Beyond Budgeting – Business agility in practice

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Equinor
Chairman Beyond Budgeting Roundtable
The illusion of control

The definition

“The power to influence or direct people's behaviour or the course of events”

The grand illusion

- People can and must be managed
- The future is predictable and manageable

In business terms

- Controlling people
- Controlling the future
«Most of what we call management is about making it difficult for people to do their job»

Peter Drucker
“Most corporate planning is like a ritual rain dance. It has no effect on the weather, but those who engage in it think it does. Much of the advice and instruction is directed at improving the dancing, not the weather” - Russel L. Ackoff
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**?

In which are **values** most important?
From *managing* performance......

....to *enabling* performance
The world has changed – what about the way we lead and manage?

Business environment

- Dynamic
- Stable

People

"Theory X"

Traditional management

"Theory Y"
We must change both processes and leadership

Processes

Dynamic

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

Stable

- Rigid, detailed and annual
- Rules-based micro management
- Centralised command and control
- Secrecy, sticks and carrots

Leadership

- "Theory X"
- "Theory Y"

Beyond Budgeting
- more adaptive
- more human

- Values based
- Autonomy
- Transparency
- Internal motivation
Companies on the journey
## Beyond Budgeting
- the adaptive management model

### 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** |
Ambition to Action - purpose and process

- Translating strategy and managing risk
- Securing agility - room to act and perform
- Activating values and leadership principles

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

What are the risks?
- Identify
- Analyse
- Evaluate

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

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

What is my or our contribution?
- My/our Performance Goals
- Delivery
- Behaviour

Strategic objectives → Risks → Actions & forecasts → Indicators → Individual or team goals
# Shaping the future of energy

## Strategic Objectives

<table>
<thead>
<tr>
<th>Safety, security and sustainability</th>
<th>Risks</th>
<th>Actions</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>An industry leader in safety, security and carbon efficiency</td>
<td>Major accident</td>
<td>Enhance safety initiatives to accommodate a step change in safety</td>
<td>Serious incidents frequency (SilF) Serious HSE incidents</td>
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<td>Injury to personnel</td>
<td>Continued to implement 2020 Security roadmap with focus on compliance and competence development</td>
<td>Total recordable injury frequency (TRIF)</td>
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<td>Cyber-attack</td>
<td>Strengthen information security measures to safeguard Statoil’s information systems and assets</td>
<td>CO2 Intensity for the upstream portfolio</td>
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<td>Regulatory Framework related to climate</td>
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<td>Oil/gas leakage</td>
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<tr>
<th>People and organisation</th>
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<td>A values-based and high-performing organisation</td>
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<td>Workforce capabilities</td>
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<td>Company culture</td>
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<td>Business integrity</td>
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<th>Operations</th>
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<td>A driver of energy industry transformation</td>
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<td>Production</td>
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<td>Project execution</td>
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<td>Digitalization and efficiency</td>
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<th>Market</th>
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<td>A flexible and resilient energy portfolio</td>
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<td>Resource replenishment</td>
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<td>Energy transition</td>
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<td>Oil price</td>
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<td>Natural gas price</td>
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<th>Finance</th>
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<td>A cash generating, profitable and competitive company</td>
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<td>Robustness and Financial Flexibility</td>
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<td>Unstable regulatory and fiscal framework</td>
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<td>Competitive cost level</td>
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## Where are we going?

## What are the risks?

## How do we get there - managing the risks?

## How do we measure progress?
More than 600 Ambitions to Actions across the company

- **Alignment:** Through translation, not cascading

- **Rhythm:** - More business and event-driven than calendar-driven
A broader performance evaluation  
- from narrow measurement to a holistic assessment

Ambition to Action

“Pressure testing” KPI results:
• Deliver towards the strategic objectives?
• How ambitious KPI targets?
• Changed assumptions, with positive or negative effect?
• Which risks were taken?
• Delivered results sustainable?

Delivery

50/50

Behaviour

Living the values
• Day-to-day observations
• Global People Survey

• Development
• Rewards
1. The problems with traditional management
2. The Beyond Budgeting model
   Cases: Handelsbanken, Miles, Reitangruppen
3. The Borealis case
4. The Statoil case
5. Beyond Budgeting and Agile
6. Implementation advice

Want to learn more?

Wiley (US). Translated to Chinese, Japanese and Russian
Thank you for listening!

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Beyond Budgeting Round Table
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The innovation paradox

Technology innovation
- a very crowded place

Management innovation
- not yet a crowded place

Great!

Leading edge!
Unique!
Forefront!

Scary!

Same purpose: Better performance!