

# Beyond Budgeting – an agile management model for new people and business realities

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Chairman - Beyond Budgeting Roundtable

# Outline

- The case for change
- The Beyond Budgeting principles
- The Statoil model - Ambition to Action

# What is Management Innovation?

*“Exploring news ways of leading and managing in knowledge organisations operating in dynamic and competitive business environments”*

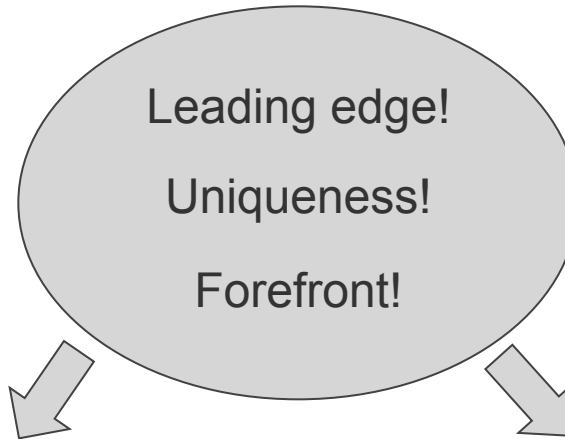
(Not management of innovation....)

# The innovation paradox

## Technology innovation

- a very crowded place

Great!



## Management innovation

- not yet a crowded place

Scary!



Same purpose: Better performance!

# Managing traffic performance - one alternative



Who is in control?

Based on which  
information?

# Managing traffic performance - another alternative

Who is in control?

Based on which  
information?



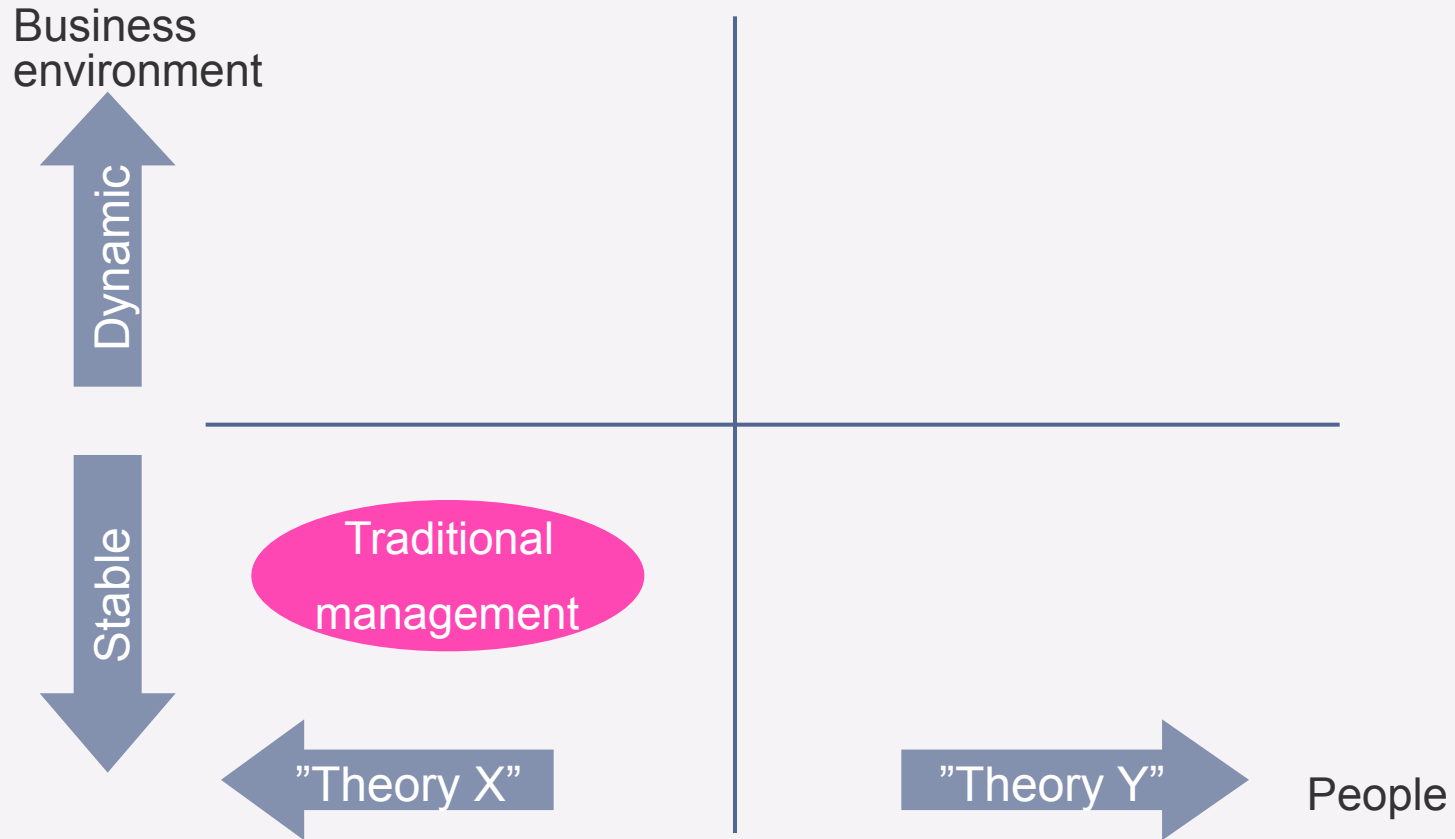


Which is most **efficient**?  
Which is most **difficult**?



