

Beyond Budgeting

How Managers Can Break Free from the Annual Performance Trap

Jeremy Hope and Robin Fraser. Harvard Business School Press, 2003.

<https://www.amazon.com/dp/1578518660>

Book Overview

Beyond Budgeting argues that the annual budget is not a neutral planning tool but the operating system through which most companies actually run themselves, and that the operating system is broken. Hope and Fraser draw on more than a decade of research at the Beyond Budgeting Round Table, a consortium of large companies studying alternatives to traditional budgeting, and on detailed case work at six firms that had abandoned the annual budget: Svenska Handelsbanken, Ahlsell, Borealis, Rhodia, Volvo Cars, and SKF. The book argues that fixed annual targets, tied to fixed rewards and fixed resource allocations, produce gaming, sandbagging, and misaligned decisions that consume between four and five months of senior-management time each year and roughly 25,000 person-days per billion dollars of revenue.

The book is structured as two linked opportunities. The first is to replace fixed annual targets, resources, and rewards with adaptive processes based on relative performance, continuous forecasting, and resources released as needed. The second is to devolve decision authority to frontline units so those adaptive processes have somewhere to run. Hope and Fraser present these as inseparable. Adaptive processes without decentralization produce faster micromanagement. Decentralization without adaptive processes produces incoherent action. The argument reaches beyond finance. Budgeting is treated as a management model, and the alternative is a different way of running a company.

The annual budget is the operating system of most companies, and it is the operating system that produces the behavior everyone complains about. Replace it with relative targets, continuous planning, and frontline authority, and the behavior changes.

Chapter Summaries

Chapter 1: The Annual Performance Trap

The opening chapter frames the annual budget as the source of most performance pathologies leaders attribute to culture. Hope and Fraser argue that when leaders negotiate a fixed target, tie the reward to hitting it, and tie the resources to the plan behind it, the resulting behavior is not a character problem. It is what any rational operator does inside that contract.

- The book documents that the average large company spends between four and five months a year on the budget cycle, consuming twenty to thirty percent of senior-executive and financial-manager time, and roughly twenty-five thousand person-days per billion dollars of revenue.
- The behaviors the authors call the six vicious circles include sandbagging targets to make them easier to hit, hoarding resources against contingency, gaming the numbers at quarter-end, hitting the target and stopping, avoiding investment that would risk the current year, and treating the budget as a ceiling on ambition rather than a floor.
- The authors cite the Enron and WorldCom scandals as the extreme version of the same behaviors, not aberrations from them. Fixed performance contracts under pressure produce earnings management. The 2002 wave of accounting failures made the case that this is a system-design problem, not a personnel problem.
- The chapter's implicit challenge to founder-CEOs is that most operating dysfunctions they attribute to weak leaders or bad culture are actually rational responses to the incentive system they installed.

Chapter 2: Breaking Free

Chapter Two lays out the two opportunities the rest of the book develops. The first is to make management processes adaptive rather than annual. The second is to devolve authority so those adaptive processes are run by the people closest to the customer. The authors argue that both are needed, and that most companies attempt one without the other.

- Adaptive processes replace annual targets with relative targets, annual budgets with rolling forecasts, fixed resource allocations with resources released as needed, and

individual bonuses tied to hitting a target with team rewards tied to relative improvement against peers.

- Radical decentralization gives frontline units the authority to make the decisions the adaptive processes require. Without it, adaptive planning becomes faster central planning.
- The authors argue that the two opportunities reinforce each other. Frontline units act faster when they hold the resources and the decision. Central management can trust them because performance is visible relative to peers rather than to a pre-negotiated target.
- The chapter positions the book as an operating-model argument, not a finance-department reform. Beyond Budgeting is presented as a different way of running a company, of which the finance change is one component.

Chapter 3: How Three Organizations Introduced Adaptive Processes

Chapter Three is a case study of three companies that replaced the annual budget with adaptive processes. Rhodia, the French chemicals company with \$7.2 billion in revenue, abandoned annual budgeting in 1999 in favor of a strategic cycle looking two to five years ahead and an operational cycle looking five to eight quarters ahead, both continuously reviewed. Borealis and Volvo Cars follow parallel paths.

