

The MCS Package in a Non-Budgeting Organisation: A Case Study of Mainfreight

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Abstract

Purpose – Budgets are commonly viewed as a central component of management control systems (MCS). The beyond budgeting literature argues that managers can develop other controls to replace budgets. We contribute to this literature by investigating the MCS package of an organisation which has never in its history had a budget.

Design/methodology approach – We carry out an ethnomethodology informed case study at Mainfreight, a large multinational logistics company headquartered in New Zealand. Data was collected from interviews with managers and accountants, internal company documents, published corporate histories, a company presentation, the corporate web site and site visits.

Findings – We found that Mainfreight’s MCS package was explicitly designed based on cultural and administrative systems which supported the planning, cybernetic, and reward systems managers used to monitor key drivers of short and long term performance with a focus on profitability.

Research limitations/implications – The implication of our finding is that a more holistic view of the MCS package is necessary to understand how control is achieved within organisations that have moved beyond budgeting.

Practical implications – We show that organisations can operate without budgets and still maintain a high level of control by developing appropriate cultural and administrative control systems that are internally consistent with their planning, cybernetic, and reward systems.

Originality/value – The scarcity of organisations that have never had budgets limits opportunities to investigate an MCS package intended to function without budgets. This unique case setting reveals the design of an integrated non-budgeting MCS package.

Keywords – MCS package, Non-budgeting, Beyond budgeting, Cultural control, Administrative control

Paper type Research paper

Introduction

The budgeting process at most companies has to be the most ineffective practice in management. It sucks the energy, time, fun, and big dreams out of an organization. It hides opportunity and stunts growth. It brings out the most unproductive behaviors in an organization, from sandbagging to settling for mediocrity. In fact, when companies win, in most cases it is despite their budgets, not because of them (Welch and Welch, 2005, p. 189).

We don't budget...The purpose of a budget is to give you some structure of how you're going to grow the business and measure progress. We provide other measures which are less time consuming and less time wasting as far as we're concerned (Mainfreight CFO, 2012).

The management control systems (MCS) operating in most contemporary organisations can be viewed as packages of different types of control systems, including, for example, cultural, administrative, planning, cybernetic, and reward systems (Malmi and Brown, 2008). The central component or cornerstone of an MCS package in most organisations is the traditional fixed annual budget¹ (Anthony and Govindarajan, 1998; Dugdale and Lyne, 2010; Hansen *et al.*, 2003). It has been argued that a budget can “weave together all the disparate threads of an organization into a comprehensive plan that serves many different purposes, particularly performance planning and ex post evaluation of actual performance *vis-a-vis* the plan” (Hansen *et al.*, 2003, p. 96). This research interprets budgeting as the (typically lengthy) process used for setting traditional budgets, meaning detailed financial plans, while acknowledging that others may interpret the use of any financial targets for monitoring and controlling financial performance as budgets.

Survey research shows that most organisations still rely on traditional budgeting systems (Dugdale and Lyne, 2010; Dugdale and Lyne, 2011; Guilding *et*

¹ According to the Chartered Institute of Management Accountants (2005, p.5) a budget is a “quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues; resource quantities, costs and expenses; assets, liabilities and cash flows.”

al., 1998; Libby and Lindsay, 2010). Yet research is emerging which questions the relevance of traditional fixed budgets in today's fast moving environment (Kaarbøe *et al.*, 2013; Sandalgaard, 2012) and suggests that firms should move 'beyond budgeting'² (Bogsnes, 2009; Hope and Fraser, 1997, 2000, 2001, 2003; PwC's Financial Services Institute, 2010). The beyond budgeting literature examines how organisations are re-designing their MCS to reduce their reliance on traditional budgets for planning and control (Kaarbøe *et al.*, 2013; Lindsay and Libby, 2007; Østergren and Stensaker, 2011; Sandalgaard, 2012; Sandalgaard and Bukh, 2014).

Much of the beyond budgeting literature tends to focus on selected components of the overall control system. It pays particular attention to planning, cybernetic, and reward systems while downplaying administrative and cultural control systems as well as the interactions between the different control systems. While these studies reveal how selected MCS components operate in beyond budgeting organisations they do not provide a detailed understanding of the operation of the overall control package. In this paper we specifically consider how an MCS package is designed in the absence of budgets, how it is used to motivate, direct, monitor and evaluate performance and how interactions between the components influence the operation of the MCS package.

In order to develop a holistic understanding of the controls used in companies that operate beyond budgeting we conduct an ethnomethodology informed case study which investigates the design and operation of the MCS package in Mainfreight, a large multinational logistics company which has never in its history had a traditional budget. We believe this company's approach is 'revelatory' meaning "the case study

² Our understanding of beyond budgeting is based on the 12 principles of the Beyond Budgeting Round Table set out in Hope *et al.* (2011)

is [...] worth conducting because the descriptive information alone will be revelatory” (Yin, 2014, p. 49).

The research questions examined in this paper are

- 1) What are the control systems comprising Mainfreight’s non-budget based MCS package? and
- 2) How do the control systems in Mainfreight’s MCS package work together to establish organisational control?

This paper documents the broad range of control systems operating in our case company. These can, with minor modifications, be classified using the Malmi and Brown (2008) MCS package typology. We found that the organisation’s planning, cybernetic, and reward systems which focused managers attention on short term results were counter-balanced by the use of cultural and administrative controls which emphasized the long term. The combined influences of all the control systems ensured organisational members balanced the conflicting pressures for short and long term performance with a focus on profitability.

We contribute to the MCS and beyond budgeting literatures by showing how managers can utilise cultural and administrative systems in a balanced way alongside planning, cybernetic, and reward systems. Taken together, we show how these control systems can form an integrated non-budgeting MCS package.

This paper is organised as follows. The next section describes our research approach. This is followed by a synopsis of the literature, an overview of the MCS package typology adopted in this paper, and a brief review of current knowledge of the MCS package in beyond budgeting organisations. The following section explains our site selection and data collection process and describes the background of Mainfreight. The subsequent sections present the control systems comprising

Mainfreight's MCS package and the integrated operation of the MCS package components. The final section discusses the MCS package at Mainfreight in relation to the beyond budgeting and MCS literatures and concludes with a summary of our findings and suggestions for future research.

Research approach

The ethnomethodology informed research approach (Garfinkel, 1967, 2002, 2006; Rawls, 2002, 2006) adopted in this paper is suited to “the study of the methods people use for producing recognisable social order” (Rawls, 2002, p. 6). This is because ethnomethodology aims to find “the objective reality of social facts” (Rawls, 2002, p. 2) which can only be displayed and recognised by participants in their local context (Garfinkel, 2002). Ethnomethodology is thus grounded in the practices of people and is less concerned with relating social theories to these practices (Garfinkel, 2002).

Two versions of ethnomethodology (EM) are recognised in the sociology literature (Pollner, 2012). One “focuses on the ‘seen but unnoticed’ background features that underlie social action”, referred to as EM version 1.0, while the other “focuses on the ‘foreground’ matters of interest to practitioners”, referred to as EM version 2.0 (Pollner, 2012, p. 10). We adopt an EM version 2.0 perspective by focusing on the ‘foreground’ management control practices of managers and accountants at our case company.

The pure application of EM can be contentious because it eschews hypotheses and predictions and is therefore at odds with mainstream management accounting research (Akroyd and Maguire, 2011, p. 215). To connect our EM study to current management control discourses we frame our paper around Malmi and Brown's (2008) MCS package typology.