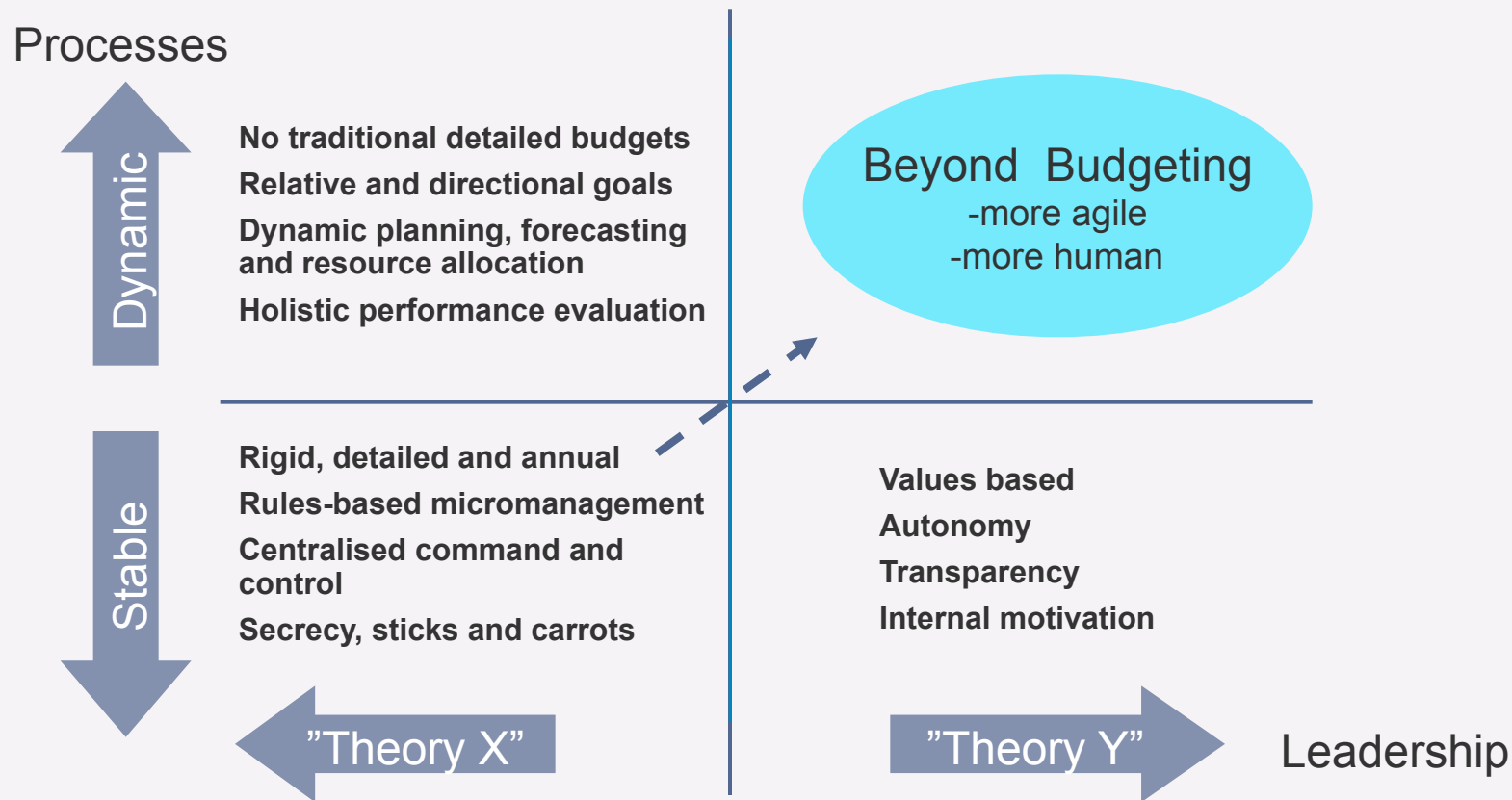
Where are **values** most important?

