

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

## Ambition to Action - the Statoil journey

**Bjarte Bogsnes**

Vice President - Performance Management Development

Chairman - Beyond Budgeting Roundtable Europe

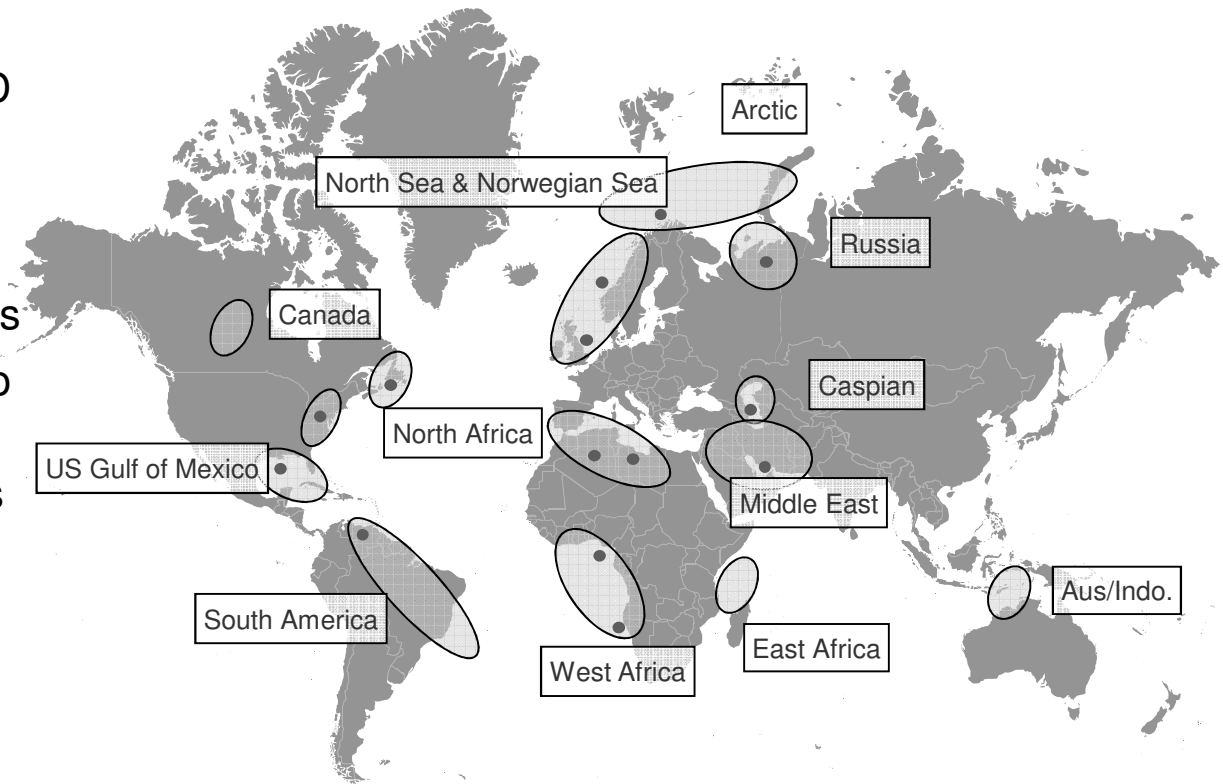


# Outline

- The need for management innovation
  - what is the problem?
- The Beyond Budgeting principles
- The Statoil model - Ambition to action

# Statoil in brief

- Turnover approx. 100 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

# What is Management Innovation?

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

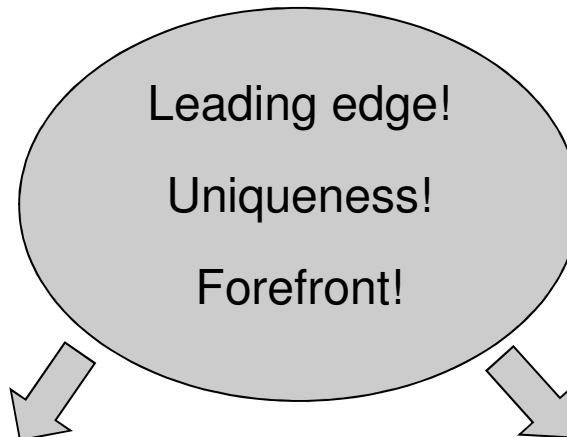
(Not management of innovation....)

