Beyond Budgeting - a management model for new business and people realities

Ambition to Action - the Statoil journey

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Chairman - Beyond Budgeting Roundtable Europe
Outline

• The case for change - what is the problem?
• The Beyond Budgeting principles
• The Statoil model - Ambition to action
Statoil in brief

- Turnover approx. 130 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
Budget problems

- Often weak link to strategy
- Very time consuming
- Decisions made too early and often too high up
- Assumptions quickly outdated
- Can prevent value adding activities
- “Accordion” forecasting horizon
- Often a bad yardstick for evaluating performance

Irritating itches - or symptoms of a bigger problem?
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?
The world has changed - what about the way we lead and manage?
We must change both processes and leadership

Processes

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

Leadership

- Values based
- Autonomy
- Transparency
- Internal motivation

"Theory X"

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

"Theory Y"

- Beyond Budgeting

Stable

Dynamic
Companies on a similar journey

Handelsbanken
The Beyond Budgeting principles

<table>
<thead>
<tr>
<th>Change in leadership</th>
<th>Change in processes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Values</strong> - Govern through a few clear values, goals and boundaries, <strong>not</strong> detailed rules and budgets</td>
<td><strong>7. Goals</strong> - Set relative goals for continuous improvement, <strong>don’t</strong> negotiate fixed performance contracts</td>
</tr>
<tr>
<td><strong>2. Performance</strong> - Create a high performance climate based on relative success, <strong>not</strong> on meeting fixed targets</td>
<td><strong>8. Rewards</strong> - Reward shared success based on relative performance, <strong>not</strong> on meeting fixed targets</td>
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<tr>
<td><strong>3. Transparency</strong> - Promote open information for self management, <strong>don’t</strong> restrict it hierarchically</td>
<td><strong>9. Planning</strong> - Make planning a continuous and inclusive process, <strong>not</strong> a top-down annual event</td>
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<tr>
<td><strong>4. Organization</strong> - Organize as a network of lean, accountable teams, <strong>not</strong> around centralized functions</td>
<td><strong>10. Coordination</strong> - Coordinate interactions dynamically, <strong>not</strong> through annual planning cycles</td>
</tr>
<tr>
<td><strong>5. Autonomy</strong> - Give teams the freedom and capability to act; <strong>don’t</strong> micro-manage them</td>
<td><strong>11. Resources</strong> - Make resources available as needed, <strong>not</strong> through annual budget allocations</td>
</tr>
<tr>
<td><strong>6. Customers</strong> - Focus everyone on improving customer outcomes, <strong>not</strong> on hierarchical relationships</td>
<td><strong>12. Controls</strong> - Base controls on relative indicators and trends, <strong>not</strong> on variances against plan</td>
</tr>
</tbody>
</table>
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>Separate</td>
<td>Improve</td>
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<tr>
<td>• Target</td>
<td></td>
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<tr>
<td>• Forecast</td>
<td></td>
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<tr>
<td>• Resource allocation</td>
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<tr>
<td>“Same number – conflicting purposes”</td>
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<tr>
<td>Target</td>
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<td>Target</td>
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<tr>
<td>What we want to happen</td>
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<td>Inspiring &amp; motivating</td>
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<tr>
<td>Forecast</td>
<td>Forecast</td>
<td>Relative where possible</td>
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<tr>
<td>What we think will happen</td>
<td></td>
<td>Holistic performance evaluation</td>
</tr>
<tr>
<td>Resource allocation</td>
<td>Resource allocation</td>
<td>Unbiased - expected outcome</td>
</tr>
<tr>
<td>“Different numbers”</td>
<td></td>
<td>Limited detail</td>
</tr>
</tbody>
</table>

“Event driven - not calendar driven”
Financial performance - as we define it

Shareholder Return

Return on Capital

Target: Above Peer Average

Target Top 1/3

Total
Repsol
Royal Dutch Shell
Statoil
ConocoPhillips
BP
Eni
ExxonMobil
BG
Chevron
Anadarko
Petrobras

-10% 0% 10% 20% 30% 40% 50% 60%

-25% -15% -5% 5% 15% 25% 35% 45% 55%
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

<table>
<thead>
<tr>
<th>Traditional cost budget</th>
<th>Absolute KPIs</th>
<th>Relative KPIs</th>
<th>If no KPIs found</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed and annual</td>
<td>Ambition level / burn rate</td>
<td>Unit cost input/output</td>
<td>Unit cost vs peers</td>
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</table>

- "USD/bbl"
- "USD/customer"
- "USD/employee"
- "1. quartile"
- "Better than average"
- EBIT
- RoACE (abs/rel)

1003,4

Select based on what works best in your business

Monitoring of actual development, intervention if needed only
Ambition to Action - purpose and process

- Translating strategy - from ambitions to actions
- Securing flexibility - 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

**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>Finance</th>
<th>Market</th>
<th>Operations</th>
<th>HSE</th>
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<tbody>
<tr>
<td>Where are we going?</td>
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<tr>
<td>&quot;Strategic objectives&quot;</td>
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<tr>
<td>How do we get there?</td>
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<tr>
<td>&quot;Actions&quot;</td>
<td></td>
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</tr>
<tr>
<td>How do we measure progress?</td>
<td>Key Performance Indicators</td>
<td></td>
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</table>
More than 1400 "Ambition to Action’s" across the company

.....and more
A broader performance language - 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?

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

Ambition to Action

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!
The CEO on Ambition to Action

We have a management model which is very well-suited to dealing with turbulence and rapid change. It enables us to act and reprioritise quickly so that we can fend off threats or seize opportunities. This is much more difficult in a traditional ‘budget world’.

One of the main principles in our Ambition to action concept is that Statoil consists of mature, professional and able people who both can and want to accept responsibility.

CEO Helge Lund
Questions or comments - now or later?

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Beyond Budgeting Round Table
www.bbrt.org
1. The problems with traditional management
2. The Beyond Budgeting model
3. The Borealis case
4. The Statoil case
5. Implementation advice

Want to hear more?

Out on Wiley (US)
Available from e.g. Amazon.co.uk

(Now available in Russian and Japanese)