- Rhodia decoupled the strategic conversation from the operational one. Strategy is reviewed annually against a two-to-five-year horizon. Operations are reviewed quarterly against a five-to-eight-quarter rolling forecast. Neither review produces a fixed annual number.
- Borealis, the Scandinavian petrochemicals company, replaced its annual budget with four distinct tools: rolling financial forecasts, a balanced scorecard, activity-based management, and investment approvals decoupled from the annual cycle. Each tool does one job the budget used to do badly.
- Volvo Cars converted to a rolling forecast in the late 1990s. The finance team reports that forecast accuracy improved once managers no longer had a reason to sandbag, because the forecast was no longer the basis of the reward.
- The pattern across the three companies is that no single tool replaces the budget. What replaces the budget is a small set of tools each doing part of the job, coordinated

by a changed decision rhythm.

Chapter 4: Principles of Adaptive Processes

Chapter Four abstracts the six adaptive-process principles the authors distill from the case work. Each principle names a specific mechanism that the annual budget corrupts and the alternative that adaptive processes install.

- **Targets.** Set stretch goals aimed at relative improvement against internal and external peers, not fixed numbers negotiated a year in advance. Relative targets cannot be sandbagged, because peer performance is not known in advance.
- **Rewards.** Base evaluation and rewards on relative improvement contracts assessed with hindsight, not on hitting a pre-negotiated number. Team rewards for relative improvement create shared accountability without individual gaming.
- **Planning.** Make action planning a continuous and inclusive process, not an annual negotiation. Planning becomes the way work is coordinated in real time, not a twice-a-year event.
- **Resources.** Make resources available as required rather than allocated in advance. Frontline units request resources against a threshold and a decision rule, not against a pre-approved line.
- **Coordination.** Coordinate cross-company actions according to prevailing customer demand, not according to the annual plan. Internal customers order from internal suppliers on the same terms external customers use.
- **Controls.** Base controls on effective governance and a range of relative performance indicators, not on variance from budget. Control is exercised through visible comparison, not through explanation of variance.

Chapter 5: Insights Into Implementation

Chapter Five is the practical companion to the adaptive-process principles. It draws lessons from finance leaders who ran the transitions, including the specific traps that stall or reverse a beyond-budgeting adoption. The tone shifts from argument to operating manual.

- The transition takes years, not quarters. The authors observe that finance-led conversions typically require two to three annual cycles before the new rhythm feels

normal, and that leaders who expect faster results are the most likely to revert.

- Rolling forecasts should be short and frequent, not long and elaborate. A five-quarter forecast updated monthly outperforms a twenty-four-month forecast updated annually, because the shorter one gets used.
- Balanced Scorecard, developed by Kaplan and Norton in the early 1990s and cited throughout, is treated as one useful tool among several, not as a replacement for the budget. Its role is to make relative performance visible.
- The finance function's role changes from control through variance analysis to service through decision support. Finance staff move closer to operating units and further from the corporate center.
- The most common failure mode is a hybrid state, where the annual budget is kept and rolling forecasts are added on top. The additional forecasting effort produces additional work without the behavior change.

Chapter 6: How Three Organizations Removed the Barriers to Change

Chapter Six studies three companies that removed the political and structural barriers to devolving authority to the front line. Svenska Handelsbanken, the Swedish bank that abandoned budgeting in the 1970s and has since outperformed its Nordic peers on cost-to-income ratio and return on equity across every cycle, is the most-cited case in the book. Ahlsell, the Nordic construction-supplies distributor, and IKEA are the other two. Each removed a different set of barriers to get the decentralized model in place.

- Handelsbanken organizes around branches, each treated as a profit center with authority over pricing, credit, and hiring within governance limits. Branches are ranked monthly against internal peers on cost-to-income and return on equity. The rank is the control, not a budget.
- The bank's rule that the branch closest to the customer decides is enforced against central-office overreach, and the head office is deliberately small. The senior leadership team resists the instinct to add a corporate function every time a branch makes a mistake.
- Ahlsell replaced the divisional budget with a decentralized profit-center structure and a shared services back office. Frontline profit-center managers own the customer profit and loss. Corporate exists to provide services those managers cannot

economically provide themselves.

- IKEA is used as an example of principle-driven governance. Founder Ingvar Kamprad's written statement of the company's values operates in place of a detailed rulebook. Frontline managers apply the principles, and the small central group intervenes only when the principles have been violated.
- The common pattern is that the center gets smaller and the front line gets larger. That is the opposite of the pattern most growth companies fall into as they scale.

Chapter 7: Principles of Radical Decentralization

Chapter Seven abstracts six principles from the decentralization cases. Together with the six adaptive-process principles from Chapter Four, they make up the twelve principles that would later be published by the Beyond Budgeting Institute as the standard statement of the model.

