them'* (2003a, p.110).

In scrutinizing our sources, it seems relevant to ask what is meant by an 'empowered organization'. One issue important to McKinsey was the emphasis on numbers as estimates: *'Each department prepares an estimate of its activities for the budget period'* (McKinsey 1922, 5). In addition, he stressed the possibility of updating the numbers when plans change. Therefore, it is relevant to ask what 'empowerment' means in the context of organizational control. Beyond Budgeting implicates a much reduced or complete removal of Budgets as a means for centralized control. However, less Budgetary Control does not necessarily imply more decentralized organizations. Budgeting can be both an interactive and iterative process, and not necessarily top-down control. Hope and Fraser (2003b, 109): *'In short, the same companies that vow to stay close to the customer, so that they can respond quickly to precious intelligence about market shifts, cling tenaciously to budgeting – a process that disempowers the front line, discourages information sharing, and slows the response to market developments until it's too late.'* From this perspective, empowerment is about handing over control to the 'front line'. However, the issue is whether or not it will lead to more decentralized organizations.

McKinsey (1922) was highly concerned with the behavioral consequences of Budgeting and recognized that budgets cannot replace management. Therefore, the rhetoric that traditional Budgetary Control is overtly technical and disregards, for example, motivational issues would seem unwarranted.

In summary, while Beyond Budgeting clearly emphasizes decentralization in its rhetoric more than Budgetary Control, the latter can still be recognized for its allowance of power delegation in organizations.

### **Static or dynamic control**

One of the fundamental issues raised by the Beyond Budgeting idea is Budgeting and the calendar year. Wallander argued that *'There are better ways to manage a corporation than through budgets'* (Wallander 1994, 79). Particularly, there is expressed skepticism about the use of the calendar year as the basis for planning: Furthermore, Wallander (1994, 84) dramatically expressed: *'Within for-profit organizations, we have made ourselves independent of the sun'* (Wallander 1994, 84).

However, McKinsey (1922, 8) emphasized the numbers as estimates only, and that plans must be subject to revision when the environment changes: *'From this outline it can be seen that budgetary control involves the following: 1. [...] Plans [...] in the form of estimates. 2. [...] coordination of these estimates [...]. 3. [...] comparison between the actual and the estimated performance ... revision of the original plans.'* Hence, plans and belonging budgets should not be a straitjacket when circumstances change. McKinsey (1922) has a fundamental belief in planning, but these must be updated, and the budgets must be revised accordingly. This resonates with Beyond Budgeting's dynamic resource allocation: Resources should be available upon request. In other words, they should be event-driven, rather than calendar-driven.

Even though the classical book (McKinsey 1922) is explicit about the revision of plans, there are indications that the measurement was supposed to be in absolute terms. This is one of the points where Beyond Budgeting clearly deviates from recommending relative targets. As Wallander (1994, 101) wrote: *"It is a question of relative targets"*. Furthermore: *'At Handelsbanken, we calculate profitability branch by branch and benchmark within the bank and towards competitors'* (Wallander 1994, 102). This approach was also embraced by Hope and Fraser: *'Every part of the company is judged on how well its performance compares with its peers' and against world-class benchmarks'* (Hope and Fraser 2003a, 109). Furthermore: *'Instead of adopting fixed annual targets, business units set longer-term goals based on benchmarks such as return on capital. The elements or factors measured are key performance indicators- KPIs – such as profits, cash flows, cost ratios, customer satisfaction, and quality'* (Hope and Fraser 2003a, 110).

McKinsey (1922) combined Budgetary Control and Standard Costing in comparing and analyzing estimated and actual figures. This may be defined as a static approach to control. Interestingly, however, traditional Budgetary Control as represented by McKinsey (1922) is not quite as rigid as claimed by its contestants. Budgetary Control does not necessarily imply one calendar year, and revisions are considered necessary if market conditions are uncertain. McKinsey (1922, 4) wrote: *'The budgetary plans are vitally affected by the business cycle, and the departmental plans are equally affected by the budgetary plan.'* He continued on page 33: *'When the market conditions are uncertain and variable, it is desirable to make the budget period as short as possible so that revisions in plans can be made more easily'*. This resonates with Wallander (1999, 413): *'The important and interesting thing is what is happening right now, its speed and direction. That is what you should try to influence.'* And: *'In this context, we are bound by conventional thinking, where a year is a basic unit. A quarter after the termination of the year when we send out the annual report, what information does that report really give us and the shareholders?'* (Wallander 1999, 414).

Hope and Fraser renamed the budget as Rolling Forecasts to embrace this dynamic approach: *'Rolling Forecasts that look five to eight quarters into the future play an important role in the strategic process'* (Hope and Fraser 2003a, 111). They continue: *'Unlike budget updates, whose forecast period becomes shorter and shorter as the end of the fiscal year approaches, Rolling Forecasts always look the same distance into the future, allowing the company to see whether performance is on a trajectory to meet goals that are a year or more away'* (Hope and Fraser 2003a, 112). They also are explicit about the calendar year as not restricting the allocation of resources: *'Additional capital is made available depending on the merits of the case'* (Hope and Fraser 2003b, 52).

