

Agile Transformation and the Elephant in the Room

Bjarte Bogsnes
Chairman Beyond Budgeting Roundtable
Founder Bogsnes Advisory

The illusion of control

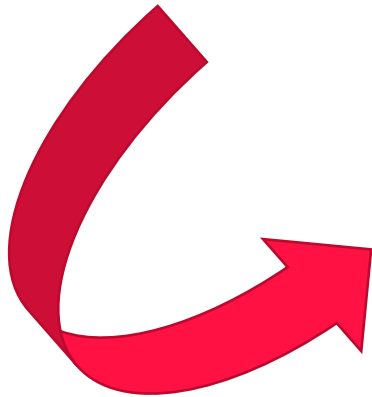
The definition

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



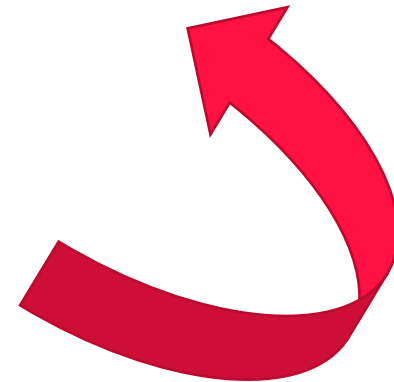
The grand illusion

- 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





The innovation paradox

Technology innovation

- a very crowded place



Management innovation

- not yet a crowded place

Great!

Scary!

Same purpose: Better performance!

Budget problems



Very time consuming



Assumptions quickly outdated



Stimulates unethical behaviours



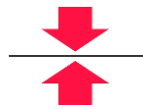
Creates illusions of control



Decisions made too early and often too high up



Can prevent value adding activities



Not just a ceiling for cost, also a floor



Often a bad yardstick for evaluating performance



Conflicting purposes

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?

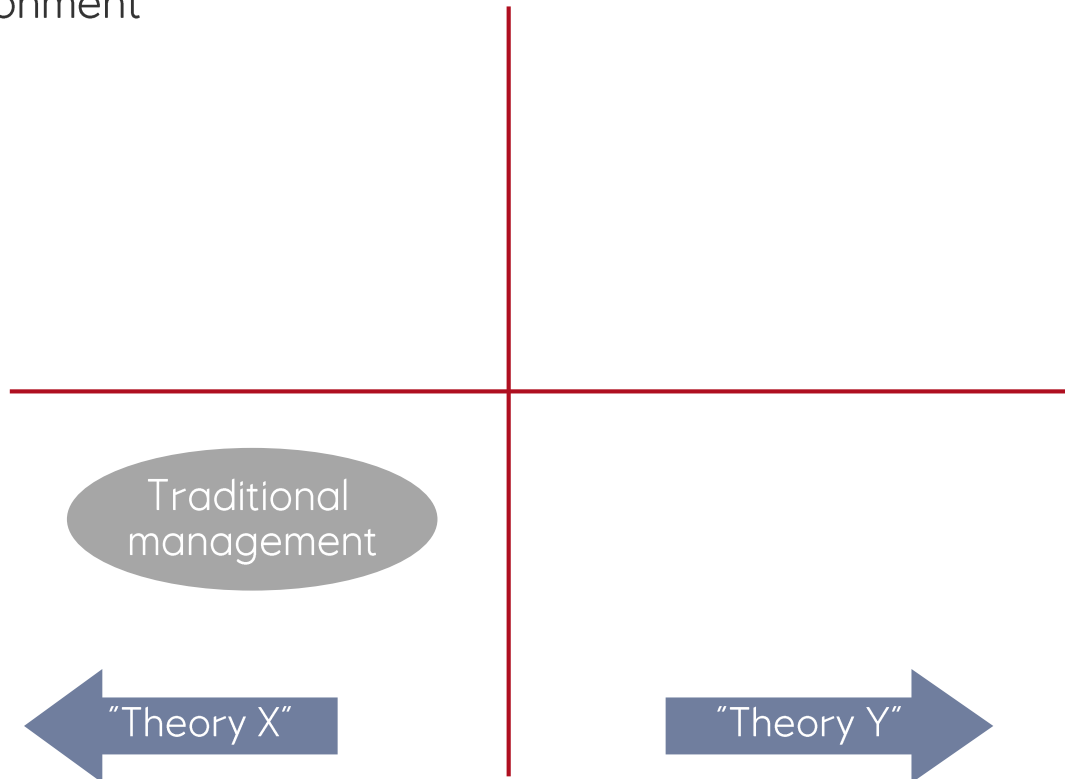
From *managing* performance.....



