Beyond Budgeting; business agility the C-level understand

- the Statoil implementation journey

Bjarte Bogsnes
Vice President - Performance Management Development
Chairman - Beyond Budgeting Roundtable Europe
Statoil in brief

- Turnover approx. 50 bn. USD
- 20,000 employees in 33 countries
- World’s largest operator in waters deeper than 100 metres
- Second largest gas exporter to Europe
- Large offshore wind player
- Listed in New York and Oslo

*Current production of oil and gas*
Shaping the future of energy

Competitive at all times

Transforming the oil and gas industry

Providing energy for a low carbon future
Who is in control?
Based on which information?

In which are values most important?
The world has changed - what about the way we lead and manage?

- Business environment
  - Dynamic
  - Stable
- Traditional management
  - "Theory X"
- People
  - "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 micromanagement
- Centralised command and control
- Secrecy, sticks and carrots

Leadership

"Theory X"

"Theory Y"

Beyond Budgeting
- more agile
- more human

- Values based
- Autonomy
- Transparency
- Internal motivation

Statoil
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*
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>• Less targets?</td>
</tr>
</tbody>
</table>

- **Same number** - conflicting purposes
- **Different numbers**
- **Event driven** - not calendar driven

**Step 1**
- Target: What we want to happen
- Forecast: What we think will happen
- Resource allocation: What it takes to make it happen

**Step 2**
- • Inspiring & stretching
- • VUCA robust
- • Less targets?
- • Unbiased - expected outcome
- • Limited detail
- • Dynamic - no detailed allocation
- • KPI targets, mandates, decision gates and decision criteria
- • Trend monitoring
Performance evaluation  
- from narrow measurement to a holistic assessment

**Ambition to Action**
- Development plan
- Rewards

**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?

50/50

**Living the values**
- Day-to-day observations
- 360° / 180° / 90° surveys
- People survey
Thank you for listening!

Questions or comments - now or later?

Bjarte Bogsnes
bjbo@statoil.com
+ 47 916 13 843
Twitter @bbogsnes

Beyond Budgeting Round Table
www.bbrt.org
Want to hear more?

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

Back-up
Financial performance - as we define it

Shareholder Return

Return on Capital

Target: Above Peer Average

Target: Top 1/3
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

**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
Managing cost - the mindset required.....
– cost conscious from the first penny

Do I have a budget for this?

*OK*

Is this really necessary?

- What is good enough?
- How much value is this creating?
- Is this within my execution framework?

- OK?
- OK?
- OK?
- OK?
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>
</tr>
<tr>
<td></td>
<td>&quot;USD/bbl&quot; &quot;USD/customer&quot; &quot;USD/employee&quot;</td>
<td>~1000</td>
<td>&quot;1. quartile&quot; &quot;Better than average&quot;</td>
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<td></td>
<td>1003,4</td>
<td></td>
<td></td>
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</table>

Select based on what works best in your business

Monitoring of actual development, intervention if needed only

Increasing autonomy and flexibility

Increasing need for strong values and clear direction