- Governance. Provide a framework based on clear principles and boundaries, not detailed rules. Principles allow judgment at the front line. Rules require the front line to escalate to the center.
- Performance climate. Create a high-performance environment based on relative success against peers, not on beating a plan. The comparison is what motivates.
- Freedom to act. Give people the freedom to make local decisions that are consistent with governance principles and the organization's goals. The default is that the frontline unit decides.
- Accountability. Place responsibility for value-creating decisions on frontline teams, not on the central plan. Teams own the outcome and the resources.
- Customer focus. Make people accountable for customer outcomes, not for internal budget compliance. The measure of the frontline unit is what the customer experienced.
- Transparency. Support open and ethical information systems that provide one truth throughout the organization. Everyone sees the same numbers. Local units cannot be gamed by information asymmetry.

Chapter 8: Insights into Changing Centralized Mind-Sets

Chapter Eight addresses the political obstacle. Radical decentralization strips authority from central functions, and the corporate constituencies who lose the most influence are the ones typically asked to run the change. Hope and Fraser argue that the transition succeeds only when the CEO personally champions it and holds the line against the predictable pushback from finance, human resources, and corporate planning.

- The authors argue that beyond-budgeting adoption is easier in mid-sized private companies than in large public companies, because private-company owners can commit to the transition without quarterly-earnings pressure. This is directly relevant to founder-led growth companies.
- The most persistent resistance comes from corporate staff functions whose control over frontline units depends on the annual budget. Hope and Fraser note that the change requires reassigning many of these staff into operating units and shrinking the corporate center itself.
- The authors address the accountability objection directly. Their argument is that fixed targets do not produce accountability in practice, because both sides know the target is negotiated rather than honest, and the negotiation itself is where the gaming starts. Relative performance against peers reintroduces the accountability pressure without the target-setting negotiation.
- CEO sponsorship is treated as non-negotiable. The chapter cites the pattern across the case companies that the transition begins under a CEO who publicly commits to the new model and personally resists reversion when the first uncomfortable frontline decision produces a result the corporate center would have decided differently.

Chapter 9: The Roles of Systems and Tools

Chapter Nine turns to the management tool set that supports the new model. Hope and Fraser argue that no single system replaces the budget. What replaces it is a small portfolio of tools, each doing one job well, coordinated by the changed decision rhythm rather than by an integrated annual cycle.

- The management-tool set the authors recommend consists of six items: relative performance measurement, rolling forecasts, resource allocation on demand, key

performance indicators, shareholder-value models, and the Balanced Scorecard. Each does one job.

- Enterprise information systems are treated as an enabler rather than a driver. The authors argue that the technology is now cheap enough that the constraint is the management model, not the reporting infrastructure. What used to require a mainframe run now happens in real time.
- Hope and Fraser warn against installing the tools without changing the management model. A balanced scorecard bolted onto a fixed-target incentive plan produces the same sandbagging behavior with more categories. Tools amplify the model. They do not replace it.
- The chapter argues that the finance function is the natural steward of the new tool set, but only if it accepts the shift from control through variance analysis to service through decision support. Otherwise the tools are captured by the old model.

Chapter 10: The Vision of a Management Model Fit for the Twenty-First Century

The closing chapter presents the two opportunities together as a coherent management model for the twenty-first century. Hope and Fraser argue that the traditional model was built for a slower, more predictable economy, and that its persistence in faster-moving industries is a matter of institutional habit rather than fit.

- The two opportunities are inseparable. Adaptive processes without decentralization produce faster central planning. Decentralization without adaptive processes produces incoherent local action. The book's contribution is arguing that both are required to get either.
- The twelve principles, six adaptive-process and six decentralization, are presented as the integrated statement of the model. Hope and Fraser argue that companies operating on most of the twelve outperform their traditionally managed peers on speed, cost, and adaptability across the economic cycle.
- The book closes by reframing the purpose of management. The twenty-first-century model is not a set of tools but a change in what management is for. Its purpose is to help frontline teams create value for customers, not to help the center control the frontline.

- Hope and Fraser argue that the model is most accessible to companies that have not yet locked in a heavy central apparatus. Growth-stage companies are named as the most promising ground for adoption, because the political constituencies defending the annual budget are not yet entrenched.