....to *enabling* performance

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

Business environment



Traditional management

"Theory X"

"Theory Y"

People

We must change both processes and leadership

Processes



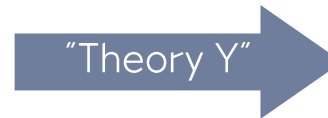
No traditional detailed budgets
Relative and directional goals
Dynamic planning, forecasting
and resource allocation
Holistic performance evaluation



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



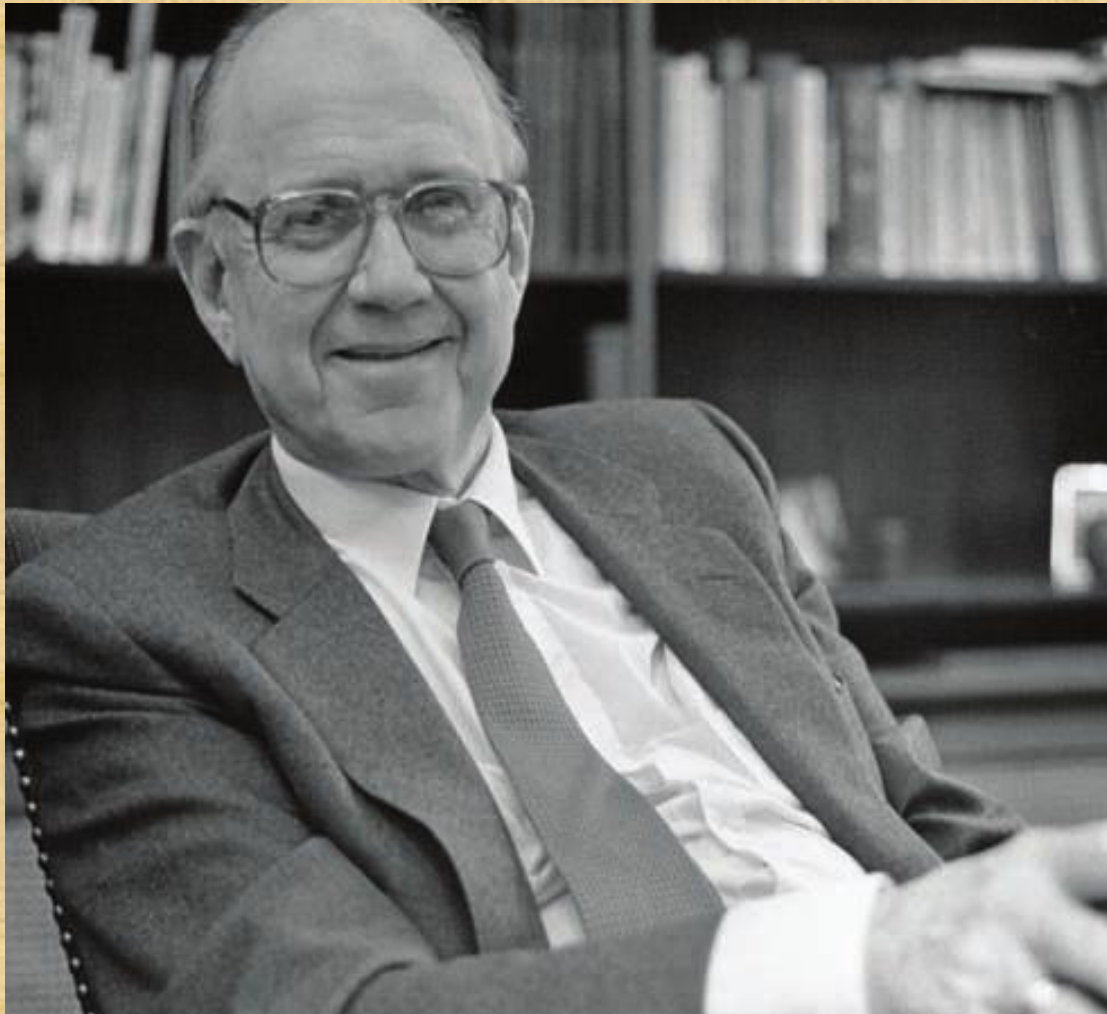
Purpose and values based
Autonomy
Transparency
Internal motivation