There are a number of typologies that purport to provide holistic views of management control systems (see for example; Ferreira and Otley, 2009; Flamholtz *et al.*, 1985; Malmi and Brown, 2008; Otley, 1999) with each providing a slightly different perspective of the phenomenon. We adopt the Malmi and Brown (2008) typology because it supports our research approach by allowing us to consider a wide range of control systems that managers and accountants at our case company could use to “support organisational objectives, control activities, and drive organisational performance” (Malmi and Brown, 2008, p. 288).

The MCS package typology is thus used to frame our understanding of the locally produced and situated control practices of managers and accountants in our case company (Peyrot, 1982). We examine the control systems that make up Mainfreight’s non-budget MCS package and reveal how managers and accountants link different control systems to create order and establish organisational control.

In the following sections we position our research within the MCS and beyond budgeting literatures, identify and describe the systems contained in the MCS package at our case study company and state our findings.

Literature review

There are divergent views about the need for budgets in management control systems. According to Anthony and Govindarajan (1998) budgets are the cornerstone of an MCS. Umapathy (1987, p. xxii) argues there is “no other managerial process that translates qualitative mission statements and corporate strategies into action plans, links the short-term with the long-term, brings together managers from different hierarchical levels and from different functional areas, and at the same time provides continuity by the sheer regularity of the process”.

Beyond budgeting advocates argue that the costs of traditional budgets outweigh their benefits (Hope, 2006; Hope *et al.*, 2011; Hope and Fraser, 1997, 2001, 2003). They argue budgets are time consuming and costly to prepare; out-of-date as soon as they are finalised; disconnected from strategy; and prevent organisations from responding to rapidly developing changes in the competitive environment. Furthermore, they argue that budgets stifle initiative and innovation, protect non-value-adding costs, reinforce command and control structures, de-motivate people, encourage unethical behaviour and increase reputational risk (Hope and Fraser, 2001).

Budgets, though, are claimed to play useful roles in strategic planning, resource allocation, cost management, and performance management (De Waal *et al.*, 2011) and in operational planning, performance evaluation, communication of goals, and strategy formation (Hansen and van der Stede, 2004). Surveys further confirm the ongoing use of budgets (Ekholm and Wallin, 2000; Guilding *et al.*, 1998; Libby and Lindsay, 2010; Onaitis and Shastri, 2012). Guilding *et al.* (1998, p. 574) find that virtually all large New Zealand companies persist in using traditional budgeting practices. According to Dugdale and Lyne (2010, p. 183), “survey results *do not* indicate widespread dissatisfaction with budgeting” (emphasis in original).

Several reasons have been given for the survival of budgets. Some suggest that it is because budgets are embedded in organisational routines (Hansen *et al.*, 2003) and organisational activities (Otley, 1999). Others suggest that senior managers who have traditionally relied on budgeting systems are more comfortable retaining them (Neeley *et al.*, 2001). It has also been argued that managers may be unable to anticipate how eliminating budgets would add value to their organisation (De Waal *et al.*, 2011). Finally, any change is challenging and removing budgets from an MCS

package could be difficult and costly. These reasons may partially explain why relatively few organisations have adopted beyond budgeting, thus limiting opportunities to study the phenomenon. This study aims to provide a holistic understanding of the MCS package operating in a non-budgeting organisation guided by Malmi and Brown's (2008) MCS package typology.

An MCS package typology

The Malmi and Brown (2008) typology recognises five broad categories of controls, namely planning, cybernetic, reward, cultural and administrative controls. The components of the typology are presented and briefly described in Table 1. Budgets are typically used to support organisational planning, cybernetic, and reward systems.

Table 1: Malmi and Brown's (2008) MCS Package Typology

Cultural Controls						
Clans		Values			Symbols	
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
Administrative Controls						
Governance Structure		Organisation Structure			Policies and Procedures	

(Reprinted from Management Accounting Research, Vol. 19 No. 4, Malmi, T. and Brown, D.A., Management Control Systems as a Package - Opportunities, Challenges and Research Directions, pp. 291, Copyright 2008, with permission from Elsevier)

Control type	Description
Cultural controls	Encompass the organisations values, beliefs and social norms. Control established by recruiting and socialising the right individuals and through shared ceremonies and rituals
Planning Controls	Establish goals and standards, and align effort across organisational units. Budgets implicated in planning.
Cybernetic Controls	Set direction and keep the organisation on track by identifying deviations from expected financial and non-financial performance standards. Budgets are typically used for setting and monitoring progress towards targets.

Reward and Compensation Controls	Motivate effort and evaluate and reward performance. Budgets are typically used for evaluating and rewarding performance.
Administrative Controls	Specify who is accountable to whom, how tasks are performed and how behavior is monitored. Governance structures establish formal lines of authority and accountability and organisational structure facilitates or deters certain types of interactions. Policies and procedures establish rules and provide bureaucratic guidance on standard operating procedures.

It should be noted that while this typology looks static there are interactions between components of an MCS package which have been shown to be important for understanding management control (Alvesson and Karreman, 2004; Cäker and Siverbo, 2014; Sandelin, 2008).

While the above typology provides a starting point for identifying the components of an MCS package, we need to adapt it for a non-budgeting organisation. This is because the MCS package typology includes budgets as an explicit component of a cybernetic system, and as an implicit component of planning and reward systems. Thus, we use the MCS package typology to reflect the mechanisms employed in place of budgets in our non-budgeting organisation. We pay particular attention to the mechanisms used to replace budgets in the planning, cybernetic, and reward systems.

The MCS package in beyond budgeting organisations

The CAM-I consortium, who introduced the beyond budgeting concept, identifies twelve beyond budgeting principles (Hope and Fraser, 2003), half of which relate to leadership and governance and the other half to performance management. Broadly speaking, the performance management principles deal with planning, cybernetic, and reward systems, while the leadership and governance principles reflect cultural and

administrative controls. The view of the CAM-I consortium is that all these control systems need to be altered for organisations to truly move beyond budgeting.

There is a growing body of research which examines organisations that have modified or eliminated budgets from their MCS package. Academic case studies report how organisations have modified their budget practices (Becker, 2014; Bourmistrov and Kaarbøe, 2013; Henttu-Aho and Järvinen, 2013; Lindsay and Libby, 2007; Østergren and Stensaker, 2011; Sandalgaard, 2012; Sandalgaard and Bukh, 2014) while surveys reveal the extent to which selected beyond budgeting practices are used (Ekholm and Wallin, 2000; Libby and Lindsay, 2010; Onaitis and Shastri, 2012).

Of the case study accounts provided in the literature, the most comprehensive are the studies by Lindsay and Libby (2007) and Becker (2014). Lindsay and Libby's (2007) case study of Svenska Handelsbanken considers the bank's philosophy and culture, decentralised structure and flat hierarchy along with its planning, coordination, control and rewards processes; while Becker (2014) investigates the changes introduced by companies as they abandon budgets. While Becker (2014) identifies changes to each of the control elements included in the Malmi and Brown (2008) typology the research focuses on the process of budget removal, rather than the integrated operation of a beyond budgeting MCS package.