About the Authors

Jeremy Hope was a British management writer and director of the Beyond Budgeting Round Table, the research consortium he cofounded in 1998. He trained as a chartered accountant, worked in investment banking, and wrote three earlier books on management accounting, including *Transforming the Bottom Line* and *Competing in the Third Wave*. He died in 2011. Robin Fraser was the other cofounding director of the Beyond Budgeting Round Table. Before that work he was a partner at PricewaterhouseCoopers, where he led the management-consulting practice on performance management. The two collaborated on *Beyond Budgeting* and on the earlier academic papers that developed its framework.

The book's credibility rests on the authors' access to the Beyond Budgeting Round Table's member companies, which included Rhodia, Borealis, Volvo Cars, SKF, and dozens of other European firms during the decade before publication. That access produced detailed operating material other researchers did not have, including the Handelsbanken case, which is now the reference example in most academic treatments of decentralized management. The material is concentrated in northern Europe and in industrial companies, and readers should apply the principles rather than the specific mechanics to their own context.

Key Takeaways

1) The annual budget is the operating system, not a planning tool.

The book's central operating claim is that most companies do not have a management model separate from the budget. The budget is the negotiation of what will happen, the allocation of who gets what, the measurement of who succeeded, and the basis of who gets rewarded. Every other management process runs downstream of it. Recognizing that the budget is the operating system, not a report, is the precondition for changing it.

- The average large company spends between four and five months per year on the budget cycle, consuming twenty to thirty percent of senior-executive time.
- Six vicious circles are documented: sandbagging targets, hoarding resources, gaming the numbers, hitting-and-stopping, avoiding investment, and treating the budget as a ceiling.
- The Enron and WorldCom failures are treated as extreme cases of the same behaviors, not as unrelated ethics failures. Fixed performance contracts under pressure produce earnings management.

2) Fixed targets and fixed rewards are the source of the behavior, not the culture.

When a leader negotiates a fixed target and ties the reward to hitting it, the resulting behavior is what a rational operator does inside that contract. Sandbagging, gaming, hitting-and-stopping, and refusal to invest in the current year are not character defects. They are what the incentive system pays for. The book's contribution is to name this precisely enough that a leader cannot fix it by asking people to try harder.

- Relative targets, assessed against internal or external peers, cannot be sandbagged, because peer performance is not known in advance.
- Rewards tied to relative improvement rather than absolute numbers create shared accountability without individual gaming.
- The measurement of success shifts from a pre-negotiated number to visible comparison against comparable units.

3) Adaptive processes and decentralization are inseparable.

Adaptive processes without decentralization produce faster central planning. Decentralization without adaptive processes produces incoherent local action. The authors present the two as one integrated change, and observe that most reform attempts fail because they install one and skip the other. Rolling forecasts without delegated authority just add work. Delegated authority without new coordination mechanisms produces local optimization at the expense of the enterprise.

- Rhodia paired rolling operational cycles with clear frontline decision rights on resource requests, which is why the forecasting change stuck.

- Handelsbanken paired branch-level authority with monthly relative-performance rankings, which is why the branches did not drift.
- The book's implicit warning is that finance-led beyond-budgeting adoptions frequently stall because the authority question is not addressed at the same time.

4) Relative performance is the durable control.

The most robust control mechanism in the book is comparison against peers. Peer comparison cannot be gamed by the individual unit, because the unit does not control the comparison group. It also motivates without producing sandbagging, because there is no target to negotiate. The authors present relative performance as the mechanism that allows real decentralization, because it lets the center trust the front line without inspecting every decision.

- Handelsbanken has ranked its branches monthly on cost-to-income ratio and return on equity since the 1970s, and has outperformed its Nordic banking peers on both measures across every economic cycle since.
- Rhodia used relative benchmarks against internal business units and external industry peers to replace absolute targets.
- Relative measures do not eliminate the need for judgment. The authors argue that relative measures allow better judgment, because the comparison exposes the actual performance of the unit rather than its compliance with a plan.

5) Resources should follow decisions, not precede them.

Traditional budgeting allocates resources in advance, based on the plan negotiated a year earlier. The authors argue that this is the wrong sequencing. Resources should be released against a decision rule and a threshold as the need becomes visible. This is how public companies fund acquisitions, how private equity firms fund portfolio companies, and how customer-facing businesses actually respond to demand. Only annual budgeting treats resources as pre-committed.

- Ahlsell replaced its divisional budget with a shared-services back office and a frontline profit-center model. Resources flow to profit centers on demand rather than in advance.