Leadership

Companies on the journey





Jan Wallander – former CEO
Handelsbanken (RIP)

«The budget is
in the best case,
totally
unnecessary,
and in the worst
case, **actively**
harmful»

Beyond Budgeting

Performance. The Right Way.

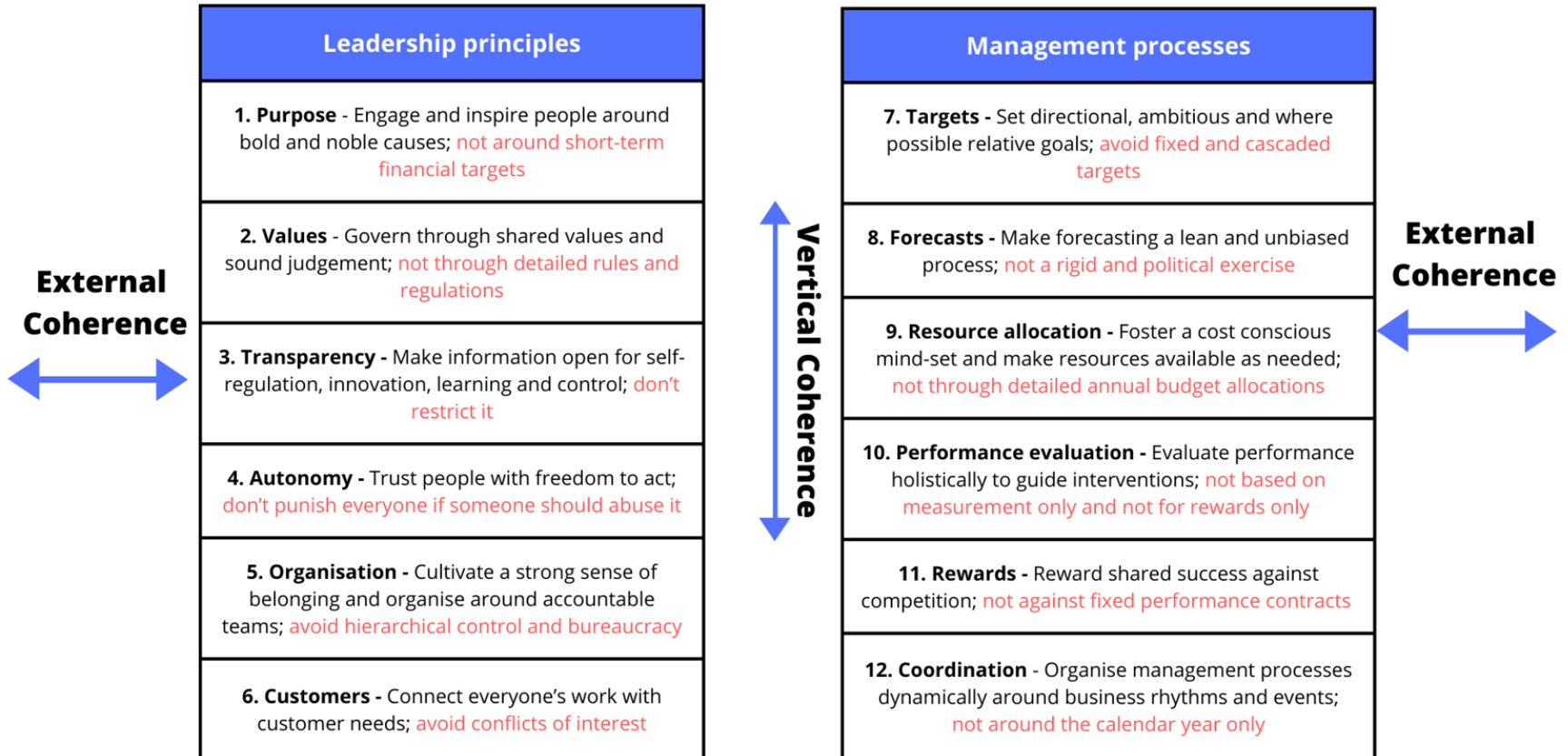
Leadership principles

- 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. Autonomy** - Trust people with freedom to act; **don't** punish everyone if someone should abuse it
- 5. Organisation** - Cultivate a strong sense of belonging and organise around accountable teams; **avoid** hierarchical control and bureaucracy
- 6. Customers** - Connect everyone's work with customer needs; **avoid** conflicts of interest

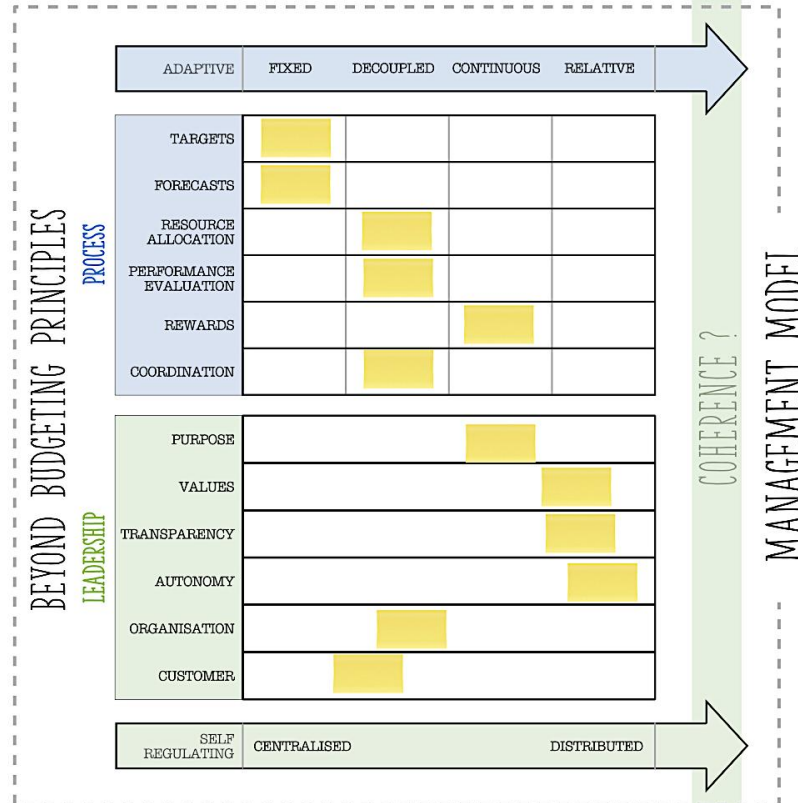
Management processes

- 7. Targets** - Set directional, ambitious and relative goals; **avoid** fixed and cascaded targets
- 8. Forecasts** - Make forecasting a lean and unbiased process; **not** a rigid and political exercise
- 9. Resource allocation** - Foster a cost conscious mind-set. Plan and make resources available as needed; **not** through detailed annual budget allocations
- 10. Performance evaluation** - Evaluate performance holistically to guide interventions; **not** based on measurement only and **not** for rewards only
- 11. Rewards** - Reward shared success against competition; **not** against fixed performance contracts
- 12. Coordination** - Organise management processes dynamically around business rhythms and events; **not** around the calendar year only