# The innovation paradox

## Technology innovation

- a very crowded place

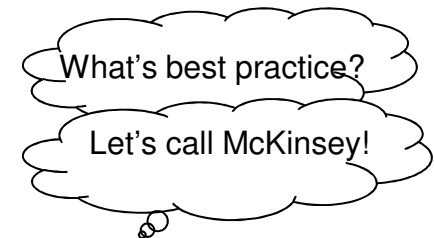
Great!



## 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?



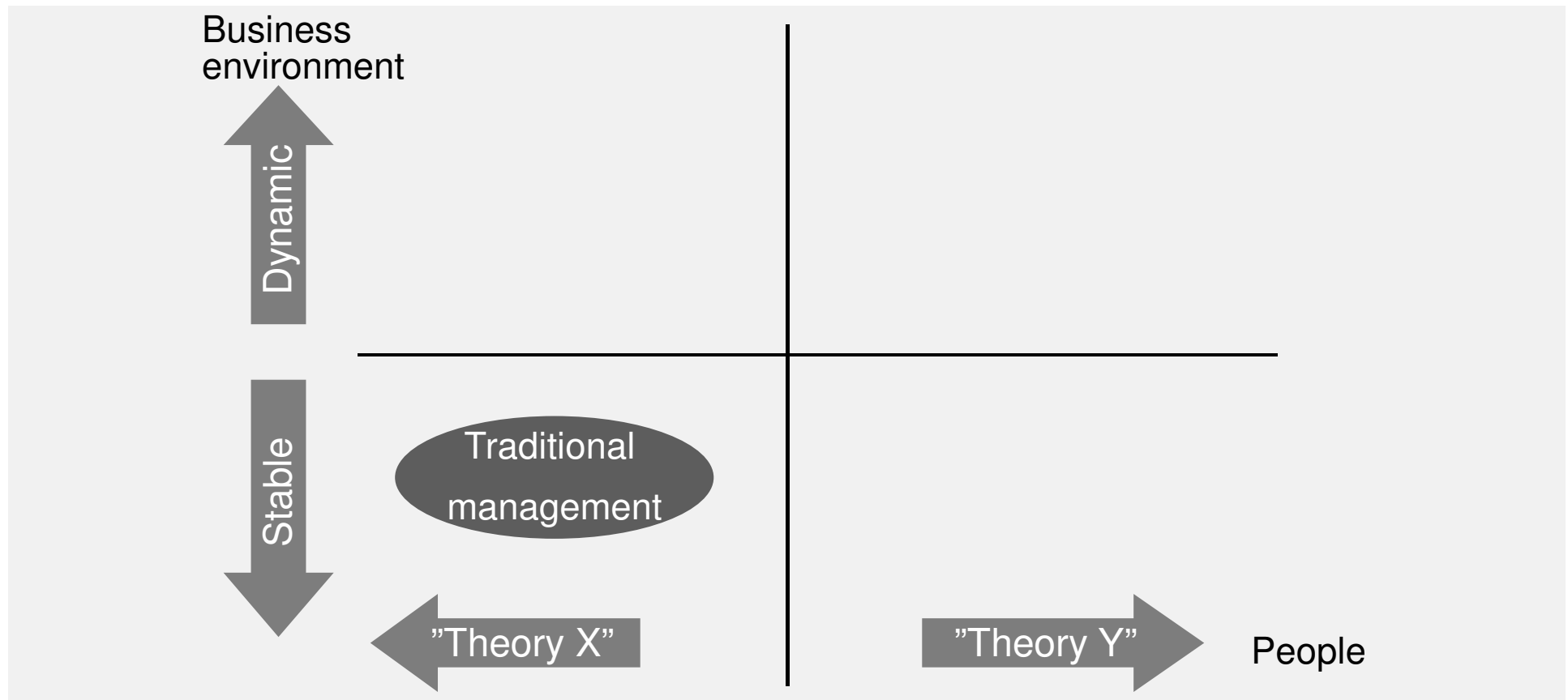
Which is most **efficient**?  
Which is most **difficult**?