# The world has changed - what about the way we lead and manage?





# We must change both processes and leadership



# Companies on a similar journey

## Handelsbanken



# Beyond Budgeting

- from command & control to empower & adapt

## Leadership principles

- 1. Purpose** - Engage and inspire people around bold and noble causes; *not around short-term financial targets*
- 2. Values** - Govern through shared values and sound judgement; *not through detailed rules and regulations*
- 3. Transparency** - Make information open for self-regulation, innovation, learning and control; *don't restrict it*
- 4. Organisation** – Cultivate a strong sense of belonging and organise around accountable teams; *avoid hierarchical control and bureaucracy*
- 5. Autonomy** - Trust people with freedom to act; *don't punish everyone if someone should abuse it*
- 6. Customers** - Connect everyone's work with customer needs; *avoid conflicts of interest*

## Management processes

- 7. Rhythm** - Organise management processes dynamically around business rhythms and events; *not around the calendar year only*
- 8. Targets** - Set directional, ambitious and relative goals; *avoid fixed and cascaded targets*
- 9. Plans and forecasts** - Make planning and forecasting lean and unbiased processes; *not rigid and political exercises*
- 10. Resource allocation** - Foster a cost conscious mind-set and make resources available as needed; *not through detailed annual budget allocations*
- 11. Performance evaluation** - Evaluate performance holistically and with peer feedback for learning and development; *not based on measurement only and not for rewards only*
- 12. Rewards** - Reward shared success against competition; *not against fixed performance contracts*

# Statoil in brief

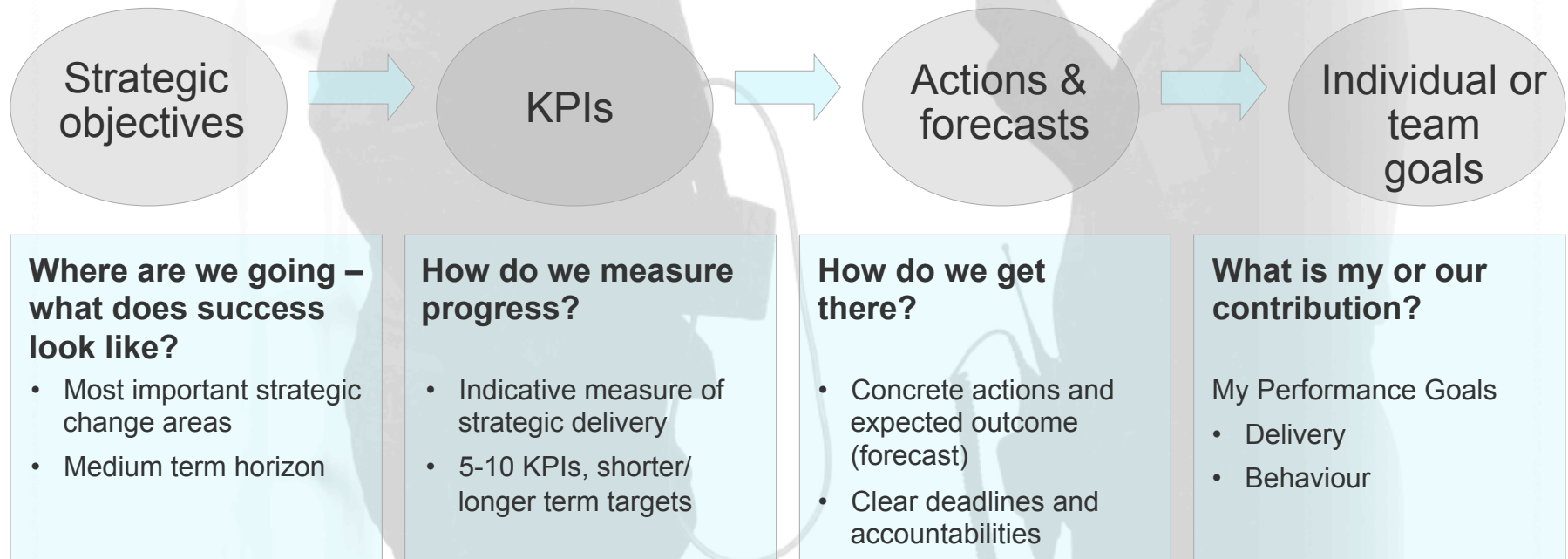
- Turnover approx. 90 bn. USD
- 23000 employees in 33 countries
- World's largest operator in waters deeper than 100 metres
- Second largest gas exporter to Europe
- World leader of crude oil sales
- Listed in New York and Oslo



• Current production of oil and gas

# Ambition to Action - purpose and process

- Translating strategy - from ambitions to actions
- Securing flexibility - room to act and perform
- Activating values and leadership principles