Horizontal Coherence

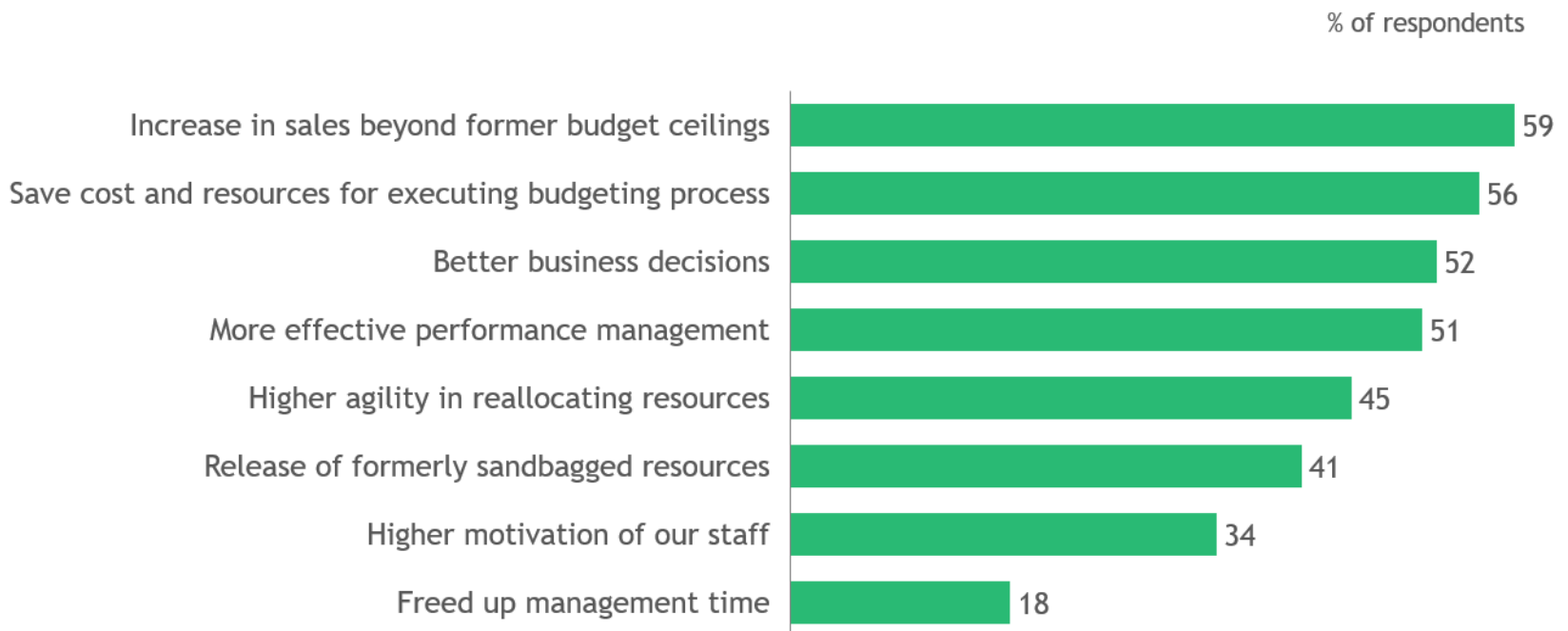


ENVIRONMENTAL CONTEXT

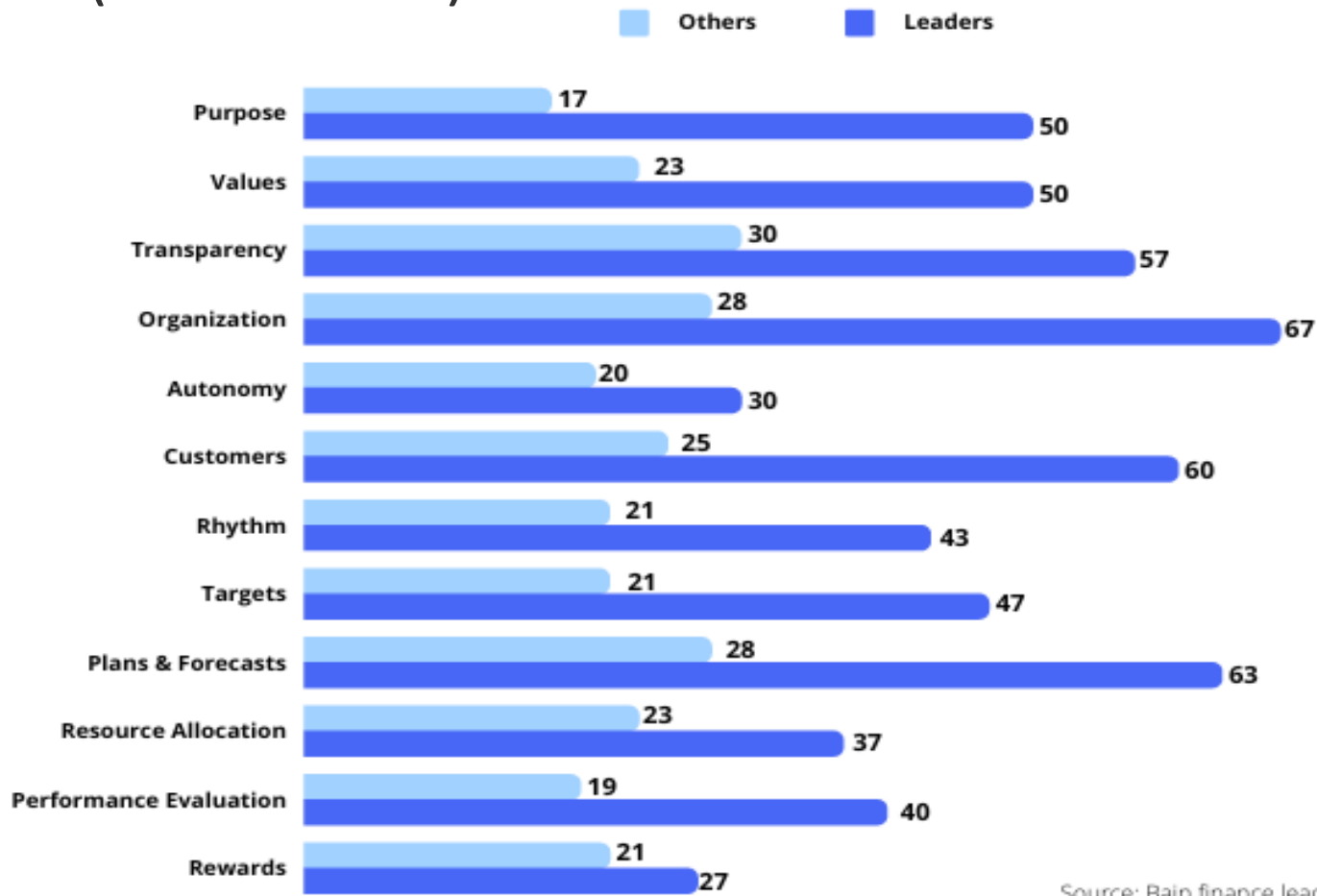


PEOPLE CONTEXT

Beyond Budgeting: Practitioners see significant benefits (Source BCG)



Leading firms in financial planning are much more likely to apply the Beyond Budgeting principles (source Bain)



Source: Bain finance leaders survey, February 2022 (n=236)

Percentage of respondents that strongly agree that they adhere to these principles

Getting started - solving the budget conflict

The budget purposes

- Target
- Forecast
- Resource allocation



1. Separate

2. Improve



Target

What we want to happen

- An aspiration
- Inspiring & stretching
- VUCA robust



Forecast

What we think will happen

- An expectation
- Unbiased - expected outcome
- Limited detail



Resource allocation

What it takes to make it happen

- Dynamic - no detailed allocation
- KPI targets, mandates, decision gates and decision criteria
- Trend monitoring

Same number - conflicting purposes

Different numbers

Event driven - not calendar driven

A target is not the target



The target is the best possible performance - given the circumstances

Target setting is just one way of achieving this (and not always the best)

A target:

What does good performance look like 12 months down the road?



When do we know
best – before or
after?