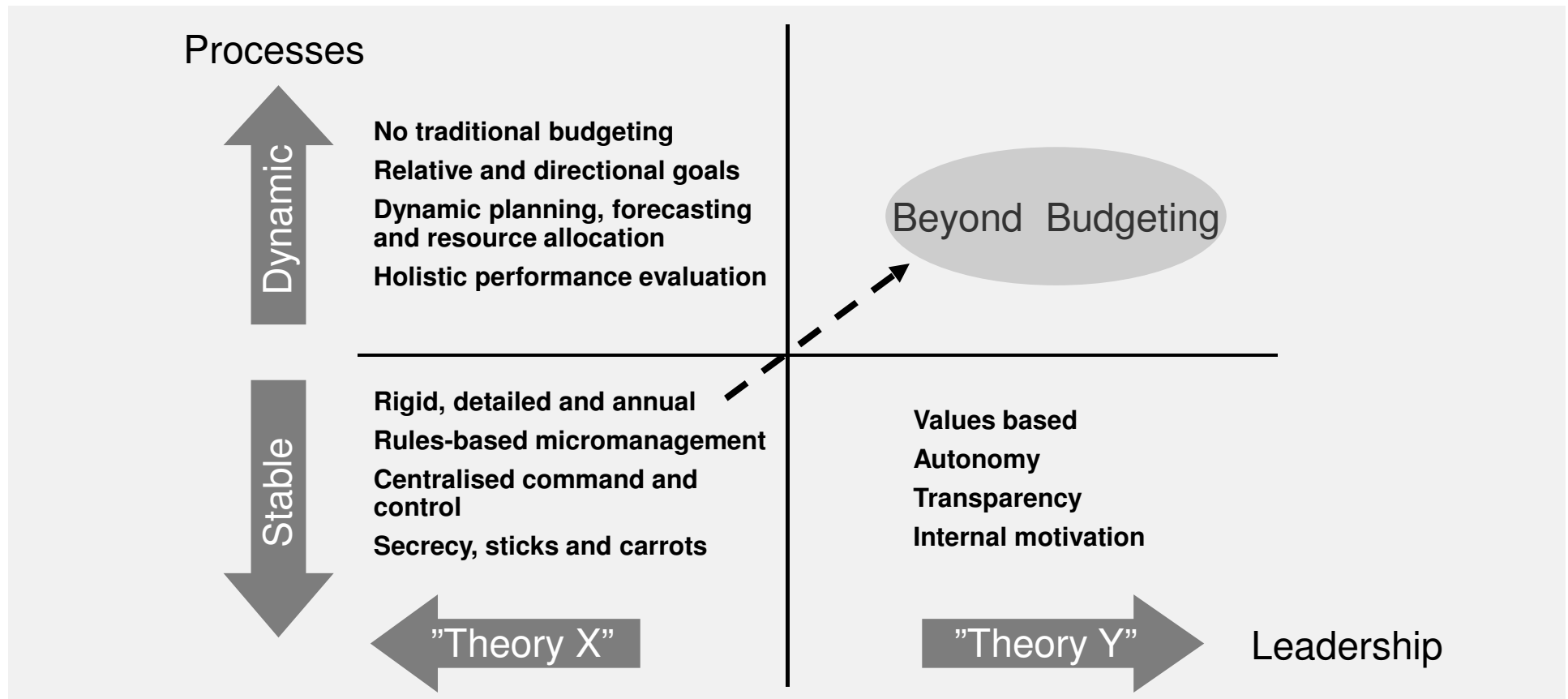
In which are **values** most important?