# Ambition to Action example

People &  
Organisation



HSE



Operations



Market



Finance

## Globally competitive – an exceptional place to perform and develop

| Strategic objectives  | Key performance indicators (*: linked) | Actions (top 5 in period)   |
|---|--|---|
| <b>People and organisation</b>                                      |  |   |
| A values-based and performance driven organisation                  | Living the values                      | Accelerate performance, people development and mobility (31.12.11)  |
| Secure compliance and learning                                      | P@S process                            | Secure strong ownership to compliance and ethics on all levels (30.12.11)   |
| <b>Health, safety and environment</b>                               |  |   |
| Industry best performance in safety                                 | Serious incident frequency             | Implement learning from major external and internal incidents (31.12.11)  |
|   | Climate                                | Improve the quality of HSE risk management at all levels (01.12.11)   |
|   | TTS Observations and actions           | Ensure technical integrity of our facilities and wells (15.12.11)   |
|   |  | Fully implement our health and working environment strategy (25.12.11)  |
|   |  | Operationalise climate change (30.12.11)  |
| <b>Operations</b>   |  |   |
| Operational and functional efficiency                               | PE/NCS (Regularly)                     | Deliver ramp-up of Leismer demo, Peregrino, Marcellus and Eagle Ford according to milestones (del.) (30.11.12)                            |
| Business and value driven technology development                    | Production of Statoil share            | Ensure sufficient quality in the decision basis for Shtokman Final Investment Decision (30.11.12)   |
| Competitive cost and quality project design and execution           | Cost efficiency DG3 (IPA) *            | Deliver on technology programme to enhance value in the oil sands and Paleogene (01.03.12)  |
|   | Relative unit production cost (NCS)    | Sustain NCS production through improved regularity, optimised rig capacity, well deliveries, IHR and the fast-track initiative (30.11.11) |
| <b>Market</b>   |  |   |
| A trusted company   | Reserve replacement ratio (RRR) *      | Secure petroleum activities in Northern NCS areas and high impact exploration opportunities globally (30.06.12)                           |
| Ensure quality and efficiency from our suppliers                    | Downstream NOI (NOK)                   | Mature new resources to booking, including Mariner Bressay, Luvu and commercialisation of Shah Deniz (30.11.12)                           |
| A recognized and value creating exploration company                 | Finding cost                           | Deliver onshore manufacturing improvement programme (01.03.12)  |
| Maximise value creation through our value chains                    | New Resources from Exploration         | Secure cost efficient procurement and project deliveries (01.03.12)   |
| Secure early phase and value enhancing business development options |  | US bond issue (15.12.11)  |
| <b>Finance</b>  |  |   |
| Retain financial robustness   | Relative RoACE                         | Implement and deliver on the seven corporate initiatives listed under "Improvement initiative Safety and Operations" (25.03.12)           |
| Competitive shareholder return and value                            | Relative Shareholder Return            | Building a commercial and cost conscious mindset (31.01.12)   |
|   |  | Improve exploration cost efficiency (31.05.12)  |

Where are we going?

"Strategic objectives"

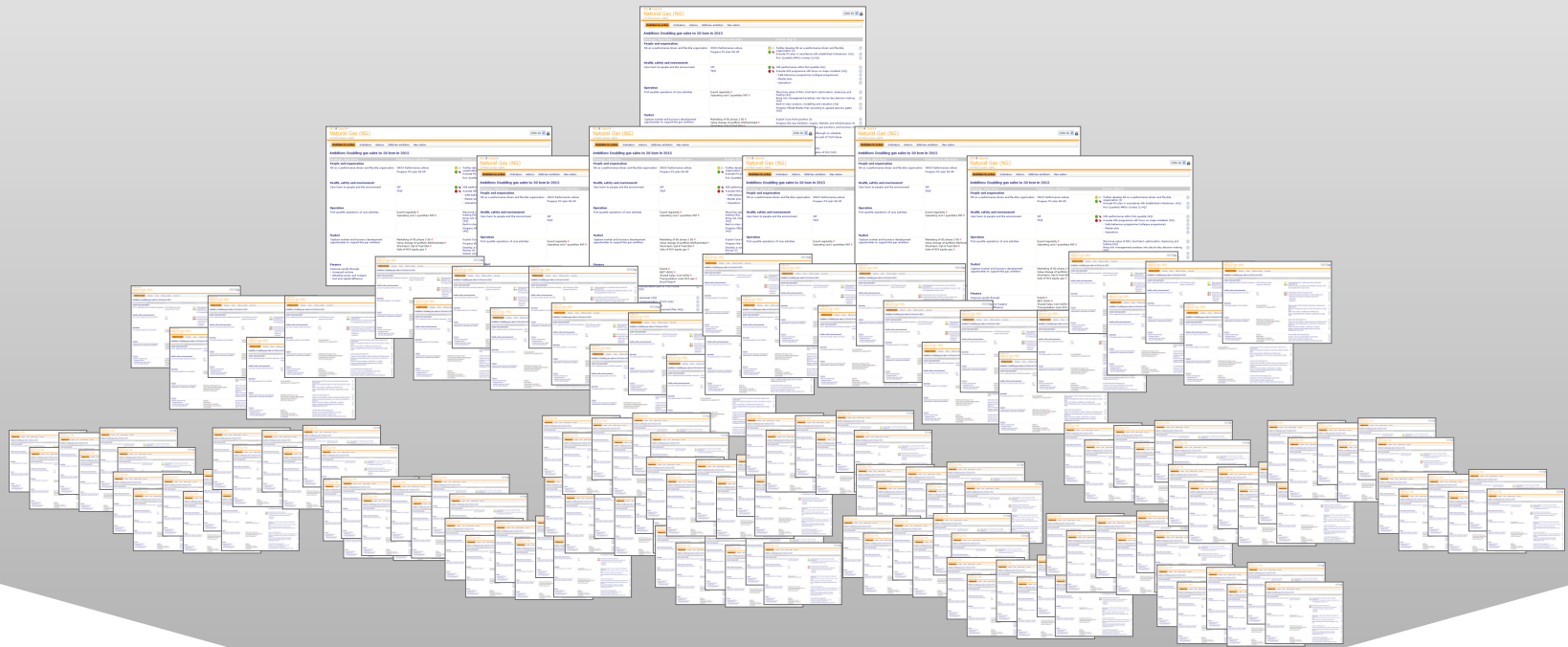
How do we measure progress?