The other case studies tend to focus on the planning, cybernetic, and reward system part of beyond budgeting. For example, Østergren and Stensaker (2011) focus on the changes to planning, target setting and resource allocation processes; Sandalgaard (2012) considers the relationship between perceived environmental uncertainty and competition on the use modified budgets, rolling forecasts and relative performance evaluations; Henttu-Aho and Järvinen (2013) consider the

impact on planning, controlling and evaluation processes when organisations abandon or radically simplify their annual budgeting processes; Bourmistrov and Kaarbøe (2013) show how beyond budgeting MCS can create new management practices, such as target setting, planning, forecasting and resource allocation methods; while Sandalgaard and Bukh (2014) show that some organisations that change their management accounting systems still maintain fixed budget targets.

The importance of administrative and cultural control systems in accomplishing organisational control has nonetheless been recognised in the literature. According to Hansen *et al.* (2003, p. 98), businesses that fully adopt the beyond budgeting approach “radically decentralize the organisation and empower lower-level managers and employees”. With radical decentralisation, the focus of the control system shifts from results control to corporate mission and vision, employee selection and training, and organisational culture (Hansen *et al.*, 2003). It has also been recognised that in beyond budgeting organisations cultural and administrative controls become as important as planning, cybernetic, and reward systems (Becker, 2014; Hope *et al.*, 2011; Hope and Fraser, 2000; Lindsay and Libby, 2007; Sandelin, 2008). Campbell (2012) concludes, in his investigation of the impact of personnel selection on goal alignment, that cultural control is an important mechanism of management control in delegated decision environments.

As can be seen, only a few studies provide detailed descriptions of changes to the cultural and administrative systems necessary to move beyond budgeting. Also, despite the insights provided by the case studies and surveys, it is not yet clear how beyond budgeting MCS achieve organisational control (Østergren and Stensaker, 2011, p. 179).

We use the MCS package typology (Malmi and Brown, 2008) to present a holistic view which considers the full range of control systems operating in our case company. We then consider how the systems function in relation to one another to operate as an integrated MCS package.

Site selection and data collection

Our research aim was to acquire an in-depth understanding of an MCS package designed to operate without budgets. The case study approach allowed us to develop a rich description of the MCS package and to understand how its components interacted.

The central elements of the MCS package operating in our case company, Mainfreight, have changed little as the company has grown. The company is a large multinational logistics provider operating in a highly competitive and uncertain market. The core systems of its MCS package were designed when the company was founded and have been maintained for over 35 years as the company has grown from a single branch operation to a multinational company. Furthermore, as Mainfreight has acquired companies it has replaced their traditional budget based MCS package with its own MCS package.

Mainfreight thus provides a unique opportunity to investigate a non-budgeting MCS package that is not influenced by vestiges of budget based systems. This case study thus clarifies how an MCS package can be designed to operate without budgets and reveals how its constituent control systems operate in a holistic manner.

Data for the study was collected from multiple sources. Interviews conducted with executive managers, accountants (financial controllers) and branch managers provided the primary data source. Information from the published corporate histories

(Davies, 2003, 2013), site visits³, a company presentation, annual reports, a company website, and internal company newsletters were used to supplement and verify the interview data. The use of multiple data sources increases confidence in our detailed account of Mainfreight's MCS package.

Interviews with thirteen managers and accountants of the Mainfreight team were conducted between July 2012 and October 2013. Interviews were semi-structured to allow themes emerging during the course of the discussions to be pursued. Interviews lasted for approximately one hour and were conducted at multiple locations including the head office and branch offices based in Auckland, and the European corporate office in 's-Heerensberg. Interviews were conducted in tranches, starting with managers and accountants at corporate office, followed by European head office managers and accountants, and finally managers of branches in Auckland.

Table 2: Case Study Data

Interviews with Managers and Accountants	Interview time (in hours)	Timing of interviews
Executive Chairman (Founder)	1	December 2012
Group Managing Director (GMD)	2	December 2012; April 2013
Chief Financial Officer (CFO)	2.5	July, September 2012; April 2013
Group IT Manager	1.5	October 2012
NZ Financial accountants (2 interviewees)	2	October, November 2012
European Manager	1	September 2013
General Manager	1	September 2013
European Financial accountants (2 interviewees)	2	September 2013
Branch managers (3 branches)	3	October 2013
Total interviewee hours	16	July 2012 to Oct 2013
Other data sources	References	
Internal company documents	Newsletters	
A company presentation	November 29, 2012	
Published corporate histories	Davies (2003, 2013)	
Corporate web site	http://www.mainfreight.com	
Site visits	7 site visits	

³ At the initial site visit we were given a tour of Mainfreight's operations. On subsequent site visits we were able to view the use of different MCS package components.

Interviewees were highly knowledgeable about the company's control system. Two interviewees were members of the Mainfreight Board of Directors one of whom was a founding director. A full list of data sources is provided in Table 2 above.

Reliability of the data was confirmed by having interviewees review and amend their own interview transcripts. Transcripts and supplementary materials were coded and analysed using NVivo (version 9). An open coding process was adopted to accommodate codes drawn from both the MCS and beyond budgeting literatures and those emerging from the data. The themes and patterns revealed by the analysis of the codes were interpreted with reference to the MCS literature.

Mainfreight background

Mainfreight was established in Auckland, New Zealand in 1978. The company's two founding directors opened a single branch office in Auckland with NZ\$7,000 in cash and a 1969 Bedford truck. In 1996 the company was listed on the New Zealand stock exchange. The company now operates globally, with over 5,000 team members⁴, revenues in excess of NZ\$1.8 billion, and 214 branches operating in 14 countries including NZ, Australia, the United States of America, and countries throughout Asia and Europe. In 2012 Mainfreight was named New Zealand Company of the Year.

Mainfreight's three main divisions are domestic freight, international freight (also called 'Air and Ocean') and logistics. While the company shifts freight it does not typically own its trucks⁵. Freight is handled by a network of owner drivers and independent air, rail and shipping providers. In this business model, managing the variable costs of service provision is the key factor influencing profit margins.

⁴ The company uses the term team member instead of employee.

⁵ An exception is trucks that were part of the recent Wim Bosman (Netherlands) acquisition.

Mainfreight's strategic focus is on providing quality customer service. The company's underlying belief is that when day-to-day business is managed well, annual profits look after themselves (Interviewee5:267). Thus, the MCS package at Mainfreight is designed to focus managers' attention on the critical success factors and key performance drivers, namely service quality, margins, and cash flow, and to support managers' decisions making in these areas (Interviewee1a:7). Budgets are not included in the MCS package; they are believed to divert managers' attention from day-to-day activities. According to a senior manager:

Business moves quickly today, things change on a weekly basis. To distract a branch manager, to ask him to pore over a set of [budget] numbers, while real business is happening on his doorstep, means the manager is ignoring or can't get to real business. (Interviewee2:178)

The MCS package at Mainfreight

In this section we identify and describe the elements of the control system comprising Mainfreight's non-budgeting MCS package using the five categories identified in Malmi and Brown's (2008) MCS package typology. We start with the cultural and administrative controls, which were designed to support the planning, cybernetic, and reward systems.

Cultural Controls

Mainfreight's corporate culture is built around the 'Three Pillars of Mainfreight'. These statements formalise the company's core values and beliefs into three categories, which are 'culture', 'family' and 'philosophy'. The Three Pillars are widely disseminated within the company and are reproduced on the wall of the two-story entrance hall at Mainfreight's head office in Auckland.

Culture

Under-promise, over-deliver.
Keep reinventing with time and growth.
Education is optional, learning is compulsory.
Let the individuals decide.
Keep it simple.
Tear down the walls of bureaucracy, hierarchy and superiority.
Avoid mediocrity – maintain standards and beat them.
Look after our assets.
Immaculate image and presentation.
Promote from within.
No job descriptions.
Integrity – how it affects other people

Family

Eat together – use mealtimes as a discussion time.
Listen to each other.
Share the profits and the successes.
Openly discuss problems and openly solve them.
Don't beat up your brothers and sisters.
Have respect – seek it from others and show it by actions.