In summary, both Budgetary Control and Beyond Budgeting claim that resources should be available upon request when profitable projects are available. While Beyond Budgeting is explicit about the application of relative targets, this is harder to find in the traditional literature on Budgetary Control. Based on their emphasis on comparing estimates with actual accounting figures, fixed targets seem to dominate. The comparison can be summarized in the following table:

### **Budgetary control and beyond budgeting – Variations of an institutionalized practice?**

In this essay, we have developed Budgeting around the historically founded concept of Budgetary Control. We have compared the concept of Budgetary Control as presented by McKinsey (1922) with the more recently emerged concept of Beyond Budgeting as presented by Wallander (1994) and Hope & Fraser (2003a). Research has pointed out that popular concepts and practices can become highly institutionalized and permanent features of organizations (Perkmann and Spicer 2008). As indicated by Table 1, this also seems to be the case for Budgets, whether they are labeled Budgetary Control or Beyond Budgeting.

Budgetary Control has been around in private enterprises for more than 100 years. As such, it must be correct to characterize Budgetary Control as here to stay. High adoption rates in a wide spectrum of organizations from different countries and regions, further reinforce Budgetary Control as an institutionalized practice.

Beyond Budgeting, on the other hand, cannot be defined as an institutionalized practice. Organizational adoption rates of Beyond Budgeting are very low, as measured by the number of organizations formally abandoning budgets (e.g. Libby and Lindsay 2010). However, Beyond Budgeting cannot easily be discarded as only a management fad (Abrahamson 1996). The explicit ideas of organizational control without budgets have been around and in demand for almost 30 years (i.e. Wallander's book from 1994). Beyond Budgeting could then rather be seen as a long-lived fashion (Abrahamson 1996). Similar

**Table 1.** A comparison of fundamentals of budgetary control and beyond budgeting.

	Budgetary Control	Beyond Budgeting
Views of Budgetary Control and its central problem	Planning through budgets an axiom	Planning without budgets an axiom
Organizational purpose	Maximize shareholder value	Maximize shareholder value
Approach to control	Centralization	Decentralization
Static or dynamic control	Dynamic Fixed targets	Dynamic Relative targets

observations that popular management ideas may be enduring have been made concerning Knowledge Management (Grant 2011; Jemielniak and Kociatkiewicz 2009) and Benchmarking (Madsen, Slåtten, and Johanson 2017), which are management concepts that have been around for decades.

Nevertheless, the interest in certain management concepts can be subject to swings (Madsen, Johanson, and Stenheim 2020) and it is not always how long an idea has been around that determines whether it can be characterized as a popular concept. While there are core actors that strongly identify and propagate the concept of Beyond Budgeting (Becker, Messner, and Schäffer 2020), particularly Hope & Fraser's successor Bogsnes (see for instance, Bogsnes 2009, 2023), there are indications that it has failed to become popular in some countries (Ax and Ax 2022).

Furthermore, even though its instigators and new propagators have offered cogent and insightful analyses, it is hard to find specific archetypes of Beyond Budgeting as the concept is somewhat amorphous and ill-defined (Matějka, Merchant, and O'Grady 2021). The concept does not have a particularly clear-cut design, unlike, for instance, Activity-Based Costing and the Balanced Scorecard (Kaarbøe, Stensaker, and Malmi 2013). Despite the developments and efforts put into promoting Beyond Budgeting from consultants such as Hope & Fraser (2003a) and Player (2003) and the Beyond Budgeting Round Table (Bogsnes 2009, 2023), there is evidence that organizations have instead improved their Budgeting practices (Nguyen, Weigel, and Hiebl 2018). As noted by Sandalgaard and Bukh (2014), why Beyond Budgeting sometimes works has not been unraveled, nor what characterizes those who have left Beyond Budgeting. Nguyen et al. (2018) indicate that high costs and uncertainty may explain why organizations hesitate to leave budgets.

However, given the persistence of the Beyond Budgeting idea over a longer period we conclude that it could be characterized as a popular idea with a relatively long history; indeed, it is more similar to McKinsey's ideas on Budgetary Control than most commentators realize.

### **Budgetary control and beyond budgeting: what's next?**

Of course, care should be taken in predicting the future trajectory of Budgetary Control and Beyond Budgeting. One key characteristic of traditional Budgetary Control is a technical hard core of numbers, originally influenced by financial accounting theory. However, its strength lies in connecting this technical core with human behavior through concepts such as 'accountability' and 'controllability'.

Our analysis of the sources demonstrates the hard and sometimes even hyperbolic rhetoric (Nørreklit 2003) of the Beyond Budgeting propagators against Budgetary Control is in some respects unfounded. Beyond Budgeting pictures traditional Budgetary Control as extremely rigid and static. Studying the work by McKinsey (1922), it becomes clear that this picture is not true. The author was open to delegating decision-making, revising budgets, and allocating resources dynamically.