- The mechanism requires an approval threshold, a decision rule, and a decision-maker. The authors argue that most companies have all three but keep the annual allocation on top of them.
- The authors address the objection that on-demand allocation loses disciplinary pressure. Their argument is that annual allocation creates the opposite problem, which is spending because the money was allocated rather than because the opportunity is real.

6) The finance function becomes a business partner, not a controller.

In the beyond-budgeting model, the finance function stops enforcing variance from budget and starts providing decision support to operating units. Finance staff move closer to the front line and further from the corporate center. The role becomes understanding the economics of the operating decision, not explaining why the actual result missed the plan. The authors argue this is the change most large-company CFOs resist, because it reduces the control apparatus finance has traditionally owned.

- Rhodia moved most of its finance staff into operating business units. The remaining central group focused on treasury, tax, and external reporting.
- Borealis's four-tool model requires finance to run the rolling forecast, the balanced scorecard, activity-based management, and investment approvals as separate processes serving operating decisions, not as one integrated control mechanism.
- The predictable failure mode is a CFO who agrees to the beyond-budgeting principles but keeps the finance function structured around the old control apparatus. The operating change does not stick without the function change.

7) Beyond budgeting is easier in mid-sized private companies than in large public ones.

The authors observe that private-company owners can commit to a multi-year operating transition without quarterly-earnings pressure, and that mid-sized companies can move faster than large ones because there are fewer central-function constituencies defending the annual budget. This is directly relevant to founder-led growth companies. The founder still has time to install a different operating model before the company is too large to change one, and before an exit or professional-CEO transition freezes it in place.

- Public-company adoptions are more likely to stall at the hybrid stage, where rolling forecasts are added on top of the annual budget rather than replacing it. The external-reporting cycle keeps the annual budget alive.
- Private-equity-backed companies face a related constraint. The annual budget is typically the reference point in the LP agreement and in management-incentive plans, and the model has to be redesigned inside those constraints.
- For founder-CEOs approaching exit, the argument sharpens. The operating model in place at the time of transition is the one the successor will keep. Installing beyond-budgeting mechanics before transition, or explicitly not installing them, is a consequential choice.

Strengths And Limits

The book's strength is that it treats the annual budget as an operating system rather than a finance-department process, and grounds the argument in unusually detailed case work at six companies that had actually made the transition. Handelsbanken's decades of relative outperformance in Nordic banking, Rhodia's decoupled strategic and operational cycles, and Borealis's four-tool replacement of the budget give the argument evidence most management books do not have. The twelve principles are precise enough to argue with, and the discussion of the finance function's role change is the most direct treatment in the management literature of the political obstacle most reforms hit. Hope and Fraser also refuse the compromise position, where rolling forecasts are added on top of the annual budget. They argue that the hybrid state produces more work without the behavior change, and that this is why most reforms stall.

The book's own stated limits are geographic and sectoral. The case companies are concentrated in northern Europe and in industrial sectors, and Hope and Fraser tell readers in different regulatory environments or corporate governance regimes to apply the principles rather than the specific mechanics. The authors also acknowledge that the argument for relative performance assumes meaningful internal or external comparators are available, and give less attention to what to do when they are not. The human-capital side of the transition, particularly what happens to finance and controller careers when the traditional control apparatus is dismantled, is the thinnest

part of the book.

Bruce's Take

This is the book I recommend most often to founder-CEOs who tell me their planning cycle produces more heat than light. The diagnosis is exact. Most of what I see labeled as culture problems in a scaling company are rational responses to the incentive system the CEO installed, usually without realizing that is what they were doing when they set the annual budget. Hope and Fraser make the operating-model logic visible enough to change.

The book is now more than twenty years old, and it was written before the current wave of SaaS and technology companies where the annual budget is already much weaker. Its arguments hit differently in a subscription business than in a booked-order business. In a SaaS company, rolling forecasts and continuous planning are already the operating norm, and the useful part of the book is the incentive-design and decentralization argument rather than the finance-process critique. In a traditional industrial or professional services company, the finance-process critique is still the whole book.

The most common outside objection to *Beyond Budgeting*, articulated most sharply by Michael Jensen, is that eliminating fixed targets removes the accountability mechanism entirely. My experience in the growth-stage market is that Jensen is describing a theoretical company where targets are set honestly. In practice, the target-setting negotiation is where the gaming starts, and relative performance against internal or external peers reintroduces the accountability pressure without the annual negotiation. The Jensen objection is more of a large-public-company problem than a growth-company problem.