"Key Performance Indicators"

How do we get there?  
"Actions"



# More than 800 "Ambition to Actions" across the company



.....and more

# Performance evaluation - from narrow measurement to a holistic assessment

**Ambition to Action**



| Strategic objectives - an integrated view to actions and results |                           |            |          |
|--|---------------------------|------------|----------|
| Strategic objective  | Key performance indicator | Target     | Status   |
| Strategic objective 1  | KPI 1.1                   | Target 1.1 | On track |
| Strategic objective 1  | KPI 1.2                   | Target 1.2 | At risk  |
| Strategic objective 2  | KPI 2.1                   | Target 2.1 | On track |
| Strategic objective 2  | KPI 2.2                   | Target 2.2 | At risk  |
| Strategic objective 3  | KPI 3.1                   | Target 3.1 | On track |
| Strategic objective 3  | KPI 3.2                   | Target 3.2 | At risk  |

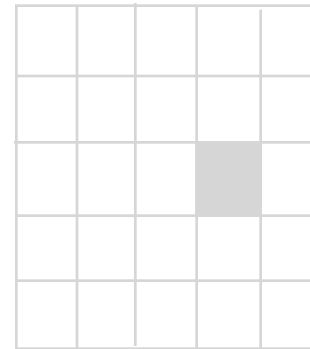


Pressure testing KPI results:

- Deliver towards the strategic objectives?
- How ambitious KPI targets?
- Changed assumptions, with positive or negative effect?
- Agreed actions implemented, or corrective actions initiated as needed?
- Delivered results sustainable?

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50/50



- Development plan
- Rewards

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**Living the values**

- Day-to day-observations
- 360°/ 180°/ 90° surveys
- People survey

# Towards a simpler, more dynamic and self-regulating Ambition to Action process



More cost conscious

- less «cost cutting»

More event driven

- less calendar driven

More translation

- less cascading

More relative

- less absolute KPIs

More transparency

- less secrecy



## Simple is not the same as easy!

Thank you  
for listening!

Questions or comments - now or later?

Bjarte Bogsnes

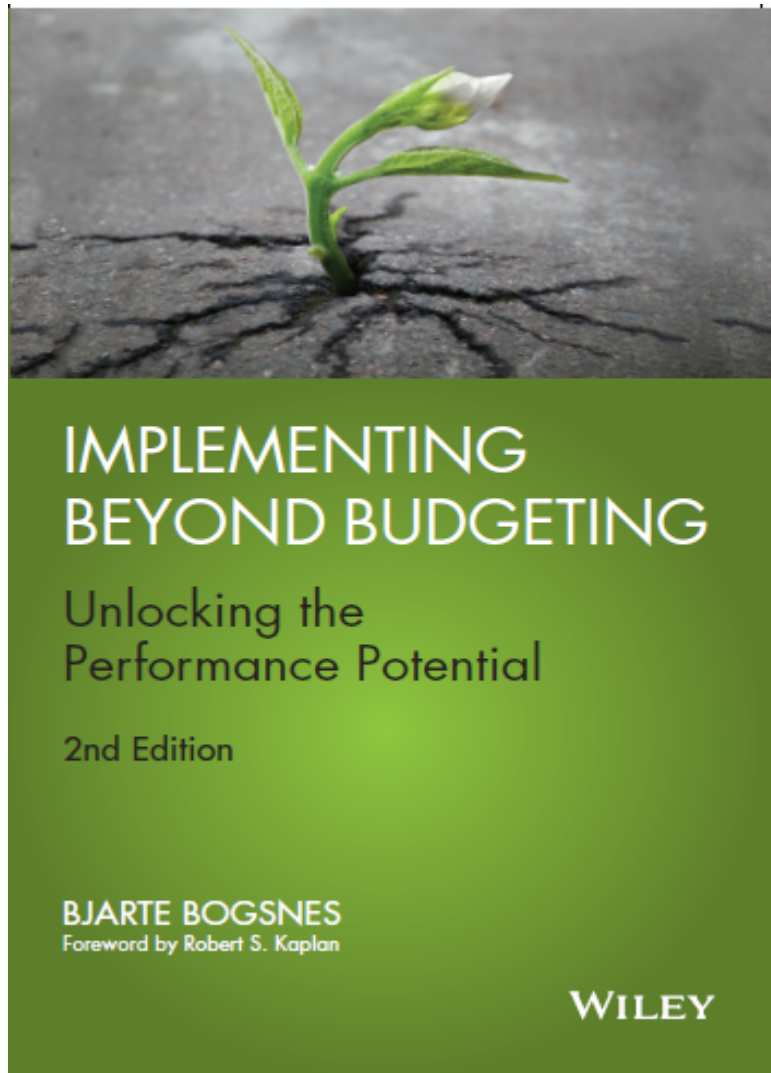
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Beyond Budgeting Round Table