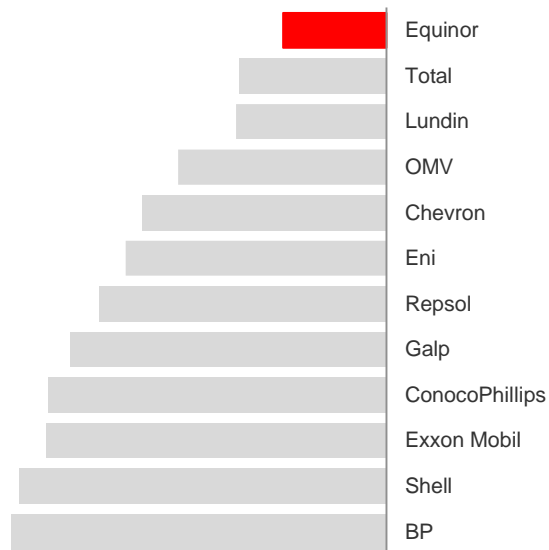


Goodhart's law

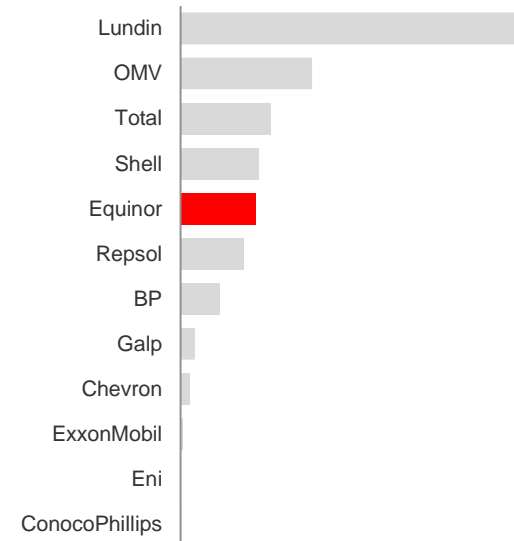
When a measure
becomes a
target, it ceases
to be a good
measure.

Financial performance – as Equinor defines it

Shareholder
return - 2020




Return on capital
employed - 2020





The **Budget** way - a **fixed number** of fuel cans **delivered once a year**

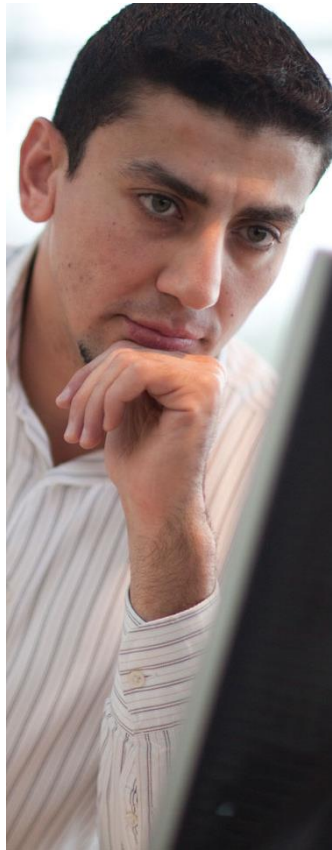


A large, blue, industrial pipeline runs across a grassy, mountainous landscape. The pipeline is supported by concrete pillars and extends into the distance. In the background, there are snow-capped mountains and a valley. The sky is bright and clear.

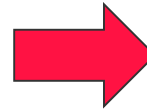
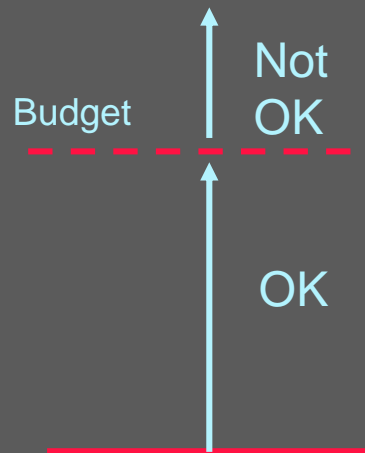
The **Beyond Budgeting** way - a more **constant & dynamic flow** - volume consumed **regulated by** produced **output**

Managing cost - the mindset required.....

– cost conscious from the first cent



Do I have a budget for this?