Where the book underdelivers for my clients is on sequencing. Hope and Fraser describe the end state well and the transition badly. The book that finishes the job on implementation is Bjarte Bogsnes's *Implementing Beyond Budgeting*, which is written by the executive who ran the Statoil rollout and covers the political and organizational mechanics. Read Hope and Fraser first for the argument. Read Bogsnes second for the operating manual.

Discussion Questions

For CEOs

- Which behaviors in my company that I attribute to weak leadership or bad culture are actually rational responses to the incentive system I installed?
- How much of my senior team's time is consumed by the annual budget cycle, and what would that time be spent on if the cycle were replaced?
- Which of my leadership team's bonuses is currently tied to a fixed target negotiated at the start of the year, and what would change if it were tied to relative improvement against peers?
- For each of the twelve beyond-budgeting principles, would I say my company operates on the traditional model, the beyond-budgeting model, or an unresolved hybrid?
- Where in the company are we allocating resources a year in advance for reasons of habit rather than because that timing serves the decision?
- Which decisions currently escalate to me because the frontline unit does not have the authority, the information, or the incentive to decide, and which of those categories is the binding constraint?
- If we prepared the company for exit today, is the operating model the one I would want the buyer or successor to keep, and if not, what needs to change before the transaction?
- How would my CFO respond if I proposed moving most of the finance function out of the corporate center into operating units, and what does that response tell me about the change that would be required?

For Teams

- Which of the six vicious circles the book names, sandbagging, hoarding, gaming, hitting-and-stopping, avoiding investment, or ceiling-setting, do we recognize in our own planning cycle?
- For each of our top three business units, is the operating unit accountable for a customer outcome or for compliance with the annual budget, and does the answer match what we would like it to be?

- Where in the company are decisions escalating to the center because the front line does not hold the resources, the authority, or the information required to make them?
- Which of our internal performance measures are absolute against a pre-negotiated target, and which are relative to internal or external peers? What changes if we shift the mix?
- How much of our finance team's work is currently variance analysis against budget, and how much is decision support for operating leaders?
- In our next planning cycle, what would we do differently if the annual budget did not exist as a document?
- Which of the beyond-budgeting principles would be hardest to install here, and why? Is the obstacle the principle itself or the political constituency that would lose influence?
- Are we running an integrated operating model, or are we operating in a hybrid state where the annual budget is still the underlying control and the newer mechanisms are additions on top?

Practical Tools

1. Budget Behavior Audit

The book's central diagnostic is that most operating dysfunctions leaders attribute to weak culture are rational responses to the incentive system in place. This audit converts that claim from an argument into a specific list of behaviors and their system causes, which is what makes the operating model visible enough to change. Run it before any planning cycle in which the same behaviors, sandbagging, hoarding, gaming, or refusal to invest, appeared in the previous cycle, or as diagnostic input to any beyond-budgeting or operating-model change program.

How it works:

- List the six vicious circles from the book: sandbagging targets, hoarding resources, gaming numbers, hitting-and-stopping, avoiding investment in the current year, and treating the budget as a ceiling.
- For each, name a specific instance from the last twelve months in your own company. Attach the leader involved, the decision or metric affected, and the estimated cost.

- For each instance, identify the element of the annual–budget system that produced it: the fixed target, the fixed reward, the pre–allocated resource, or the variance–against–budget control.
- Rank the six by cost to the business.
- Choose the one you will change in the next planning cycle. Name what will replace the system element that produced it.

The team stops arguing about whether the behavior exists and starts arguing about which system change to make first. The diagnostic replaces the culture conversation with an operating–model conversation.

2. Fixed-To-Relative Target Conversion

The book's most implementable finding is that fixed absolute targets can be replaced with relative targets against internal or external peers, and that this change eliminates the gaming without reducing the pressure. Handelsbanken has run this model for five decades. The mechanism is direct and reversible if it does not work. Use it in the next incentive review, in an operating–model redesign, or when a specific bonus has produced obvious sandbagging or hitting–and–stopping in the previous cycle.

How it works:

- List every bonus, commission, or variable–compensation element tied to a fixed target negotiated in advance.
- For each, identify one to three internal peers, external competitors, or industry benchmarks that would produce a legitimate relative comparison.
- Redesign the compensation element so payout depends on relative rank or relative improvement, not on hitting the fixed number.
- Set the assessment cadence. Handelsbanken uses monthly. Most public companies use quarterly or annual with a hindsight adjustment.
- Communicate the change to the affected leaders with the underlying reasoning, not just the mechanics. The mechanics without the reasoning read as goalpost–moving.

