

Steve
Morlidge
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Becker
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“There are many ways to do Beyond Budgeting”

Steve Morlidge outlines Beyond Budgeting’s principles and its evolution, focusing on adaptability and leveraging employee skills, and addressing challenges in resource allocation. He emphasizes aligning control systems with the nature of work and managing costs via trend analysis, envisioning Beyond Budgeting as the management model of the 21st century.

Mr. Morlidge, for more than 25 years, the Beyond Budgeting community has worked on developing and constantly refining an alternative to the traditional management model. As a long-time member and leader of this community, how would you describe this alternative model today, and why do you think it is needed?

There are two fundamental ideas Beyond Budgeting is built on. One is the need to have the ability to change when the external environment changes. And the second component is creating a way of working that takes advantage of people's knowledge, skill, and willingness to commit to an organization and in the process do something worthwhile and fulfilling in their working lives. In short, building a healthy and productive workplace. This has been there from the start. What has changed is our emphasis. We spent a lot of the early years in a crusade against the traditional management model, bashing budgeting. I think that the need for that has gone away; that argument has been won. People are open to the idea that there needs to be change. Organizations have got braver as well. The agile movement deserves a lot of credit there because they have demonstrated you can do things which, on the face of it, for someone with a traditional mindset, seem pretty crazy. But they work, and if you pursue it in the right way, you can have a big impact. So I think that the Beyond Budgeting model itself has not changed; the context and the climate in which we are working has.

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And what made you convert to Beyond Budgeting?

I became a financial controller in 1990, and I had the good fortune to inherit a mess and so I did not have to worry about preserving the legacy of my predecessors. Starting from ground zero, I built up a great team, and we got used to doing really good things. But there was always one bit of what we did that was broken and which resisted all efforts to fix it: budgeting. So, the first reason I adopted Beyond Budgeting was the indignity of being associated with something that obviously did not work. And because a deeply held value of mine is that talent is precious, I also resented being part of a process that took extremely bright, capable young trainees and taught them how



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Prof. Dr. Sebastian Becker

is the holder of the Nexans chair for “Orchestrating sustainable business transformation” at HEC. His research examines the diffusion, change, and implementation of accounting and control techniques in private and public sector organizations. He has a particular interest in budgeting and forecasting, is an expert on Beyond Budgeting, and co-authored the “Viable Map workbook”. Sebastian Becker earned his Ph.D. from WHU – Otto Beisheim School of Management (Vallendar, Germany) in 2011. He was a post-doc at WHU – Otto Beisheim School of Management and a visiting scholar at University of Innsbruck, Austria, Norwegian School of Economics (NHH) Bergen, Norway, Bocconi University Milan, Italy, as well as École des Hautes Études Commerciales (HEC) Paris, France.



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Dr. Steve Morlidge

is a core member of the Beyond Budgeting Institute and joined the Beyond Budgeting Movement in 1998. Having previously served as Chairman of the European Beyond Budgeting Round Table, he now works as a management thinker, writer, and speaker. Steve Morlidge published several books, including “Future Ready: How to Master Business Forecasting” and “The Little Book of Beyond Budgeting”. Additionally, he is on the editorial board of Foresight and co-founder of CatchBull. Steve Morlidge received his doctorate from Hull Business School, UK, and has 30 years of practical experience designing and running performance management systems at Unilever. Currently, he holds a position as a visiting professor at Cranfield University, Bedfordshire, UK. Since 2023 he has also taken on the role of a visiting professor at BPP University.

to do something that was stupid and a waste of time. I saw that I was making bright, enthusiastic people cynical and old before their time, which I hated. It made me open to Beyond Budgeting when it came along. Then the intellectual challenge of understanding Beyond Budgeting grabbed hold of me, and that is what has propelled me forward for most of the last 15 to 20 years.

At what point in time did you join the movement?

I was there right at the start in the late nineties. When I got involved, Jeremy Hope and Robin Fraser, who co-founded the Beyond Budgeting Round Table, had not written anything. They started Beyond Budgeting in 1998 with 20 original industry sponsors, one of them being my company, Unilever Foods UK.

That’s interesting! Let us now turn from the early days to your latest publication. Only recently, the BBRT, including you and Sebastian, brought the “Viable Map” workbook to the market. What exactly is a Viable Map, and why would a company need it?

Beyond Budgeting is no simple recipe to follow. This is absolutely right but, understandably, people sometimes find it difficult to convert some high-level conceptual principles into practical steps, which is what the Viable Map helps to do. It does this by identifying key tangible characteristics of each principle, which helps you to describe and discuss both the existing and the desired management model. In that sense, it helps people design effective interventions. But it also serves as a diagnostic tool since in Beyond Budgeting a viable management model is one where the principles operate in an internally coherent way so that they do not conflict and are synergistic. So, if things are not working as you intended, you can see why. Because it lays all of that out in a relatively simple graphical format, it helps you understand that gap between where you currently are and where you want to be. This way, it allows you to design effective management interventions which enable you to change your management model in a practical and structured manner.