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



# We must change both processes and leadership



# Companies on a similar journey

## Handelsbanken



# The 12 Beyond Budgeting principles

## Change in leadership

### **Governance & transparency**

- 1. Values** – Bind people to a common cause; **not** to a central plan
- 2. Governance** – Govern through shared values and sound judgement; **not** detailed rules and regulations
- 3. Transparency** - Make information open and transparent; **don't** restrict and control it

### **Accountable teams**

- 4. Teams** - Organize around a seamless network of accountable teams; **not** around centralized functions
- 5. Trust** – Trust teams to regulate and improve their performance; **don't** micro-manage them
- 6. Accountability** – Base accountability on holistic criteria and peer reviews; **not** on hierarchical relationships

## Change in processes

### **Goals & rewards**

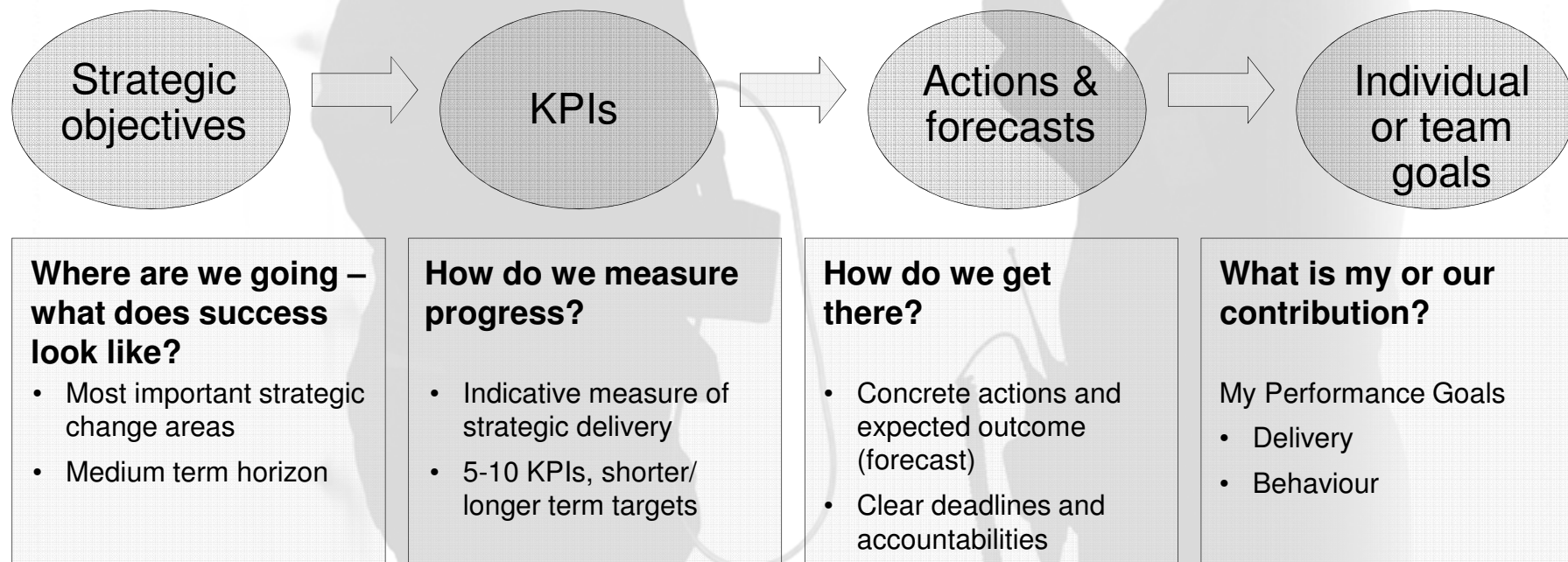
- 7. Goals** – Set ambitious medium-term goals; **not** short-term fixed targets
- 8. Rewards** – Base rewards on relative performance; **not** on meeting fixed targets