In the first cycle after conversion, the negotiation over the target disappears from the planning conversation, and the leader's attention shifts from sandbagging the number

to outperforming the comparison group.

3. Rolling-Forecast Redesign

The rolling forecast is the mechanism that replaces the annual budget's role as the operational plan. Rhodia's five-to-eight-quarter rolling forecast, updated continuously, is the reference model in the book. The point is not more frequent forecasting. It is that operational planning stops being an annual event and becomes a continuous process tied to the actual business rhythm. Use it when replacing or supplementing an annual budget, when your business rhythm does not match the calendar year, or when annual forecasts have proven unreliable for more than two consecutive years.

How it works:

- Decide the horizon. Five to eight quarters is the range in the case companies. Shorter horizons for faster-moving businesses. Longer for capital-intensive ones.
- Decide the update cadence. Monthly for operational forecasts. Quarterly for strategic ones. Do not run both on the same cadence.
- Decide the level of detail. Rolling forecasts should be short and directional, not long and precise. The forecast that gets used is short enough to update.
- Decouple the forecast from the reward. As long as the forecast is the basis of the bonus, it will be sandbagged. Assess rewards against relative performance, not against the forecast.
- Decide what the annual budget will be used for after the change. External reporting, board communication, and covenant compliance are legitimate residual uses. Internal planning is not.

Within two cycles, the annual planning conversation shrinks and the quarterly operational review carries the weight. The forecast becomes a working document, not a negotiated position.

4. Decision-Rights Migration

Adaptive processes without matching authority produce faster central planning. Handelsbanken's rule that the branch closest to the customer decides is the reference example in the book. The migration is what makes adaptive processes work operationally rather than just structurally. Use it in an operating-model redesign, when decision escalation is slowing the business, or as a companion to any rolling-forecast or relative-performance change.

How it works:

- List the ten decisions that most often escalate from operating units to the corporate center.
- For each, identify the reason for escalation: authority gap, information gap, capability gap, or confidence gap. The gap type determines the intervention.
- For authority gaps, publish an explicit decision-rights change and a threshold for each decision. Name the frontline decision-maker.
- For information gaps, expose the underlying data to the frontline unit rather than escalating the decision.
- For capability and confidence gaps, run a coaching or training program alongside the change. Do not migrate the decision until the frontline team is ready to hold it.

Within two quarters, the number of decisions escalating to the corporate center drops, and the frontline units report that they know when to escalate and when to decide. The center's attention shifts from decision-making to principle-setting.

5. Finance-Function Purpose Review

The book's most politically difficult claim is that the finance function has to change from a control apparatus to a decision-support function. Rhodia moved most of its finance staff into operating units. This review makes the change concrete enough to plan rather than abstract enough to avoid. Use it when installing rolling forecasts, redesigning the planning cycle, or considering an operating-model change that will affect how the finance function supports the business.

How it works:

- Ask the CFO to list the three most time-consuming activities the finance function performs, measured in staff time.
- For each activity, classify it as decision support for operating leaders, explanation of variance from a plan, or external reporting and compliance.
- For each variance-explanation activity, ask what operating decision it currently supports. If the answer is none, mark the activity for elimination on transition.
- For each decision-support activity, ask whether it would be better performed inside the operating unit than at the corporate center.
- Redesign the finance function around the remaining activities. Publish the new organizational structure with the operating leaders as the primary internal customer.

Finance-team time shifts measurably toward operating-unit support, and operating leaders report that the finance function has become useful in decisions they were previously making without it.

6. Resources-On-Demand Mechanism

Traditional budgeting allocates resources in advance. Beyond budgeting releases resources against a threshold and a decision rule as opportunities appear. Ahlsell's shared-services and frontline-profit-center model is the reference in the book. The change is the one most operating leaders find most immediately useful, because it removes the constraint of pre-approved lines. Use it for a specific spending category, capital investment, hiring, or vendor commitments, where the timing of the decision matters more than the timing of the calendar year.

How it works:

- Choose one category of spending currently allocated a year in advance.
- Set an approval threshold, below which frontline units may commit without escalation. Between the threshold and a second threshold, escalation to a named decision-maker is required. Above the second threshold, board or CEO approval is required.
- Publish the decision rule that governs releases: what the request must include, what evidence it must present, and how it will be assessed.