Nevertheless, it cannot be excluded entirely that Budgetary Control is at a crossroads. One scenario is that alternative approaches such as Beyond Budgeting become more widely diffused and adopted, replacing initiatives to improve traditional Budgetary Control. Several other influential management movements currently support the general thinking behind Beyond Budgeting, such as Agile management (Sahota et al. 2014). While

the influential management guru Gary Hamel has launched the concept of ‘humanocracy’ (Hamel and Zanini 2020) and talks about developing a ‘human-centered organization’ (Hamel and Euchner 2020). However, the degree to which these new approaches will influence management practice is still unclear. Moreover, developments in Budgetary Control in the past few decades, have countered some of the rhetoric of Beyond Budgeting in important respects. In particular, there is an emphasis on what is referred to as ‘Participative’ or ‘Participatory’ Budgeting (Bartocci et al. 2023; Derfuss 2016). This is a decentralized form of bottom-up budgeting. If Budgetary Control moves in this direction, it becomes harder for the Beyond Budgeting movement to criticize it for centralization and a ‘command and control’ regime (Hope and Fraser 2003a).

Additionally, there are both intended and unintended consequences related to moving Beyond Budgeting (Østergren and Stensaker, 2011). The contemporary public discourse on sustainability may also to some extent explain why Beyond Budgeting has not been able to gain a stronger foothold: Player (2003, 8) explicitly states that Beyond Budgeting is a means for creating shareholder value, something which is not quite in line with the triple-bottom-line (Carnegie 2022) thinking.

Previous research has shown that textbook authors can shape the perception of management concepts and ideas by how these are portrayed in textbooks (Huczynski 2011). For example, popular management ideas may diffuse and be adopted by organizations if supported by mainstream textbooks used by influential educational institutions. Students at prestigious business schools are tomorrow’s C-suite members, and if they take certain concepts for granted as ‘good practice’ it will impact the concept’s future status and longevity as these students enter the business world. A reading of an influential textbook on management control systems also suggests that Budgetary Control still has a dominant position in the field, and only a few pages out of several hundred are devoted to describing this alternative approach (Merchant and van der Stede 2017).

## Conclusions and suggestions for further research

We started this paper by asking the question *how does McKinsey’s 100-year-old book on Budgetary Control compare with the contemporary ideas labeled Beyond Budgeting?* We have answered this by providing a macro-level historical perspective on the emergence of Budgetary Control. Furthermore, Budgetary Control has been compared with its main critics represented by Beyond Budgeting. By doing this, our essay contributes to the literature in several ways: First, we refine and nuance the view that Budgetary Control and Beyond Budgeting should be considered dichotomies. We find many more similarities between the two concepts than argued in the rhetoric from the Beyond Budgeting propagators. By unpacking Budgetary Control alongside Beyond Budgeting, we have informed contemporary organizational theorizing about how old ideas are rephrased rather than abandoned. For instance, both concepts are means for maximizing shareholder value, which is enabled through dynamic control. Planning is considered essential, yet the means differ. However, McKinsey’s flexible approach to the planning length resonates with Hope & Fraser’s Rolling Forecasts.

Nevertheless, Beyond Budgeting has become established as a popular management idea that should be taken seriously. However, it seems highly unlikely that organizations will abandon Budgetary Control altogether. Budgetary Control is a deeply

institutionalized practice and attempts to deinstitutionalize Budgetary Control by competing ideas related to Beyond Budgeting have so far not been particularly successful. Budgetary Control remains a cornerstone of most organizations' management control systems. Moreover, although there have been developments toward more participative bottom-up budgeting, the hard financial core of Budgetary Control has prevailed.

Our historical review and analysis also have at least one important practical implication. New management concepts are often old wine in new bottles: New 'innovative' ideas and concepts may not be as game-changing as claimed by their propagators, who tend to use dramatic and hyperbolic rhetoric. Organizations should, therefore, be somewhat cautious and have a critical mind-set when considering and evaluating new popular concepts and ideas.

There are several interesting directions for future research. Firstly, we suggest a more comprehensive historical study drawing on bibliometric methods to map the longitudinal evolution of the field of Budgetary Control. Secondly, longitudinal case studies could be conducted to learn more about context-specific changes over time in Budgetary Control and its competing alternatives. Thirdly, new ideas and concepts are promoted not only by the supply side but also by the demand side: The failure to adopt Budgetary Control may be attributed to practitioners not taking interest in adoption even though concepts are promoted by consultants and integrated in education. Tools such as 'Google Trends' could be used to develop proxies for the demand for Budgetary Control, as well as management concepts and ideas more generally.

## Note

1. Translated from Swedish by the authors. This counts for all quotes referring to Wallander (1994).

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## Notes on contributors

*Terje Berg* is an Associate Professor at the Norwegian University of Science and Technology.

*Daniel Johanson* is an Associate Professor at the Norwegian School of Economics.

*Dag Øivind Madsen* is a Professor at the University of South-Eastern Norway.

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