### **Planning & Controls**

- 9. Planning** - Make planning a continuous and inclusive process; **not** a top-down annual event
- 10. Coordination** - Coordinate interactions dynamically; **not** through annual budgets and planning cycles
- 11. Resources** - Make resources available as needed; **not** through annual budget allocations
- 12. Controls** - Base controls on fast, frequent feedback; **not** on budget variances

# 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>HSE</b>		
Health, safety and environment	Serious incident frequency	Implement learning from major external and internal incidents (31.12.11)
Industry value creation	Climate	Improve the quality of HSE risk management at all levels (01.12.11)
	TTS Observations and actions	Ensure technical integrity for major fields and wells (15.12.11)
		Fully implement our health and working environment strategy (25.12.11)
		Operationalise climate
<b>Operation</b>		
Operational and functional efficiency	PE NCS (Regulatory)	Deliver ramp-up of Leismer demo, Peregrino, Marcellus and Eagle Ford according to milestones (def.) (30.11.12)
Business and value chain 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 DGB (IPA) *	Deliver on technology programme to enhance value in the oil sands and Paleogene (01.03.12)
	Relative unit production	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, Luva 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?

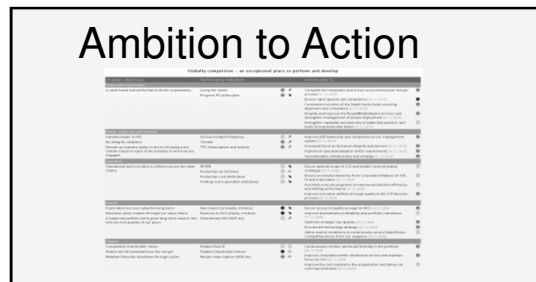
"Actions"

# More than 1400 "Ambition to Action's" across the company



# A broader performance language

- from narrow measurement to a holistic assessment

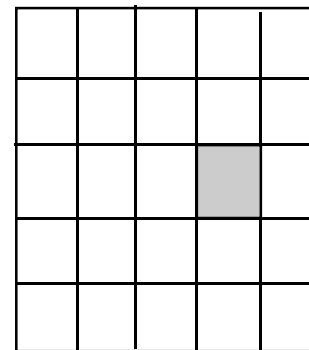


## Pressure testing KPI results:

- 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?



