Beyond Budgeting from Command-and-Control to Empower and Adapt

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Short facts about Ekan

- Independent Management consultants
- Founded in 1985
- 40+ Management consultants
- Offices in Göteborg and Stockholm
- Official representative for Beyond Budgeting Institute in Sweden
We help businesses develop and evolve within their reality

Available resources  Goal  Spending plan
BUDGET  Guideline  Business plan
Forecast  Allocated funds
Five Budgeting myths..

1. No Budget = Chaos and Overspend
2. Good Performance = Hitting the Budget Numbers
3. No individual Bonus = No performance
4. More Detail = More Quality
5. Need to Know = Enough to Know

The process

1. Separate
   - Target
     - What we want to happen
   - Forecast
     - What we think will happen
   - Resource allocation
     - Based on RoI
   - Same number – conflicting purposes

2. Improve
   - Target
     - Ambitious
     - Relative where possible
     - Holistic performance evaluation
   - Forecast
     - Unbiased – the expected outcome
     - Limited details
   - Resource allocation
     - Dynamic – no annual allocation
     - Mandates, decisions, criteria
     - Trend monitoring
   - Different numbers
   - Event driven – not always annually

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An inherent conflict
Power balance

The fiscal year
Administrative task

Cost control & variance
analysis
Co-ordination
4 arguments for going Beyond Budgeting

Uncertainty
Volatility
Uncertainty
Complexity
Ambiguity

Economy
Globalization
Market shift
(De-)regulations
Competition

Technology
Digitization
Transparency
Speed of change

Demography
Generation shift
Globalization
Demographic shifts
Lack of talents
Beyond Budgeting is about Management innovation

Based on "Potential for long term advantage", J. Birkinshaw
Beyond Budgeting is about creating AGILE & VALUE BASED Organizations

- Target setting
- Forecasting
- Decision & resource allocation
- Leadership
- Motivation and incentives
- Organization
- Responsibility
- Culture
- Trust
- Transparency
- Values
- Coordination
- Management control system & -process
Create a link between Resource allocation and the Decision process

SIBUR DEVELOPED A COMPREHENSIVE SET OF PLANNING TOOLS

<table>
<thead>
<tr>
<th>Horizon</th>
<th>Type of planning</th>
<th>Document</th>
<th>Updates frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>Corporate Strategy</td>
<td>Strategic 5-year business plans (consolidated and BUs)</td>
<td>Every 2 years</td>
</tr>
<tr>
<td>Crossroads</td>
<td>Business</td>
<td>Annual business-plans (consolidated, BUs, plants)</td>
<td>Annually</td>
</tr>
<tr>
<td>&amp; investments</td>
<td></td>
<td>Functional contracts (corporate functions)</td>
<td></td>
</tr>
<tr>
<td>Response</td>
<td></td>
<td>Material balance and EBITDA forecast</td>
<td>Monthly</td>
</tr>
<tr>
<td>handling</td>
<td></td>
<td>Liquidity forecast</td>
<td>Every fortnight</td>
</tr>
<tr>
<td>Proactive</td>
<td></td>
<td>Payments schedule</td>
<td>Weekly</td>
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<tr>
<td>reactive</td>
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WHO? What is involved?
HOW? How do we manage this?
WHEN? When is it due?
Decentralize and put the customer in focus

- Focus on leadership and organization
- From function oriented to customer oriented
- Changed work design, roles and measures (employee turnover etc)
- From competition to collaboration – group bonuses
- “From making things to providing service”
• Building a value-based organization
• Working with behavior, leadership style and roles
• Working with trends, rolling forecasts
• No “noice” between strategy and operations
• More focus on actions and making the profit, than being aligned with a yearly plan.

**Ambition**

- Making good decisions
- Understanding role and direction
- Ambition
- No freedom

- Making bad decisions
- Doubt about role and direction
- Passive, waiting for tasks
- Making no decisions

Can, but do not dare to take decisions
Rolling forecast, follow-ups and relative targets

- Budget was not in line with reality.
- Worked with finding "Key Value Drivers"
- Relative KPIs and “Performance League” – market share, gross margin, indirect costs/sales and service sales/Number of trucks sold
- Rolling forecast – and using trends to monitor progress
- Separation between ambitions and forecast
Problems & Challenges

Budget next year =
budget this year + forecast next year

If you are good at forecasting, and spend all you got,
You will (with high probability)
Receive all you ask for the following year.

• Volatil business environment
• Targets obsolete before the year begun
• No incentives to spend less

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