Philosophy

One hundred year company.
Profit comes from hard work, not talk.
We are driven by margin, not revenue.
Train successors, so that you may advance.
An enduring company is built by many good people, not a few.
We are here to make a positive difference, as well as a dollar.
We “care” for our customers, environment and community base.
Total quality management
Ready, Fire, Aim.

The following points summarise the key beliefs reflected in the Three Pillars.

- Capitalism⁶ produces the profits that lead to improvements in living standards.
The key to generating profits is keeping managers focused on controlling the factors that drive company success.
- Centralised control processes, budgets and bureaucracy are ineffective and time consuming and divert managers' attention from the business. They should be avoided at all costs.

⁶ This was a common word used by managers and team members at Mainfreight.

- Team members are valuable and have the potential to be the future managers and directors of the company. When ready, team members should be moved into roles with greater responsibility and management positions should be filled through internal promotions.
- All branches should generate profits. Branch managers should be trusted and given autonomy to make decisions in the best interest of their branch and the company.
- Success arises from teamwork. All team members should share equally in the rewards of success.

Mainfreight's culture promotes a familial, co-operative and mutually supportive environment in which the team wins or loses together. The company encourages team members to share meal times, discuss and jointly solve problems, and respect and support one another. Managers and team members are treated equally, sharing open plan offices, lunch facilities and the annual bonus pool.

Honest mistakes are tolerated. Mainfreight accepts that people don't always get things right the first time. It does, however, expect team members to learn from their mistakes and not repeat them. This attitude is reflected in the following quote:

You learn by your mistakes at Mainfreight ... You can make mistakes but just don't repeat them... It's about growing and learning. (Interviewee6:330)

New employees are inducted into the company, referred to in-house as getting a bit of blue blood (blue is the company colour). The induction course introduces recruits to Mainfreight's history, culture - including its beliefs about capitalism, teamwork, trust and empowerment - and idiosyncratic way of doing things.

We try to create a whole lot of "capitalists" out there, who want to make that profit bigger so they can get a bigger bonus. That's the third leg of how we make our system work so that it helps drive profit improvement and growth improvement. (Interviewee1:141)

As part of their induction, new recruits develop their skill base, learning how to drive forklifts and trucks and load freight. All team members start their Mainfreight career

on the shop floor, developing first-hand experience of a logistic operation including sweeping depot floors! According to one branch manager:

We talk about getting our Blues. Everyone gets their forklift licence when they start with the division, even the ladies. (Interviewee8:590)

Symbolic actions are used to reinforce corporate culture. Open plan offices, shared facilities and team bonuses were mentioned above. Mainfreight also provides team members with open access to performance information. This information is shared throughout the branch via the weekly profit and performance reports, referred to as 'weeklies'. Every Monday, branches prepare weeklies in the same format and report this information to their general managers and team at the same time. Information is open and transparent, meaning the entire team can access and interpret the reported figures and thus understand how well their branch is performing. Corporate performance is determined by aggregating branch weekly results; the figures are not adjusted at higher organisational levels. Ensuring that results are available and understandable makes it difficult for managers at any level to obscure actual performance. The common view of the performance being reported at the branch, division and group levels helps sustain effort throughout the company. According to one senior executive

The manager of the branch sees the same P&L for his branch as we see for the company as a whole. It is the simplicity of having the same format for all reporting levels that makes it work. (Interviewee2:472)

The free flow of information is further facilitated by open plan offices. Newly acquired companies are sometime slow to move to open plan office spaces. The following quote describes the actions taken when a newly acquired European operation was slow to adopt the open plan concept:

We took out the walls of the office. We talked about open plan for about the first six months and nobody got it. Everyone was in their own offices. What did [the manager] do? He knocked down his office and put in a big open plan area for

*him and his senior team. The message started to get through.
(Interviewee2:341)*

This culture provides the basis for the administrative controls which are described next.

Administrative controls

Mainfreight has a flat, radically decentralised structure. There are just four hierarchical levels, meaning front line team members are separated from the Group Managing Director (GMD) by just two management levels⁷. Although no organisational chart exists, reporting lines are clear. Team members report to branch managers; branch managers to general managers; and general managers report to the GMD, who reports to the Board of Directors. The company's commitment to this flat organisational structure is enshrined in the Three Pillars which encourages team members to tear down the walls of bureaucracy, hierarchy and superiority (Davies, 2003).

Mainfreight's mechanisms to make operations visible could be viewed as part of the governance structure. Regular site visits, by executive and general managers, buddy branches and Positive Actions Teams (PAT), and the posting of branch results and standings in league tables all influence behaviour. The visibility created via these mechanisms exerts a subtle and indirect form of control that influences branch efforts to meet or exceed expected performance standards.

At Mainfreight the 'branches are king'. Branches are recognised as the profit generating units driving corporate performance. Branch managers are given high

⁷ Recently, country managers have been introduced (except in NZ). General managers of each division report to their respective country managers who then report to the Group Managing Director.

levels of autonomy and expected to run their branches as their own businesses.

Mainfreight's approach is summarised by one manager in this way:

Mainfreight is big on autonomy. Typically we let people make their own decisions. If an operational manager wants a new piece of equipment, say because he knows there's a busy week coming up, he'll let me know he has rung the forklift company to organise additional equipment. But he's not looking for my approval. I trust him to know his work, and to use his own experience to decide what is needed and to get on with it. This approach let's everyone focus on the business and the customer. When you get that right, then the financial returns will flow from that. (Interviewee8:610)

Branch managers are held accountable for financial and non-financial outcomes.

They are expected to have their fingers on the pulse of their operations and make decisions appropriate to their local situations, including for example decisions about pricing, delivery mode and hiring. Managers are expected to focus on margins rather than revenues and understand the impact their decisions have on profitability (Interviewee2:165, 275).

The role of Mainfreight's executive managers is twofold. Their first role is to develop branch managers through coaching, mentoring and encouragement. In the words of a senior member of the senior executive team:

We're actually there to help those branch managers to continue to grow the business. In fact we're nothing unless those branch managers are good enough. (Interviewee2:305)

Executive managers make their expertise available to teams, regularly visiting branches, 'walking the talk' and interacting directly with team members and customers. Most executive managers have worked in and been promoted up through the company, while all executives have extensive experience in the industry. This background means executives are knowledgeable about operational activities and systems, including depot, freight and line haul management systems, so they can review operational practices and performance reports with fresh eyes, and help branch

managers to identify trends that may signal emerging problems (Interviewee5:220).

Branch managers are ultimately left to decide how best to address the issues.

A second aspect of the executive management role is to maintain the organisational culture. In the words of one executive:

When you've got that devolution going on, it's not about a head office control environment. It's about a cultural environment. The one job I think I've got to do is to maintain that culture, to maintain that enthusiasm and that passion that the people have to grow this business into something more than what it is now. (Interviewee1:271)

In keeping with Mainfreight's efforts to stifle bureaucracy and to empower the individual, the company keeps standard operating procedures to a minimum. Best practice procedures are accessible via the company's intranet and can be viewed and updated as required. The company has no organisational chart, no formal job descriptions and minimally specified employment contracts. Avoiding detailed contracts and job descriptions avoids creating impediments to teamwork; members are expected to pitch in and help out where and when required. According to one branch manager:

If I need to do something, drive a forklift or something, I just do it. Jobs include anything that needs to be done. (Interviewee8:588)

While there are few documented procedures there are nonetheless expectations about how activities will be conducted to encourage best practice. For example, branch processes are subject to two internal audits each year, conducted by members of the training team, and annual visits from buddy branch managers. These visits provide feedback to the branch on how well it is meeting expected standards of performance.