50/50



- Development plan
- Rewards

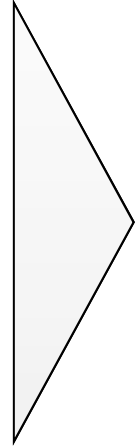
## Behaviour

### 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!

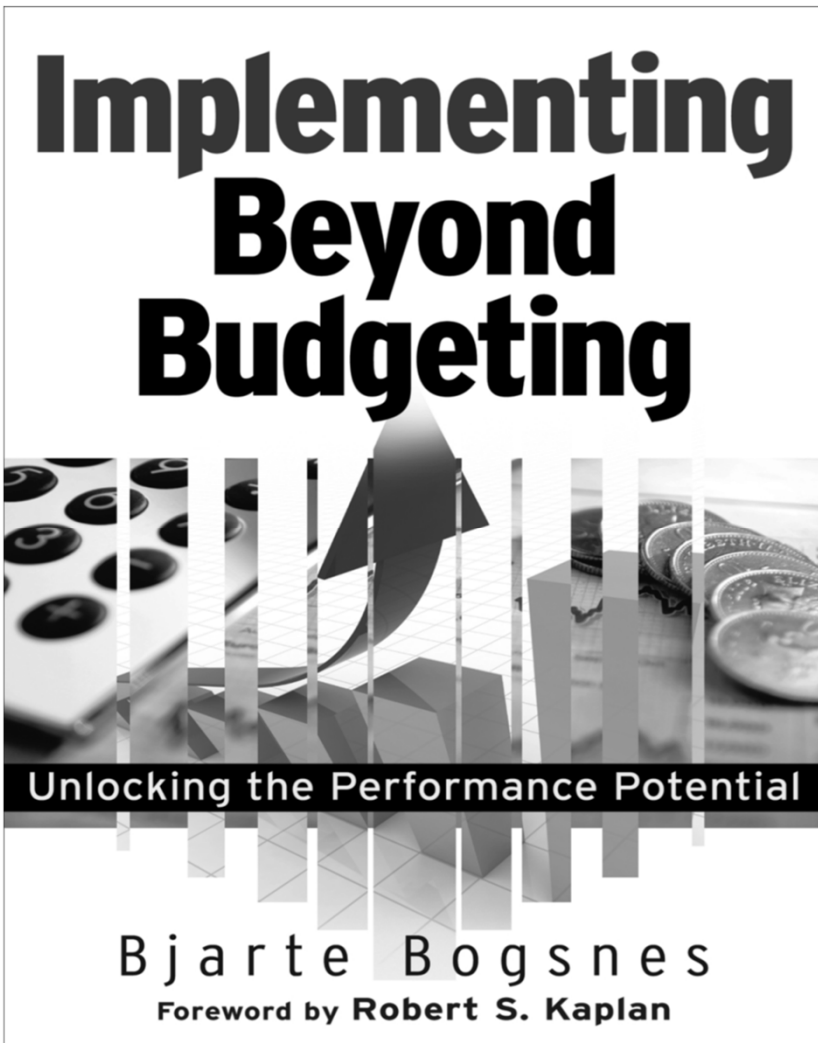
Questions or comments - now or later?

Bjarte Bogsnes  
[bjbo@statoil.com](mailto:bjbo@statoil.com)

+ 47 916 13 843

Twitter @bbogsnes

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. Implementation advice

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Available from e.g. Amazon.co.uk

(Available in Russian and Japanese.  
Chinese underway)