- Do not allocate the category in the annual budget. Provide an estimated envelope for planning purposes, and release funds against the decision rule rather than against the allocation.
- Track total spending against the envelope across the year. Compare to the prior year's allocated total.

Frontline units report that they can act on time-sensitive opportunities that the annual cycle previously blocked, and total spending stays within a defensible envelope.

7. Twelve-Principles Self-Assessment

The twelve principles are precise enough to argue with. This self-assessment forces the leadership team to name, for each principle, whether the company operates on the traditional model, the beyond-budgeting model, or an unresolved hybrid. The hybrid answers are usually the ones worth arguing about. Use it once a year at a leadership offsite, in a strategic-planning review, or as part of exit-readiness work when the operating model in place at transition will matter.

How it works:

- Publish the twelve principles to the leadership team in advance: targets, rewards, planning, resources, coordination, controls, governance, performance climate, freedom to act, accountability, customer focus, and transparency.
- Ask each leader to score each principle independently on a five-point scale from traditional to beyond-budgeting, before the discussion.
- Compare answers. The principles where the team disagrees on where the company currently stands are the ones worth the discussion time.
- For each principle where the team wants to move toward the beyond-budgeting side, name the specific mechanism that would change and the leader who owns the change.
- Set a review date. Twelve principles is too many to change simultaneously. Choose two or three for the coming year.

The team leaves with two or three specific operating-model changes, each with an owner and a review date, rather than a general aspiration to operate differently.

Further Research

- The Beyond Budgeting Institute's published statement of the twelve principles, for the current version of the model as maintained by its practitioner community. ([link](#))
- Bjarte Bogsnes's Implementing Beyond Budgeting, the practitioner sequel that documents the Statoil and Equinor implementation and offers more detail on transition mechanics than Hope and Fraser's original. ([link](#))
- Robert Simons's Levers of Control, for a parallel framework on how management-control systems shape behavior, with a different treatment of the trade-off between diagnostic and interactive controls. ([link](#))
- Michael Jensen's paper Corporate Budgeting Is Broken, Let's Fix It, for the academic critique of target-based compensation and the linear pay-for-performance model, which reaches similar conclusions from a different starting point. ([link](#))
- The Handelsbanken case, documented in academic and practitioner sources including Niels Pflaeging's Organize for Complexity, for the reference implementation of decentralized operating models with five decades of results. ([link](#))

Related Books

- **Implementing Beyond Budgeting**, Bjarte Bogsnes. The practitioner sequel by the executive who ran the Statoil implementation. Provides the transition mechanics and organizational politics that Hope and Fraser cover only at the principle level.
- **Reinventing Organizations**, Frederic Laloux. A broader argument for self-managing organizational forms, with case studies at Buurtzorg, Morning Star, and other companies that operate without traditional hierarchy. Extends the decentralization argument beyond the finance function.
- **Turn the Ship Around**, L. David Marquet. A Navy submarine commander's account of pushing decision authority to the front line, written from an operating rather than finance perspective. The mechanisms map closely to Hope and Fraser's radical-decentralization principles.

- **The Great Game of Business**, Jack Stack and Bo Burlingham. An operating-owner's account of open-book management at Springfield Remanufacturing, which shares the transparency principle and the argument that frontline teams make better decisions when they see the same numbers the CEO sees.
- **Levers of Control**, Robert Simons. The academic reference on how management-control systems shape strategic behavior. Introduces the distinction between diagnostic and interactive controls that runs underneath Hope and Fraser's argument.
- **Organize for Complexity**, Niels Pflaeging. A shorter and more polemical statement of the decentralized-operating-model argument, with the Handelsbanken case treated in more depth than Hope and Fraser have room for.
- **Reengineering the Corporation**, Michael Hammer and James Champy. The 1993 classic on process redesign, useful for context because Hope and Fraser are arguing against the era of business-process reengineering that produced faster but still centrally controlled organizations.

These summaries present Bruce Eckfeldt's analysis of business and leadership books for founder-CEOs and leadership-team members of growth companies. Each one identifies the ideas most relevant to decision quality, strategy, and leadership capacity, notes where the evidence is weak, and suggests practical ways to test what is worth testing. All ideas, stories, and quotations belong to the original author and to the people they cite. The assessments and recommendations are Bruce's. It is a companion to the book, not a substitute for reading it.

To learn more about Bruce's programs, request other book summaries, or get in touch, contact booksummaries@eckfeldt.com.