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

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Vice President - Performance Management Development
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

Leading edge!
Uniqueness!
Forefront!

Management innovation
- not yet a crowded place

Great!

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?

- Business environment
- Dynamic
- Stable

- Traditional management
- "Theory X"
- "Theory Y"
- People
We must change both processes and leadership

Processes

- No traditional detailed budgets
- Relative and directional goals
- Dynamic planning, forecasting and resource allocation
- Holistic performance evaluation

Leadership

- Values based
- Autonomy
- Transparency
- Internal motivation

Beyond Budgeting
- more agile
- more human

"Theory X"

"Theory Y"
Companies on a similar journey

Handelsbanken

[Logos of various companies]
### 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

Strategic objectives → KPIs → Actions & forecasts → Individual or team goals

Where are we going – what does success look like?
- Most important strategic change areas
- Medium term horizon

How do we measure progress?
- Indicative measure of strategic delivery
- 5-10 KPIs, shorter/longer term targets

How do we get there?
- Concrete actions and expected outcome (forecast)
- Clear deadlines and accountabilities

What is my or our contribution?
My Performance Goals
- Delivery
- Behaviour
## Ambition to Action example

<table>
<thead>
<tr>
<th>People &amp; Organisation</th>
<th>How do we measure progress?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where are we going?</td>
<td>&quot;Key Performance Indicators&quot;</td>
</tr>
<tr>
<td>&quot;Strategic objectives&quot;</td>
<td></td>
</tr>
<tr>
<td>How do we get there?</td>
<td>&quot;Actions&quot;</td>
</tr>
</tbody>
</table>

### Key Performance Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serious Incident Frequency</td>
<td></td>
</tr>
<tr>
<td>Climate</td>
<td></td>
</tr>
<tr>
<td>TTS Observations and actions</td>
<td></td>
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</table>

### Actions

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver ramp-up of Lerimer demo, Peregrino, Marcellus and Eagle Ford according to milestones (del.) (31.12.11)</td>
<td></td>
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<tr>
<td>Ensure sufficient supply in the decision basis for Spitsbergen investment decision</td>
<td></td>
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<tr>
<td>Deliver onshore manufacturing improvement programme (01.08.12)</td>
<td></td>
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<tr>
<td>Secure new resources to book, including Mariner Bressay, Luna and commercialisation of Shah Deniz (31.12.11)</td>
<td></td>
</tr>
<tr>
<td>Deliver onshore manufacturing improvement programme</td>
<td></td>
</tr>
<tr>
<td>Secure cost efficient procurement and project deliveries (01.08.12)</td>
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</tr>
<tr>
<td>US bond issue (15.12.11)</td>
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</tbody>
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### Strategic Objectives

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A values-based and performance driven organisation</td>
<td></td>
</tr>
<tr>
<td>Secure compliance and learning</td>
<td></td>
</tr>
<tr>
<td>Living the values</td>
<td></td>
</tr>
<tr>
<td>PDS process</td>
<td></td>
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</tbody>
</table>

### How do we measure progress?

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
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<tr>
<td>Reserve replacement ratio (RRR)</td>
<td></td>
</tr>
<tr>
<td>Downstream NOC (NOC)</td>
<td></td>
</tr>
<tr>
<td>Finding cost</td>
<td></td>
</tr>
<tr>
<td>New Resources from Exploration</td>
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</tbody>
</table>
More than 800 "Ambition to Actions" across the company

.....and more
Performance evaluation - from narrow measurement to a holistic assessment

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?

50/50

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

Ambition to Action

Delivery

- Development plan
- Rewards
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?

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Beyond Budgeting Round Table
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

<table>
<thead>
<tr>
<th>The budget purposes</th>
<th>Step 1</th>
<th>Step 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget =</strong></td>
<td><strong>Separate</strong></td>
<td><strong>Improve</strong></td>
</tr>
<tr>
<td>• Target</td>
<td>Target</td>
<td>• Inspiring &amp; stretching</td>
</tr>
<tr>
<td>• Forecast</td>
<td>Forecast</td>
<td>• VUCA robust</td>
</tr>
<tr>
<td>• Resource allocation</td>
<td>Resource allocation</td>
<td>• Holistic performance evaluation</td>
</tr>
<tr>
<td>Same number for conflicting purposes</td>
<td>Different numbers</td>
<td>Event driven, not calendar driven</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Unbiased - expected outcome</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limited detail</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No detailed annual pre-allocation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• KPI targets, decision authorities, gates and criteria</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Trend monitoring</td>
</tr>
</tbody>
</table>

Budget = Target  
What we want to happen  
Forecast  
What we think will happen  
Resource allocation  
What it takes to make it happen

Start of the Statoil journey - solving a serious budget conflict

Step 1  
**Separate**

- Target
  What we want to happen

- Forecast
  What we think will happen

- Resource allocation
  What it takes to make it happen

Step 2  
**Improve**

- Inspiring & stretching
- VUCA robust
- Holistic performance evaluation
- Unbiased - expected outcome
- Limited detail
- No detailed annual pre-allocation
- KPI targets, decision authorities, gates and criteria
- Trend monitoring

**Same number for conflicting purposes**

**Different numbers**

**Event driven, not calendar driven**
Financial performance - as we define it

Shareholder Return

Return on Capital

- Target: Above Peer Average
- Target Top 1/3
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?

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Budget

OK

Not OK

OK

OK?
…..and the tools available

Traditional cost budget

<table>
<thead>
<tr>
<th>Absolute KPIs</th>
<th>Relative KPIs</th>
<th>If no KPIs found</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambition level / burn rate</td>
<td>Unit cost</td>
<td>Strategic objectives or actions only</td>
</tr>
<tr>
<td></td>
<td>input/output</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;USD/bbl&quot;</td>
<td>EBIT</td>
</tr>
<tr>
<td></td>
<td>&quot;USD/customer&quot;</td>
<td>RoACE</td>
</tr>
<tr>
<td></td>
<td>&quot;USD/employee&quot;</td>
<td>(abs/rel)</td>
</tr>
<tr>
<td></td>
<td>~1000</td>
<td>&quot;A simplified and cost conscious way of working”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;More video - less travel”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;Reduce down-time at all our facilities”</td>
</tr>
</tbody>
</table>

Select based on what works best in your business

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