[www.bbrt.org](http://www.bbrt.org)



# Want to hear more?

1. The problems with traditional management
2. The Beyond Budgeting model
3. The Borealis case
4. The Statoil case
5. Beyond Budgeting and Agile
6. Implementation advice

Out on Wiley (US) July 18 (Amazon.com)  
Available in Europe August 10



*Please*

**Remember to  
rate this session**

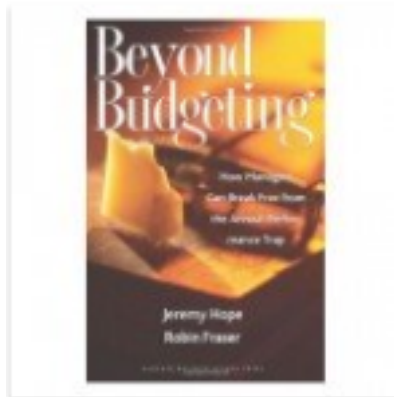
*Thank you!*

 Follow us on Twitter @GOTOamst

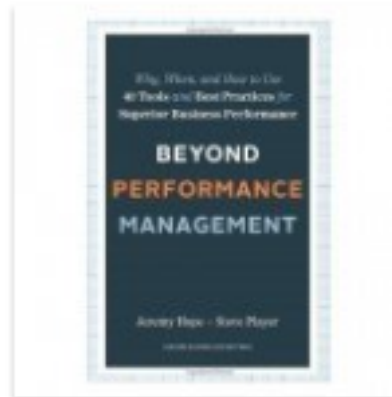


# Back up

# Other recommended books



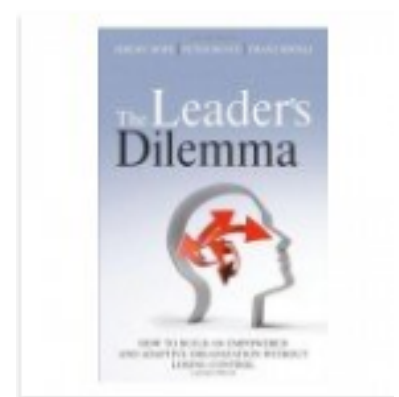
**Beyond  
Budgeting**



**Beyond  
Performance  
Management**



**Future Ready**



**The Leader's  
Dilemma**

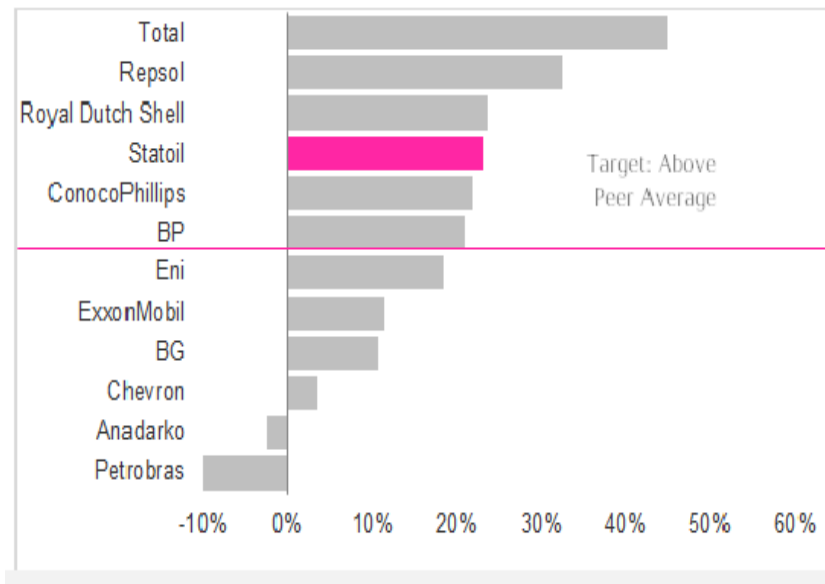
# Start of the Statoil journey

## - solving a serious budget conflict

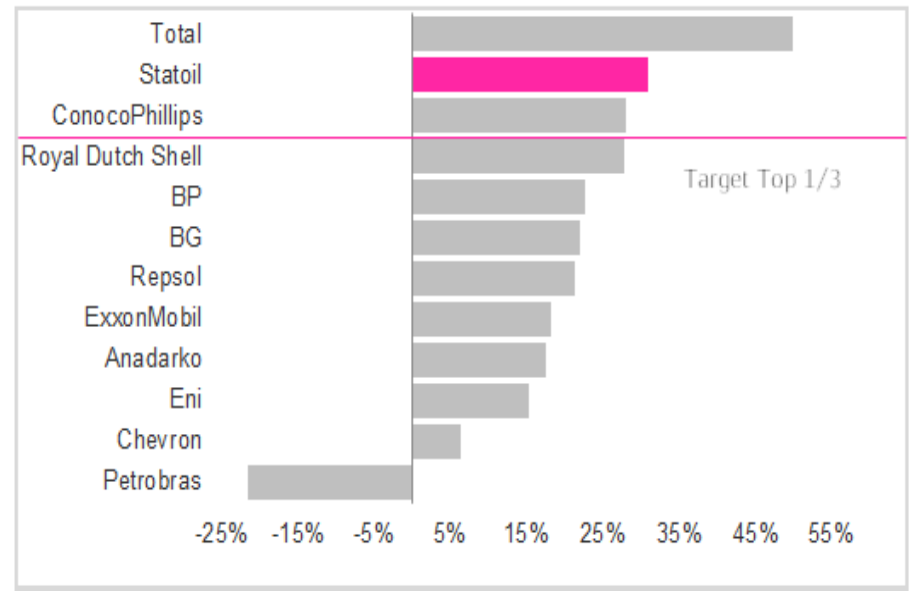
| The budget purposes   | Step 1<br>Separate  | Step 2<br>Improve   |
|---|---|---|
| <p><b>Budget =</b></p> <ul style="list-style-type: none"> <li>•Target</li> <li>•Forecast</li> <li>•Resource allocation</li> </ul> | <div data-bbox="575 544 645 1039" style="position: relative; height: 350px;"> <div style="position: absolute; top: 0; right: 0; width: 100%; height: 100%; border-left: 2px solid black; border-bottom: 2px solid black; border-radius: 0 0 10px 10px;"></div> <div style="position: absolute; top: 0; right: 0; width: 100%; height: 100%; border-left: 2px solid black; border-bottom: 2px solid