# Back up

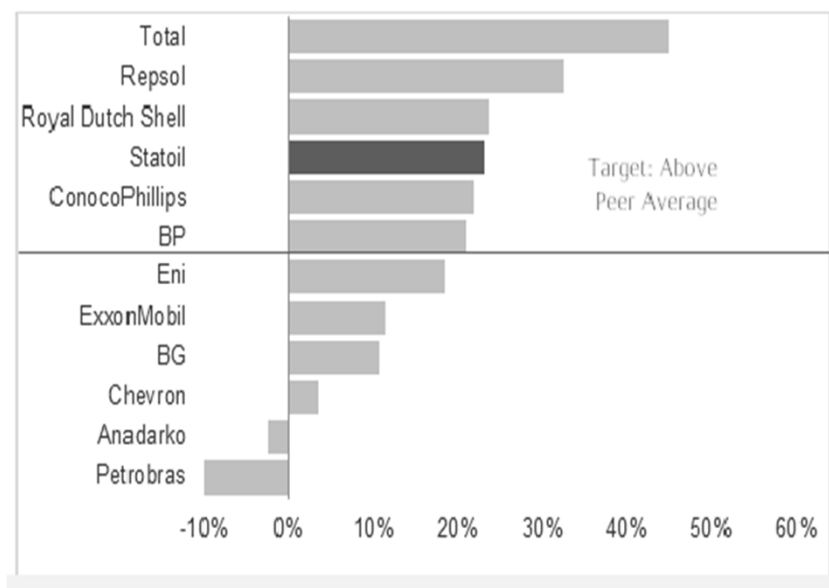
# Start of the Statoil journey

## - solving a serious budget conflict

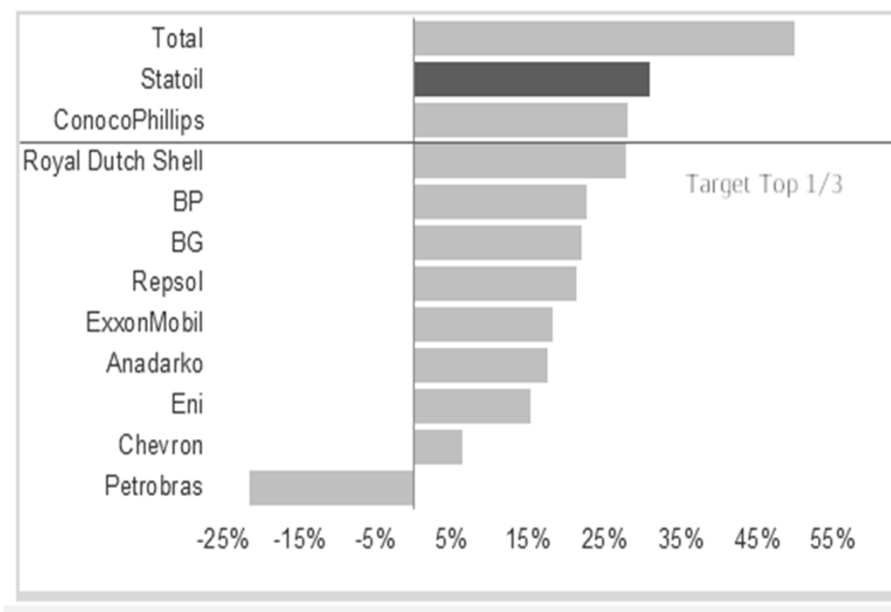
	Step 1	Step 2
The budget purposes	Separate	Improve
<p><b>Budget =</b></p> <ul style="list-style-type: none"> <li>• Target</li> <li>• Forecast</li> <li>• Resource allocation</li> </ul>	<div>  <p><b>Target</b> What we want to happen</p> </div> <div>  <p><b>Forecast</b> What we think will happen</p> </div> <div>  <p><b>Resource allocation</b> What it takes to make it happen</p> </div>	<ul style="list-style-type: none"> <li>• Inspiring &amp; stretching</li> <li>• VUCA robust</li> </ul> <ul style="list-style-type: none"> <li>• Unbiased - expected outcome</li> <li>• Limited detail</li> </ul> <ul style="list-style-type: none"> <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

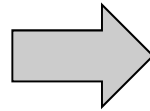
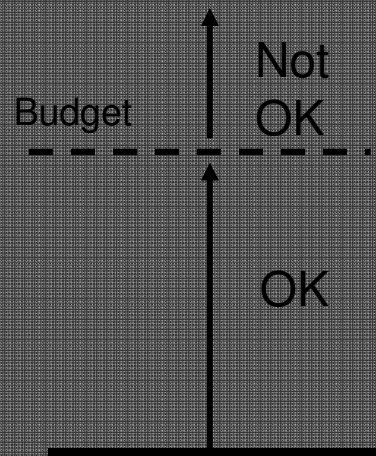


# The mindset required.....

- cost conscious from the first penny



Do I have a budget for this?

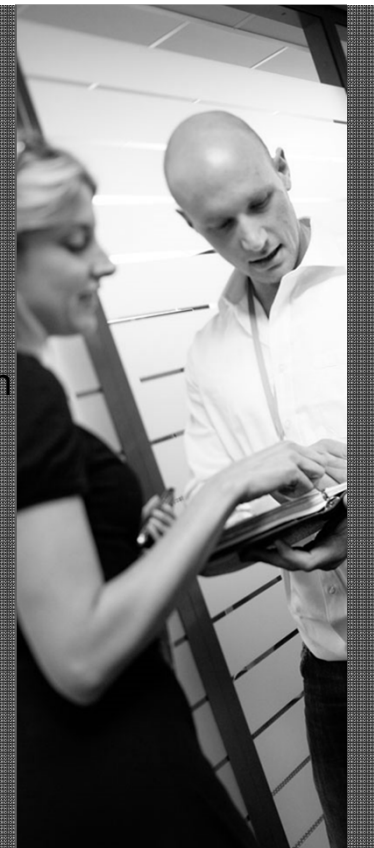
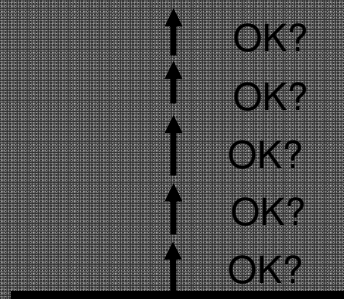


Is this really necessary?