Planning

Strategic planning comprises the setting of goals and action plans for the medium and long run, including the creation of projects or other initiatives. Mainfreight's strategic

decisions are driven by its overarching vision to build a successful, multinational logistics company that will operate for at least 100 years. It aims to become New Zealand's largest company by size and market capitalisation by 2028 when it will celebrate its fiftieth birthday. The medium term goals to be achieved along the way are clearly stated in the 2012 Annual Report. The goals for 2013 to 2017 indicate: where and when new operations will be established, their targeted rate of growth, when they are expected to become profitable, and their expected financial performance. To achieve these goals the company expects all branches to continuously improve their profit performance beyond the levels achieved in previous periods while maintaining service quality.

Action planning identifies goals and actions for the near future and specifies tasks that need to be completed. Mainfreight sets specific financial and non-financial targets to focus organisational effort but does not require managers to develop action plans detailing how the targets are to be achieved.

In keeping with Mainfreight's capitalist focus, all branches are expected to earn a profit, in line with the overall expectation that company profits will increase by 15% per year. Mindful of this expectation, branch managers then set their own annual profit target, expressed as a single number. This process is explained by one interviewee:

We don't do budgets but the branch managers create targets...they know we think anything less than 15 percent is failure. They don't [set targets] in sales or gross profit or expenses, they do it in pre-tax profit. They just produce one number. (Interviewee4:39)

The profit target for the coming year must be realistic, in terms of last year's performance and current business conditions. The branch managers discuss the target with their general manager to ensure it is reasonably challenging before being agreed. The entire process is typically completed in one day. Targets are formalised into

profit pledges, which are printed and signed by every team member in the branch, from the kitchen lady to the branch manager. The pledge is publicly announced at the annual branch managers meeting then framed and hung on the wall in the branch office. This high visibility of the pledge acts as a continual reminder of the commitment the team has made, and helps focus their efforts.

Non-financial standards of performance are set by the executive managers and finance team (Interviewee1:191). The indicators reflect the key drivers of business performance and the standards set the expectations about the level of performance for each aspect of operations. In the domestic freight division, for example, indicators include: number of consignment notes raised, percentage of on-time deliveries, number of claims for damage, percentage of accounts receivable outstanding, and profit growth. One executive indicated his understanding of the standards for debtors and claims:

So the branches, in fact all our businesses, are supposed to have less than 10% of debtors greater than six weeks old... We measure the number of consignments before you have one claim. On an outwards [shipment] if you get greater than fifteen hundred consignments... before there's a claim then you're considered to have met the target. And it's about three thousand on an inward [shipment]. (Interviewee3:313, 324)

Standards are raised when branches are consistently able to achieve the level of performance specified in the existing standard. This attitude of continual improvement focuses the team on the longer term and prevents them from becoming fixated on simply achieving current standards.

Cybernetic controls

The cybernetic controls focus effort on meeting expected standards of performance. Mainfreight has systems in place to ensure that the established financial and non-financial standards, as discussed above, are achieved.

The key mechanism for measuring financial performance is the weekly profit report, in the form of an abbreviated profit and loss statement. The branch weeklies report revenues, direct costs, gross margin, the allocated fixed overheads costs, and profit margin. The requirement to produce weeklies, in the prescribed format and at the specified time, is non-negotiable. The importance of having common financial reports is explained:

It's the one thing that we do... is get our financial processes in place. We get our systems in place immediately, so that we understand the numbers... It's so important to get your financial processes in place and get your financial reporting the same across the world... In every country, in every business unit, the financial reporting is exactly the same. We can look at the margins in each business, in each country and know who's performing and who's not. (Interviewee2:404, 418)

Each Monday, branch managers phone their weeklies through to their respective general managers⁸. This conversation takes place directly between managers and does not involve accountants. General managers consolidate the branch information and in turn phone the divisional results through to the group managing director (GMD). The GMD makes the overall results available to members of the executive team and the Board of Directors by Tuesday⁹ afternoon. At the start of each week, all levels of management are aware of corporate performance for the preceding week.

Branches aim to continually improve on prior periods' performance. Results for the current week are compared to the performance achieved for the same week of the previous year, with the historic data being supplied by the company's financial system. The targeted improvement is established via the profit pledge. Thus,

⁸ As the company expands, the process for weeklies has been slightly modified. Country managers have been introduced and branch managers now report to country managers. They in turn accumulate the branch results and report them to the group managing director.

⁹ Traditionally, results were known by Monday evening but with operations now spread throughout the world results are not available until early Tuesday afternoon New Zealand time.

Mainfreight's cybernetic controls do not require budget figures. As explained by one member of the finance team:

People say we have got to measure to make changes. And we do measure. Instead of comparing against the budget we compare against last year... we do measure but we don't do it by budgets. We measure by last year and by buddy comparisons. (Interviewee1:83, 120)

The information provided by the weeklies helps branch managers understand what's going on in their own branches (Interviewee2:524) and to identify when corrective action is required.

Everyone, from front line members to the Board of Directors, scrutinises the weekly information. The weeklies provide timely feedback that enables branch managers to understand the impact of the decisions they made during the past week, to identify emerging trends, and to introduce corrective action. The company defines a trend as any change in margin that persists for three consecutive weeks. The aim is to resolve margin issues within four weeks. This is explained in the following quote:

We are concerned if we start to see a trend. For us, three weeks is a trend. So the first week might indicate there's a hiccup. Managers start asking some questions during the second week to identify why this is happening. If it continues the third week we know there's a trend here, we've got to act on that. (Interviewee2:69)

Branch manager who are slow to respond are likely to receive a call from either the GMD or the mid-level manager, asking what corrective action is underway. An executive explained how the process works in this way:

We'd expect the country managers would be asking some questions of each of those branches where negative trends are starting, that we're not happy with... we might go directly to the branch managers ourselves. That's the 2 up, 2 down management structure which we have. (Interviewee2:72)

The weeklies are the cornerstone of the company's MCS, and operate in place of any form of budgeting, be it fixed annual budgets or rolling quarterly or annual forecasts.

We don't do quarterly forecasts; the weeklies suffice. We are more focused on the day to day business and the annual profit looks after itself. We don't need to

know what the next quarter will look like because we have last year's. So the branch managers know when they have big weeks coming up and that they have to meet them. (Interviewee5:266)

The company also relies on peer comparisons to assess performance. Comparisons are made between the performance of branches, divisions and countries. Inter-branch comparisons match branches on type of operations, revenue and size before assessing relative financial and KPI performance. This means that in addition to being judged against performance for the same period last year, branch performance is compared to the performance of peers. The following quotes describe the various comparisons made:

We do a buddy branch comparison and we use that as a measure to see if the branch is performing well or not. (Interviewee1:87)

We can look at the margins in each business, in each country and know who's performing and who's not. In fact in some categories we will compare country by country, compare them side by side on the P&L sheet. We can do a comparison of costs, margins and revenues, and categories of revenue. (Interviewee2:418)

The comparisons of relative performance encourage branch teams to strive for the best possible result rather than the minimum acceptable level of performance. While Mainfreight uses internal benchmarking to assess the performance of its branches it does not benchmark against competitors. The preference for internal benchmarking is explained in the following quote:

At the end of the day we don't do too much comparison with the competitor. We're thinking about our business, not what their level might be. The important thing is our expectations of our own performance. (Interviewee2:489)

As noted above, the company relies on the weeklies to manage financial performance and it is essential that they are reasonably accurate. The monthly accounting process helps promote the accuracy of the weeklies.