black; border-radius: 0 0 10px 10px;"></div> <div style="position: absolute; top: 0; right: 0; width: 100%; height: 100%; border-left: 2px solid black; border-bottom: 2px solid black; border-radius: 0 0 10px 10px;"></div> </div> <div data-bbox="691 519 815 634"></div> <div data-bbox="871 548 1078 686"> <p><b>Target</b></p> <p>What we want to happen</p> </div> <div data-bbox="710 736 815 839"></div> <div data-bbox="871 729 1078 868"> <p><b>Forecast</b></p> <p>What we think will happen</p> </div> <div data-bbox="683 929 830 1072"></div> <div data-bbox="877 929 1103 1122"> <p><b>Resource allocation</b></p> <p>What it takes to make it happen</p> </div> | <ul style="list-style-type: none"> <li>• Inspiring &amp; stretching</li> <li>• VUCA robust</li> <li>• Holistic performance evaluation</li> <li>• Unbiased - expected outcome</li> <li>• Limited detail</li> <li>• No detailed annual pre-allocation</li> <li>• KPI targets, decision authorities, gates and criteria</li> <li>• Trend monitoring</li> </ul> |
| Same number for conflicting purposes  | Different numbers   | Event driven, not calendar driven   |

# Financial performance - as we define it

Shareholder Return

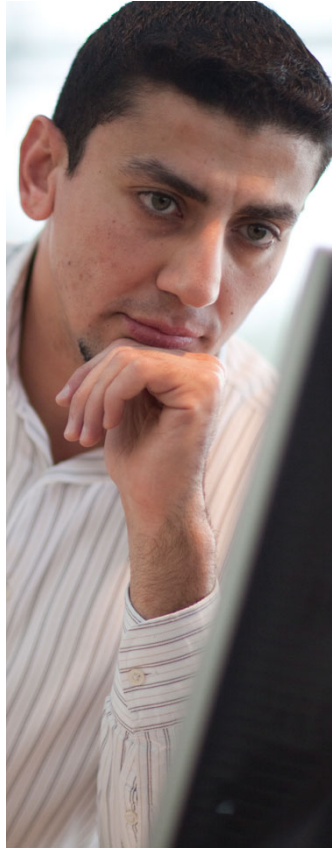


Return on Capital

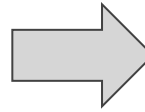
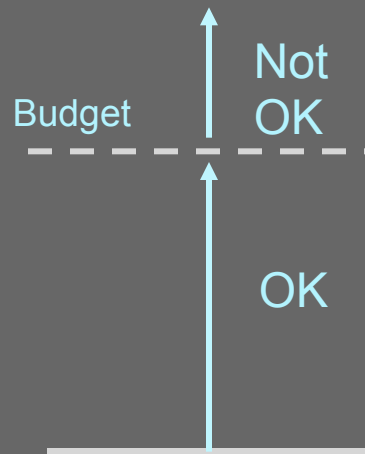


# Cost management - the mindset required.....

– cost conscious from the first penny



Do I have a budget for this?