Is there a target model that every company engaged in Beyond Budgeting should try to get closer to over time? Or are there different target models?

There is no target Beyond Budgeting management model as such because every organization's context differs, but there is a zone of potential viability that is shaped by a set of constraints. First, there is a set of external constraints, which is the nature of the environment you are in and how you choose to compete in that environment. And then there are the attributes of your people and the culture in your business that will constrain and influence what you can do with your management model. Within these boundaries, you have choices that are only constrained by the need for internal coherence. Hence, it is much easier to say what Beyond Budgeting is not rather than what it is. It is more adaptive than traditional budgeting and doesn't apply a 'Theory X' leadership style, but these general characteristics aside, it is any management model which is internally coherent and a good fit with the external environment and the nature and qualities of the people you have been bequeathed with. For this reason, we always insist that there is no simple Beyond Budgeting recipe that can be slavishly followed. But cooking does provide a good analogy in another respect. A good cook knows how to combine ingredients and what processing techniques need to be used to achieve a good outcome, but there are many different types of delicious cakes you can bake. The Beyond Budgeting principles are like ingredients, and the Viable Map provides a framework to help you learn what combination of ingredients and techniques will or won't work and why, and so help you 'bake' a good management model.

“It is much easier to say what Beyond Budgeting is not rather than what it is.”

If how far you can go depends not only on the environment but also the people and their mindset: Does this not lend itself as an excuse for anyone who is trying to avoid change?

I think if people are not open to this kind of change, they will always find reasons for sticking with the status quo. So, the fundamental issue, which is what lies behind your question, I think, is the mindset that underpins this kind of resistance. I think of a mindset as a set of assumptions that people hold about the world (e.g., is it predictable?) and about people (e.g., can they be trusted?), usually without realizing it. As a result, they are taken to be 'the truth', and this is a source of enormous resistance to any change that is based on a different set of assumptions. John Seddon, occupational psychologist and author specializing in change in the service industry, says

there are three different approaches to bringing about change. There is coercion, where you are told to do this or else. There is logical change, which is you should do this for these kinds of logical reasons. But he argues that the only source of fundamental change is normative change, which is based on challenging the way people perceive and think about the world. His whole approach to facilitating change is about putting leaders in a position where they are forced to confront the fact that the way that they think about their business and the assumptions they have about the people in their business is the thing getting in the way of meaningful change. It is not 'other people'. One of the things that we have been very consciously working on in Beyond Budgeting over the last five years is how we can create these mental epiphanies in the context in which we work.

Radical change might also be needed in corporate resource allocation. Why is it so difficult to get the respective processes right?

I think allocating resources is conceptually straightforward; after all we continuously allocate resources in our lives at home every day without thinking about it, but as you say, it is something that companies struggle with in practice. I think there are two sources of these difficulties. There are undoubtedly practical issues because in any sizable business, you are faced with the challenge of allocating a varying pool of scarce resources on multiple dimensions at multiple levels simultaneously. But I think the main reason why budgeting – a hundred-year-old piece of technology – has proven so difficult to dislodge owes more to psychology. Budgets are reassuring for leaders. But this sense of control is illusory, because, from another perspective, a budget represents an entitlement that confers freedom to spend. In this sense, there are powerful reasons why budget holders want to negotiate higher budgets and make sure that they are always spent. So, although both sides complain about the process, they both have a stake in the status quo. This is one reason why change is such a big challenge, as it requires that both parties let go of something that they value.

What can companies do to make resource allocation more flexible?

I would prefer to frame the question more broadly since flexibility is not an end in itself; it is just one important quality that traditional processes don't have that we need to find a way of building into new and better ones. And because our mental



models of the process are inextricably bound up with traditional budgeting, we have to take a step back and ask some fundamental questions about what we are doing and why. In my mind, we are trying to make work work better. If we think about the nature of work, we can see that, broadly speaking, it takes one of two forms - discontinuous or continuous projects or processes - and it follows that the way of allocating resources should reflect this. Taking discontinuous investment decisions first, these involve a conscious decision to allocate a discrete amount of resources to a particular end. The question is how and when you do this. For me it is helpful to differentiate between two kinds of 'projects'. First there are those where you know exactly what you need to do and how to do it. In this case, traditional capital budgeting and project control methodologies are appropriate. You know exactly how you are going to build the bridge in advance, and you decide either to build it or not; you do not half build it or start building it and decide it is going to go somewhere else. Although the decision does not have to be made as part of an annual budget cycle by definition, once you have committed to the decision, your ability to make changes is limited. But flexibility is critical in