Monthly accounts, produced by the accountants, are used to verify the accuracy of the weeklies. They are typically produced towards the end of the month following

the one being reported, i.e. this information is at least one month old. All discrepancies, either favourable or unfavourable, are queried. Branch managers are expected to be knowledgeable enough about their business to deliver accurate weekly profit reports. The tolerance for weekly profit reports is plus or minus 1% of the profit figure presented in the monthly accounts. Mainfreight manages its operations with its weeklies so it is critical that these figures are accurate. As one team member explained:

We monitor those tolerances and see how good they are. We treat additional profit from weeklies with the same disrespect as we do under profit when compared to it ... the accuracy of the weeklies is paramount. It is our barometer of our business and unless you get it right you can't act on it to make the changes. (Interviewee3:282)

Discrepancies between the weeklies and monthlies nearly always arise from an omission in the monthly accounts (Interviewee3:111). If weeklies are found to be inaccurate, accountants provide additional training to the branch managers to improve their accuracy. This monthly review process influences managers to provide accurate summaries of their weekly performance.

Every branch also reports their KPI measures to the team every week and posts the results on the Quality Board alongside the weeklies. This routine makes all team members aware of how their branch is progressing against the established standard for each KPI. This information transparency is explained by a member of the executive team:

In terms of the weekly reports in the canteen, there is a big notice board which has all the quality stats including the weekly profits. It shows this week's results and the same week last year to show how they compare to last year. It's all available to them. (Interviewee1:294)

Figure 1: Mainfreight's Claims Performance KPIs



League tables of KPI performance are established to compare relative performance of branches. They are published in the corporate newsletters so that all branches in a division can assess their performance relative to their peers and to the average

performance across the division. An example of a league table is provided in Figure 1, which shows each branch's performance on claims per consignment for inward and outward deliveries.

Ranges are used to classify how well branches are performing. Branch performance is classified as either above/below or well-above/below average performance for the KPI under consideration. The use of relative measures motivates branches to perform to the best of their ability, not just to the level of the predetermined standard of performance. The use of ranges is explained as follows:

We use ranges to assess performance with respect to key indicators. This is what you said you were going to achieve, and this is what the norm is. Then there's a spread below and above. ...it's not that you have to achieve a specific target... you can actually achieve more. So there's a leniency, a grey area. (Interviewee3:346)

The KPI for cash management is also closely monitored. As noted above, branches are expected to have less than 10% of their debtors outstanding for more than 60 days. Managers therefore pay close attention to the timely billing and collection of customer accounts. According to one executive, a benefit of the weekly reporting regime is to stimulate prompt invoicing of the deliveries completed that week. The weekly billing cycle is peculiar to the transport industry as explained below:

We had all the invoices on the statement every Friday night... When the girl had them all typed up we would take them to the central post office and mail them. Every cent that we could possibly charge out was charged out then. The freight industry has a history, may it never change, of charging weekly and trying to get paid weekly. We do [still] get paid on some weekly cycles... the railways always charged weekly, the ships always charged weekly. It was just one of those global evolutions and there was absolutely no point in trying to break it. (Interviewee4:99)

Timely billing facilitates timely collection of customer accounts. Individual branches are responsible for their own sales and collections. The company assigns customers to specific branches so the responsibility for collecting accounts is clear, although as the company expands globally it is increasingly difficult to assign customers to a single

branch (Interviewee2:95). The pressure to collect customer accounts promptly arises from Mainfreight's policy of paying owner-drivers and creditors on time. The impact of their on-time payment policy is explained as follows:

If you pay your bills on time, you'll collect your money on time. In Mainfreight we have a philosophy of paying on the 20th of the month, every month. That's when we pay our creditors. That forces us to collect our money... If you pay on time, you will collect your money on time, and you won't allow your credit terms to be extended. We pay our drivers on the 15th of the month, every month. (Interviewee2:639)

These practices - bill weekly, collect promptly and pay on time - are the core of the company's cash management discipline. The following section describes how the company acknowledges and rewards the team.

Reward and Recognition Systems

Mainfreight operates an extensive array of financial and non-financial recognition mechanisms as part of its reward system. These are discussed next.

Mainfreight has designed a reward system to acknowledge both team and individual effort. All team members are eligible for a share of the branch-based year-end cash bonus. The bonus is comprised of two separate but inter-related components, namely the team based and discretionary bonus elements. This bonus is shared evenly amongst all team members, regardless of their role in the branch. The only eligibility criterion is that team members must have been employed by Mainfreight for at least 12 months.

Branches earn their base bonus when they make a profit. At this point, a bonus pool equal to 10% of branch net profit is created. The base bonus can be increased or decreased by the discretionary bonus calculation. Both financial and non-financial criteria influence the amount of the discretionary payment. The financial indicator considered in the discretionary part of the bonus is profit growth. The extent to which

annual branch profits exceed the expected target is considered in determining how much will be added to the base bonus. Performance with respect to the non-financial indicators also influences the amount of the discretionary bonus. Figure 1 above presents the league table for claims and indicates how relative performance affects the discretionary component of the bonus. A note beneath the league table reminds teams that their bonus can be increased or decreased by up to 2% depending on their claims performance. For example, branch teams who handle 550 outward and 2,000 inward consignments before a claim is made will have their bonus increased by 2%. While in theory the discretionary bonus can amount to an additional ten percent of branch net profit, it typically amounts to about five percent.

The discretionary bonus is apportioned between the branch manager, the individuals who the branch manager believes have made a significant contribution to branch performance, and the general managers' bonus pool. A typical allocation could be 20% to the branch manager, 30% to the group pool and the remaining 50% to the five or six people who made a substantial difference to performance. The team bonuses are justified in this way:

We figure if we pay a big bonus we're making a bigger profit so it works for us too. (interviewee1:142)

Annual bonus cheques are prepared and personally presented to each team member by the branch manager. This ritual reflects the organisational belief that everyone should share in and celebrate successes together.

In addition to the cash bonus, the company provides members of the team with an extra week's pay at Christmas (Davies, 2003). Members of the team have on occasion received an ex gratis payment. In 2012, the founding director chose to celebrate his 70th birthday by giving every member of the team NZ\$1,000 to thank them for their efforts in building a successful company.

The company also uses a wide range of non-monetary awards to recognise and reward team members. All branches who achieve their profit pledge are presented with a plaque to display on the wall of the branch office (Interviewee3:447). There is also a branch of the year award. To qualify for the branch of the year award the branch must first achieve its profit pledge. Then its performance is judged against a range of factors. The additional factors include for example the number of graduates on the team and whether all team members have completed the company's induction training course (Interviewee3:450).