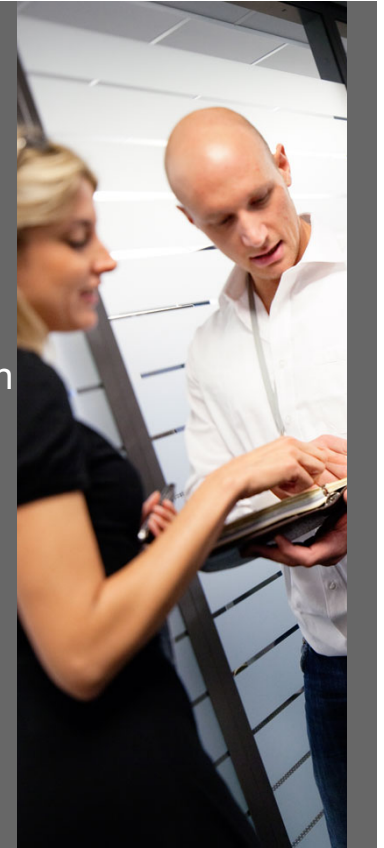
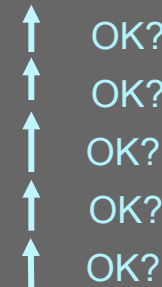


Is this really necessary?

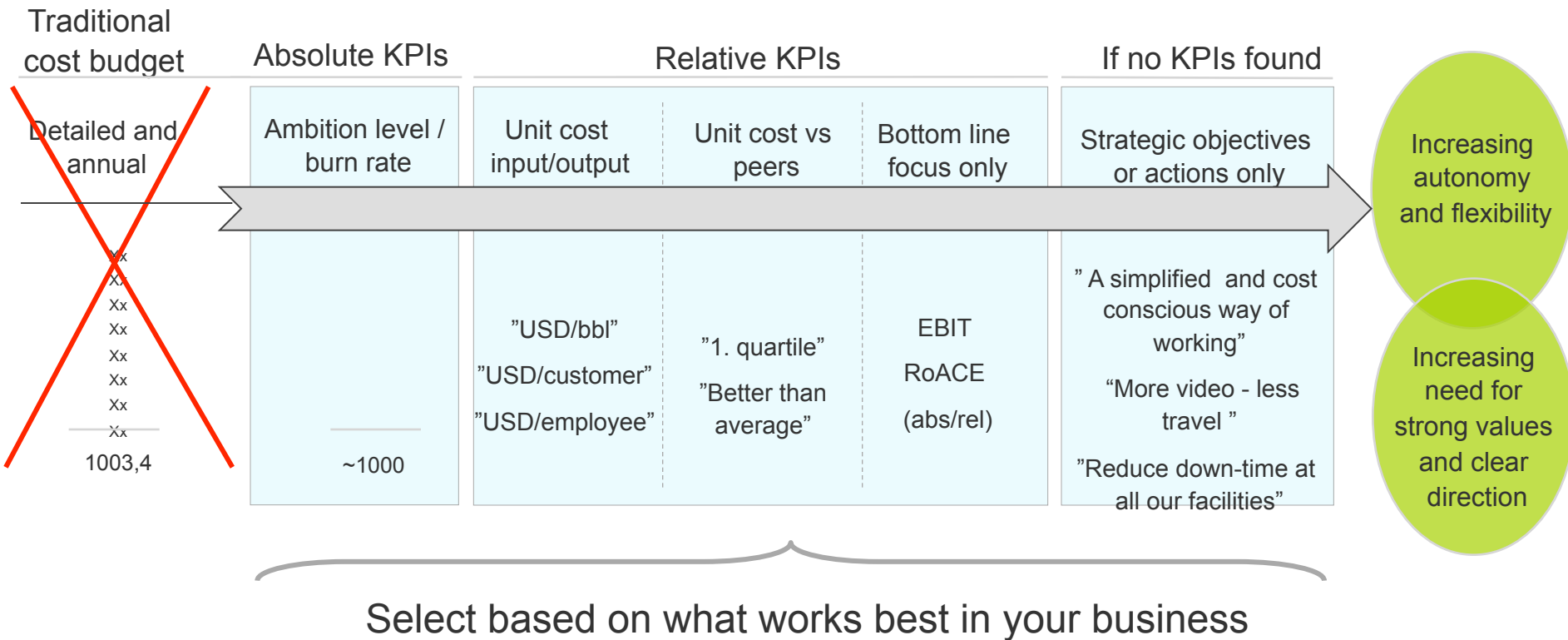
What is good enough?

How much value is this creating?

Is this within my execution framework?



# .....and the tools available



Monitoring of actual development, intervention if needed only



# Implementation advice

- Create problem understanding before talking solutions
- What's the real risk - upside vs downside
- Design to 80% and jump
- You can't get rid of «command and control» through command and control
- Careful if starting with rolling forecasting
- Keep the cost focus
- Involve HR and Agile IT
- Don't become a fundamentalist