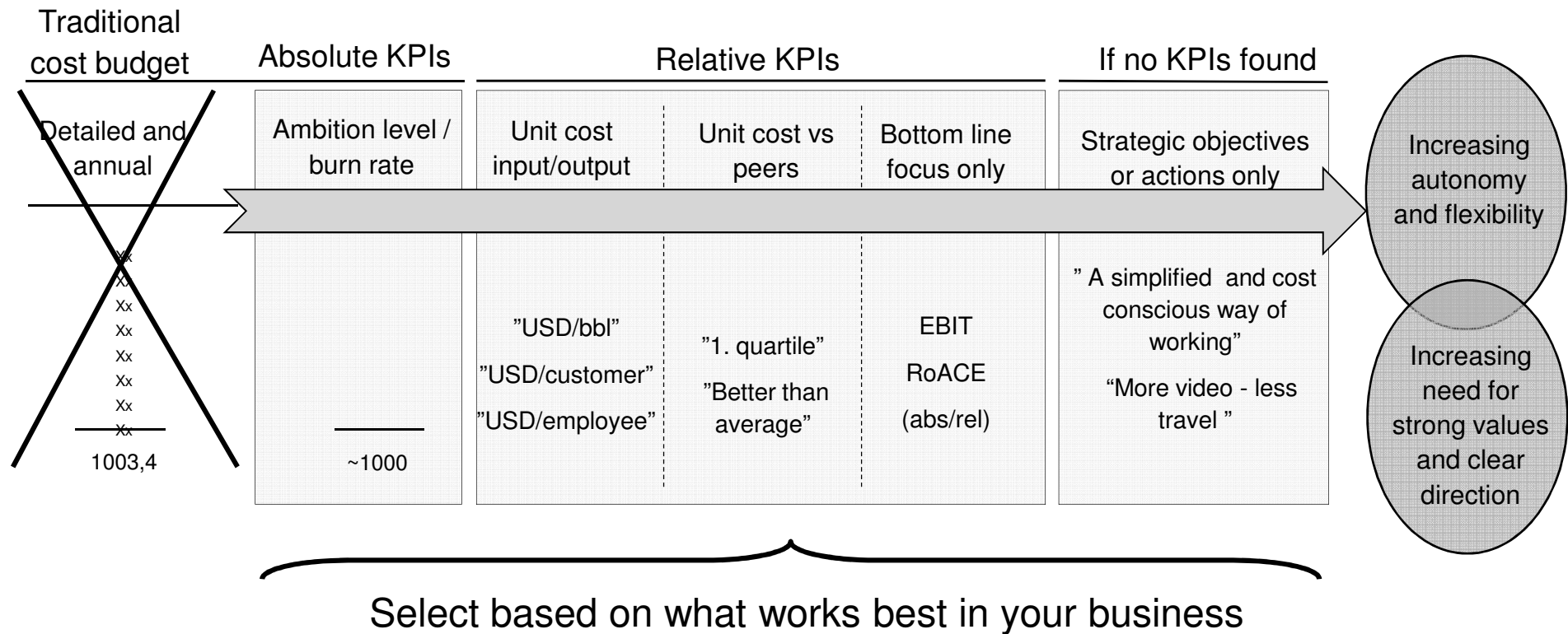
What is good enough?

How much value is this creating?

Is this within my execution framework?



# .....and the tools available



Monitoring of actual development, intervention if needed only