Tokens of appreciation are given to team members in recognition of their hard work. At Christmas¹⁰, team members receive a ham and once a year they receive a bucket of apples (Interviewee2:382). According to one interviewee:

We do little things...when I started someone said don't forget to pick up a bucket of apples... You walk out of the door and there's a 10 litre pail of apples which has "we appreciate you" written on it. The bucket has a sticker for every business we own on it. Every team member gets one every year. (Interviewee5:202)

Additional reward schemes have been introduced recently to recognise individual contributions. Plaques are awarded to team members who have been with the company for a long time or are top achievers, such as loaders of the year (Interviewee3:342). The plaques are displayed on a designated wall of the branch office. Outward Bound courses are used to develop existing and potential leaders in the company. Participation is by invitation only, and it is deemed a real honour to be invited to attend (Interviewee3:482).

The company continually acknowledges the contribution of the team to its success. The names of all team members are listed every year in the company's

¹⁰ The company has had to adapt these NZ grown practices. Cultural differences mean the company has had to find tokens and ways of giving that are appropriate in specific countries.

Annual Reports. In 2009 the cover of the Annual Report displayed the names of all team members. Similarly, the names of all team members, including their length of service, are listed in the published corporate histories (Davies, 2003, 2013).

Integrated operation of the MCS package components

The control systems within the MCS package at Mainfreight are expected to work together as a coherent package, and to guide behaviour throughout the company. This section considers how Mainfreight's cultural and administrative controls interact with their planning, cybernetic, and reward systems.

Mainfreight is strongly focused on driving continual week-on-week and year-on-year profit growth while maintaining quality services. The planning, cybernetic, and reward systems ensure that managers are aware of and work towards the specified performance targets. Mainfreight is also concerned about how these results are achieved, and uses its cultural and administrative control systems to promote its values and beliefs within the company. Accordingly, managers are expected not just to produce results, but to value and respect customers, suppliers and the community, to preserve and enhance the reputation of the company, to help build a 100 year company, to support and develop the Mainfreight team. A key consideration for moving team members into more responsible roles is the extent to which they epitomise and promote the Mainfreight culture.

Mainfreight's vision is to be a 100 year company. Managers are expected to factor the longer term into their decision processes. Actions proposed by managers are frequently challenged with the question 'What's the long term benefit?' This focus keeps managers firmly committed to a sensible path forward and reduces the likelihood decisions will be made simply for their short term expediency (Davies,

2003, p. 92). Members of the executive team model the behaviour they expect of team members. For example, executives put Australian expansion plans on hold while service quality issues in existing branches were resolved. According to one executive:

At a strategic level we've made a decision not to open another branch until we get those existing branches right. (Interviewee7b:480)

Executives show by their actions that the company's long-run reputation is more important than short term profit. Branch and divisional managers follow the example they are set, and are willing to make decisions that will have longer term benefits. One logistics manager, for example, decided to build a new warehouse, on land adjacent to the current facility, even though existing warehouse capacity was not fully utilised. The decision would have a negative impact on short run profitability. However, the decision to expand was based on expectations about the capacity needed to drive future growth. According to the logistics manager:

If you sit still you get left behind. You've got to be constantly looking forward... you can certainly influence what the future holds, if you plan your strategies right. (Interviewee8:335)

Branch managers innovate and introduce new services despite the uncertain impact on weekly performance. Some branches are getting into the Internet market and doing deliveries to people's houses. One manager explained that:

We'll start a new service – we'll take a punt on it... we'll start it up. It might cost us a little bit to start off in the interim but as long as we can see some benefit in it, we'll back ourselves. (Interviewee10:144)

Mainfreight recognises that the emphasis on weekly results poses a real risk to the company's longer term survival. According to one executive:

We certainly understand that the weeklies can drive what we deem short-term profit, which we don't particularly like. We want long-term profit. Therefore we're asking our managers to understand the difference between short-term and long-term profit. We want them to invest in the business, to invest in innovation. (Interviewee7a:44)

There is evidence of teams prioritising the interests of the company over individual or branch interests. During the global financial crisis (GFC), the company had cash flow issues which meant it was unable pay bonuses. According to one team member, executives visited branches to explain the situation, so that everyone understood why bonuses were being temporarily suspended. The team response was “we are happy to forgo the bonus if it helps the business” (Interviewee6:66). This response reflects the Mainfreight culture in two ways. It shows Mainfreight’s belief that in times of crisis everyone should join together to care for the company that supports their livelihoods, and avoid putting their own self-interest first (Davies, 2003, p. 47). It also reflects Mainfreight’s focus on providing careers not jobs for team members. Career-minded team members will be concerned about the company’s long term survival. It should also be noted that Mainfreight did not lay off any team members during the GFC. The Mainfreight 2009 Annual Report (p. 9) acknowledges the sacrifice made by team members during this period:

We thank them for supporting our cost reduction initiatives, particularly those that have made an impact at a personal level, through forgoing annual salary reviews and bonuses. (Team bonuses, while discretionary, have long been an integral part of our Mainfreight culture...)

Branches are willing to make decisions that prioritise the company’s interests ahead of their own. For example, one account was transferred between branches to improve service to a customer. The branch acquiring the account was better positioned geographically to provide localised service and support to the customer, which in turn would enhance the reputation of the company overall. According to the branch manager giving up the account:

We had an account this year which we looked after, that was actually domiciled in New Plymouth. We took that account, which was our number one account, and transferred it to [the local] team. For us, that was a \$2 million account in terms of revenue and associated profit. Straight away, that's come off our P&L

and it's gone onto another branch's P&L. We've now got to replace that - plus we've still got to hit our 15% [profit increase]. (Interviewee10:174)

The competition engendered by weekly comparisons of performance is tempered by the company's culture of teamwork and mutual support. Mainfreight considers itself as one big family comprised of a network of independent businesses working together to achieve mutual success. Branches support one another, by pooling their knowledge and suggesting how struggling branches could improve weekly performance, undertaking buddy branch visits, i.e. visits undertaken by managers of similar branches, to review one another's operations and make suggestions for improvement, and feeding business to each other across the network. As one branch manager explained:

It's everybody working together, as an extension of the team philosophy that is an important part of the Mainfreight culture. It's very much about helping your buddies. (Interviewee8:123)

The intense focus on achieving weekly results could pressure managers into misreporting performance. This risk is offset by Mainfreight's culture which promotes open and transparent information sharing. The opportunity for managers to manipulate reported results is minimised because the figures are scrutinized by every member of the team. The accounting system is kept simple, intentionally, to allow all team members to understand the financials driving the business, know precisely where the company stands, and identify how they might, as individuals, act to improve performance (Davies, 2003, p. 302). Practices such as open plan offices, windows into freight handling areas, and wall mounted freight shipment boards recording daily activity all serve to make operations visible and reduce opportunities to misrepresent performance. Collectively these mechanisms create open and transparent information which counteracts the pressure on managers to misrepresent their figures. According to one branch manager:

You can't influence the reported numbers. The numbers are what the numbers are. The only way you can really improve the bottom line result is improving your sales and managing your costs better. (Intervieww9:139)

In summary, the influence of cultural, administrative, planning, cybernetic, and reward systems at Mainfreight are intertwined. The simultaneous operation of the systems comprising the MCS package influences decision makers to seek an acceptable balance between short and long term imperatives, local and global benefits and inter-branch competition and cooperation.

The following section discusses the MCS package at Mainfreight in relation to the beyond budgeting and MCS literature. It concludes with a summary of our findings and suggestions for future research.

Discussion and conclusions

This paper considers the composition of and interactions within the MCS package of a radically decentralised organisation that has never in its history had a budget. Our research is thus distinguished from previous beyond budgeting studies which tend to consider how traditional budgets are modified in centralised, hierarchically-based organisations, which focus on planning, cybernetic, and reward systems.