the context of the second type of discontinuous investment, where you do not know for sure in advance what is going to work and what is not going to work, either technically or economically. In conditions of radical uncertainty like this, if you authorize big budgets in advance and apply traditional project control methodologies, you often end up with 'white elephants,' where lots of money is spent on things that are not needed or which don't work as we have seen over and over again in big businesses and in the public sector. Agile practices have evolved in this context, and we need to build finance processes that support these where money can be allocated in increments as our knowledge of what is required evolves. In essence, this is option thinking in action. If you are unsure about what is the right thing to do or how much money you have to spend, keep options open, including the option to stop. But once you have got sufficient confidence you are doing the right thing, you commit and stay committed to the end. Financial year end and budget cycles should not be allowed to erode this commitment. One of the problems with traditional budgeting is that you are forced to allocate too soon and then are often forced into arbitrary cuts when your original assumptions have



proven to be false. It is clearly more difficult to manage resource allocation dynamically, but the biggest barrier to change is probably the mental transformation required in moving from the idea of investment as an ‘all or nothing, now or never’ decision to one of managing investment as ‘real options’. This is second nature in venture capital circles but is not yet common currency in the corporate world. It is worth pointing out that while we talk about flexibility in this context, what is really at stake is our ability to manage risk. Given a distribution of potential outcomes, how do you make decisions in such a way that you minimize the downside financial risk and increase the upside potential?

A lot of people also call for a more decentralized approach to making investment decisions. Would you agree?

I take the view that the right people need to make the right decisions at the right level. It is probably true that too many, particularly large, investment decisions are made at levels that are too high and too centralized. But that does not necessarily mean that the opposite is always better. The trick is finding the right level at which to make a decision. For example, my first

proper job involved various capital expenditure decisions associated with large amounts of money. They had to be authorized by the most senior person on site, not because they were best placed to make those decisions. Instead, very often, by virtue of the fact that they were senior, they did not have the detailed knowledge to make that decision. It was really just a question of whether they were big enough to take the blame if it went horribly wrong. It is more a political decision than a practical one. I am more inclined to be practical and give authority to the person best placed to make the right judgment call.

What would you recommend to a reader making discontinuous investment decisions under high uncertainty? Should a controller say, “Here is a small amount of money; let us meet again in three months and let us know where you are, and then we can discuss whether you receive more money or we stop the project”?

Yes. To explain, let me tell you about the Polish food business in Unilever. In Fast Moving Consumer Goods, the biggest driver of growth is marketing, and that is all associated with advertising and promotions. This is a classic example of a dis-

continuous investment process, even though none of this spending is capitalized. The Polish business did a tremendous job defining its strategy with great clarity in advance. The board quite rightly said, “We do not understand enough about the details of running this business. Our job is to look at what kind of things we should be spending money on and how we should be tackling opportunities and challenges. People with more knowledge than us should be the ones making (most) of the investment decisions.” And they charged a group of senior managers, the Foods Leadership Team (FLT), with designing a new process for running the business, at the heart of which was resource allocation based on talks I had given as the leader of a Unilever wide Beyond Budgeting initiative. There were two key players in the system the FLT devised. First there were Brand Teams, responsible for a subset of the business. They are the ones who really understand the market and what it takes to succeed, as manifested in investment proposals. But between them and the board was the FLT itself. Because the FLT was made up of the same kind of people who are in the brand team, but five, ten, 15 years further into the business, they were well qualified to manage the total portfolio of brand investments. It was their job to make resource allocation decisions, which they did quarterly, by picking the best proposals that were put to them, given the constraints of the strategy and what they could afford, as determined by a continuously updated rolling forecast. Once they said, “Good idea, we are doing that, let us go,” then that was an absolute commitment that they never renege on. But

Beyond Budgeting Institute

The Beyond Budgeting Institute is at the heart of a movement that is searching for ways to build lean, adaptive, and ethical enterprises that can sustain superior competitive performance. It is responsible for safeguarding and sharing the Beyond Budgeting ideas. Beyond Budgeting is an alternative to the traditional way of managing organizations. Its twelve principles help create high-performing organizations capable of adapting to our turbulent world and that work with, not against, human nature. The main activity of the Beyond Budgeting Institute is the Beyond Budgeting Round Table, where the community periodically meets and the Beyond Budgeting Advisory, which provides practical hands-on support to organizations.