We show how managers at Mainfreight use planning, cybernetic, reward, cultural, and administrative systems to accomplish organisational control. These were categorised using the Malmi and Brown (2008) typology¹¹, slightly modified for application to our non-budgeting organisation. Mainfreight's extensive array of control practices, classified according to the typology, is presented in Table 3.

¹¹ More specifically, the reference to budgets in the cybernetic control category was made more generic.

Table 3: Mainfreight's MCS Package

Cultural Controls						
Clans		Values			Symbols	
<ul style="list-style-type: none"> • Mainfreight Family, brothers and sisters • Induction: getting your blue blood; • Getting your Blues • Ritual of giving apples & hams; • Public announcement of branch profit pledges • Ritual of personally handing over bonus payment; • Presenting invoice for damage to those who did it! • Phoning in of weekly results 		<ul style="list-style-type: none"> • Three Pillars of Mainfreight Culture, Family, Philosophy • Team member selection <ul style="list-style-type: none"> - Passionate, high achievers - Better than yourself • Training and shared experience 			<ul style="list-style-type: none"> • Open plan offices, • No reserved parking • Shared lunch rooms • Round meeting tables • Inspirational slogans on all vehicles/buildings • Pitching in as required; • Weekly posting of results • Signed profit pledge hung on wall • Gallery for employee and branch awards • List of every employee in Annual Report and corporate histories 	
Planning		Cybernetic Controls			Reward & Compensation	
Long range planning Broad goals	Action planning Set targets <ul style="list-style-type: none"> • Profit heuristics • ROS heuristics • KPIs standards 	Targets <ul style="list-style-type: none"> • Profit pledge • This week last year • Minimum & relative KPI performance 	Measures Financial <ul style="list-style-type: none"> • Profit margins • Profit growth • ROS • % aged debtors Non-financial <ul style="list-style-type: none"> • Inward claims • Outward claims 	Direct tracking <ul style="list-style-type: none"> • Actuals for week, month & quarter <ul style="list-style-type: none"> - Against same period last year - Against target in profit pledge Against peers 	Motivation <ul style="list-style-type: none"> • External or intrinsic • Peer visibility • Relative performance ranked in league tables Rewards <ul style="list-style-type: none"> - Team based bonus equally shared Range of non-financial acknowledgements 	
Administrative Controls						
Governance structure: <ul style="list-style-type: none"> • 3 or4 management levels • 2Up 2Down approach Indirect Tracking <ul style="list-style-type: none"> • Make operations visible; • Executive visits • Buddy branch visits • PAT internal audits 		Organisation structure <ul style="list-style-type: none"> • Autonomous branches; • Minimal HO services (no marketing function); 			Policies & Procedures <ul style="list-style-type: none"> • No job descriptions; • Minimally specified contracts; • No organisational chart • Weeklies format & timing; • Twice annual internal audits; • Buddy branch visits 	

Mainfreight's planning, cybernetic, and reward systems focus organisational effort on achieving financial and KPI performance, while its cultural and administrative controls influence how those results are achieved. For example, Mainfreight's culture deters branches from improving their bottom lines by reducing service quality or forgoing branch maintenance. The integrated operation of the elements of the MCS

package ensures managers consider and appropriately balance multiple dimensions of performance, including financial and non-financial, short and long term, as well as local and global performance. Given that the “functionality of a control package seems to depend on internal consistency between these elements” (Sandelin, 2008, p. 340), Mainfreight’s ability to integrate the components of its MCS package may be a critical factor in its success. As one financial accountant noted:

You can’t just say let’s introduce no budgets. You need to have a culture which will be able to sustain it. And other structures to support it, to replace the purpose of a budget. (Interviewee1:179)

Our study contributes to the beyond budgeting literature by documenting an MCS package which has never included a budget, thus providing a counterpoint to published studies that consider how organisations have modified their budget practices (Becker, 2014; Bourmistrov and Kaarbøe, 2013; Henttu-Aho and Järvinen, 2013; Lindsay and Libby, 2007; Østergren and Stensaker, 2011; Sandalgaard, 2012; Sandalgaard and Bukh, 2014).

Of the various types of control comprising Mainfreight’s MCS package, none appears to be dominant. Thus we show how “control forms may be linked to, and supporting and sustaining each other, rather than subdued and marginalized by a dominant form” (Alvesson and Karreman, 2004, p. 424). At Mainfreight, multiple types of management control operate simultaneously and are used in a balanced way. The company makes explicit its intensive use of both ‘technocratic’ controls (Alvesson and Karreman, 2004) such as planning, cybernetic, and reward systems which are supported by ‘socio-ideological’ controls (Alvesson and Karreman, 2004) such as cultural and administrative controls. The use of the different systems emphasises the need to both achieve results and to ensure the actions of organisation members are in line with Mainfreight’s culture.

Branch managers at Mainfreight perceive the absence of budgets as a loosening of restrictions, freeing them to take action. This perception is widespread despite the extensive array of technocratic controls, including the weekly reports. At Mainfreight, 'no budget' is understood to mean team members have the freedom to make decisions, take action and, in their language, to 'back themselves'. This illusion of no control (Sutton and Brown, 2015) supports Mainfreight's cultural belief that managers should keep their eye on the business, try new things, learn from their mistakes, and always keep the company moving forward. Thus cultural controls are enhanced by the removal of budgets, while the interplay between control systems reflects the subtle interfaces between 'technocratic' and 'socio-ideological' controls (Alvesson and Karreman, 2004).

Mainfreight depends on a radically decentralised organisation structure (Hansen *et al.*, 2003) and network of highly autonomous branches to drive performance. The branches are linked via numerous formal and informal groups which are actively created through the company's induction and training programme, open plan offices, shared meal facilities, social events, staff exchanges and functional group get-togethers. The decentralised structure enables managers to monitor and respond to opportunities in their local markets while membership in various company networks promotes cooperation and mutual support. This finding confirms recent research highlighting the influence that organisation structure has on other control elements (Cäker and Siverbo, 2014). This structure along with a strong corporate culture influences branches to focus on profitably, exceeding customer expectations, taking care of the company and each other, and continually innovating, learning and growing.

Together the administrative and cultural control systems influence how performance is achieved. Thus our findings contribute to emerging research recognising the importance of cultural and administrative controls and how they complement and are complemented by other elements of an MCS package (Becker, 2014; Cäker and Siverbo, 2014; Campbell, 2012, Sandelin, 2008).

In conclusion, based on an ethnomethodology informed case study approach focused on the control practices of managers, we investigate the composition and use of an MCS package in a company that has never in its history had a budget. Our case company, Mainfreight, developed a comprehensive MCS package without budgets by using profit pledges, weeklies and league tables for planning, control and evaluation purposes. To support these controls the company also used a number of cultural and administrative controls. The management control systems were used in a balanced way, meaning that no single system dominated the others. The lack of budgets did not seem to affect the strength of the planning, cybernetic, and reward systems and in fact it could be argued that these were strengthened through the use of integrated cultural and administrative control systems.

Our findings have implications for future research. To understand control in organisations that do not budget, research should investigate how different types of organisations design ‘socio-ideological’ controls such as cultural and administrative systems to work alongside ‘technocratic’ controls such as planning, cybernetic, and reward systems. From a beyond budgeting perspective, more needs to be learnt about how organisations move from a budget based to a beyond budgeting MCS package and how they balance the influence of controls used in place of budgets.

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