that wasn't the end of it – actual outcomes were continuously compared with those in the proposal so that you do not reward people who are just good at bluffing. This process created a virtuous cycle: the more effectively money was spent, the more it drove the top line. The more it drove the top line, the more money there was to spend. People who had learned to behave parochially by negotiating the biggest annual budget they could for themselves very quickly switched to enthusiastic participants in a dynamic resource allocation marketplace for the benefit of the whole, not just for themselves. The reason for this behavioral shift was that everything happened so quickly. Within the space of about three or four weeks, the whole model was built and implemented. And within another four weeks, you

“The technical bit was the easy bit. The difficult bit was, how to make it happen.”

could see the impact on results, which was the only convincing they needed. This makes it sound easy, but it isn't. Every company is different, and the stars happened to be aligned for the Polish business. Leading the Beyond Budgeting change initiative in Unilever, at least 50 percent of my job was thinking about how to bring about change. The technical bit was the easy bit. The difficult bit was, how do you make it happen. And again, there are certain principles. But there are many ways to do Beyond Budgeting.

But for controllers, this could be a challenge, because in worst case, when you say, “We park some resources for an eventual better use”, and then nobody dares to speak up and require new resources, then eventually we have some money which we did not put to any productive use.

Good question. You have to have completely different conversations, and you have to have completely different ways of managing money. The trick is to have more good ideas than you have money and to manage resources on a rolling horizon so that there is never a point at which contingencies are ‘lost.’

Is there anything you can leave to our readers with respect to cost management or, as you would probably call it, continuous resource allocation processes?

I'm glad you brought me back to this question. Again, for me, the fundamental insight is you should build your control sys-

tems around the nature of the work. In the case of a continuous process, we should manage it as a flow – a rate of spend – not as a series of discrete chunks of time, which is where traditional budgeting takes you. And I think we need to let go of the unthinking way that we try to control costs by reducing the budgets as much as possible and expecting somebody else to work out what to do because we know that they will probably make short-sighted decisions with negative consequences, on product quality or service for example, to stay within your arbitrary budgetary constraints. Instead, we should apply ‘Lean’ principles by focusing on minimizing waste. Waste is defined as anything you do or spend money on that does not add value to the end customer. By definition, low waste means low costs.

What can controllers do to reduce waste and make cost management truly flexible?

Trend management is my go-to way of managing costs. With “moving annual totals,” for example, you look at January to December, and then February to January, and then March to February and so on. So every data point represents a year, but it is a rolling year, not a financial year. By using a series of moving annual totals, you smooth the results, eliminating noise and seasonal effects. Once you plot the results it is quite astonishing how clearly patterns emerge that were not obvious when you were looking at data in a more granular way. So you can see patterns. You see flow, and change, and rates of change, and changes in the rates of change. And because our brains are visual pattern-seeking engines, we look at a graph, and it is obvious in a way that is not when you are dealing with tables of numbers. Then there are all sorts of other things you can do in terms of extrapolating trends, which take a lot of the work and guesswork out of forecasting.

What do you expect to see ten years from now? Will Beyond Budgeting be the new normal for managing large organizations?

To a large extent, it depends on how successful people like Sebastian and me and the other members of our Core Team are. I would like to think that Beyond Budgeting will be an accepted and well-regarded part of the management lexicon. I would like to think it is a significant and serious part of the syllabus of all serious business schools and professional qualifications, and not just put there as an afterthought or in an attempt to seem trendy, which is kind of what has happened in the past. But I guess my real ambition is that, in 25 years

time, this is so deeply ingrained in what people do, people do not talk about Beyond Budgeting anymore. Really, that would be success. The word Beyond Budgeting disappears because it is just ‘the way we do things.’

“If you deconstruct the way that you manage your household finances, it is pretty much Beyond Budgeting.”

Is there anything else you want to share with our readers?

Fundamentally Beyond Budgeting is just common sense. Nobody runs their domestic household affairs in the way that we have learned to run the financial affairs in companies. How do you manage your day-to-day income flow? How do you make big purchase decisions, holidays, cars, whatever? We don’t pre-allocate all of our personal resources in the way that we are taught to when budgeting because we understand the need to allow for contingencies. How much of your savings you are prepared to commit to a purchase, for instance, will depend on your assessment of risk. If you deconstruct the way that you manage your household finances, it is pretty much Beyond Budgeting. What you are really trying to do, is to do common-sense domestic finances at scale and at multiple organizational levels. But fundamentally, the ideas are just common sense.

Mr. Morlidge, thank you for your time!

Link-Empfehlung

- Beyond Budgeting Round Table: <https://bbbt.org/>

Das Gespräch führten Prof. Dr. Sebastian Becker, Associate Professor an der HEC Paris, und Prof. Dr. Utz Schäffer, Direktor des Instituts für Management und Controlling (IMC) der WHU – Otto Beisheim School of Management, Vallendar, sowie Herausgeber der Controlling & Management Review. E-Mail: utz.schaeffer@whu.edu