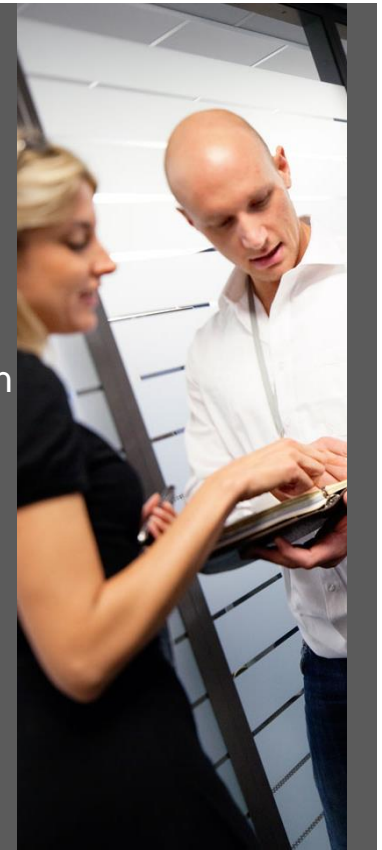
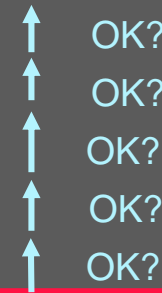


Is this really necessary?

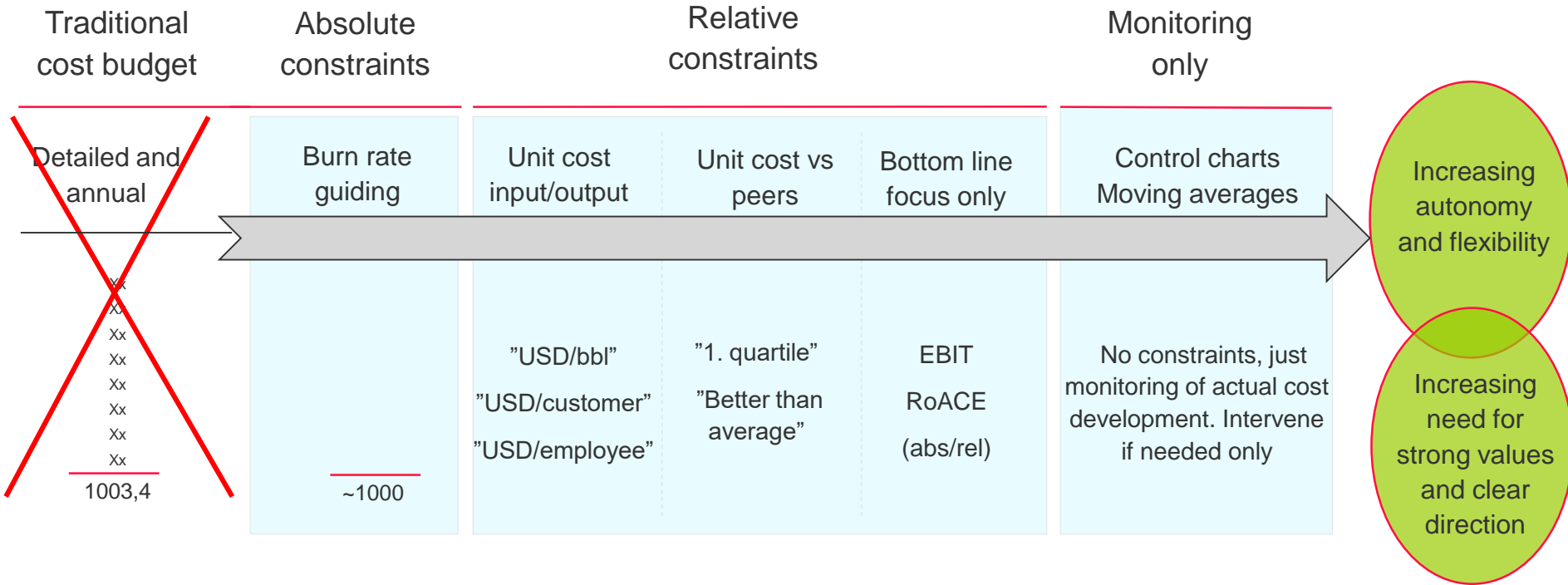
What is good enough?

How much value is this creating?

Is this within my execution framework?



Tools for cost management



Supported by decision authorities and spending guidelines

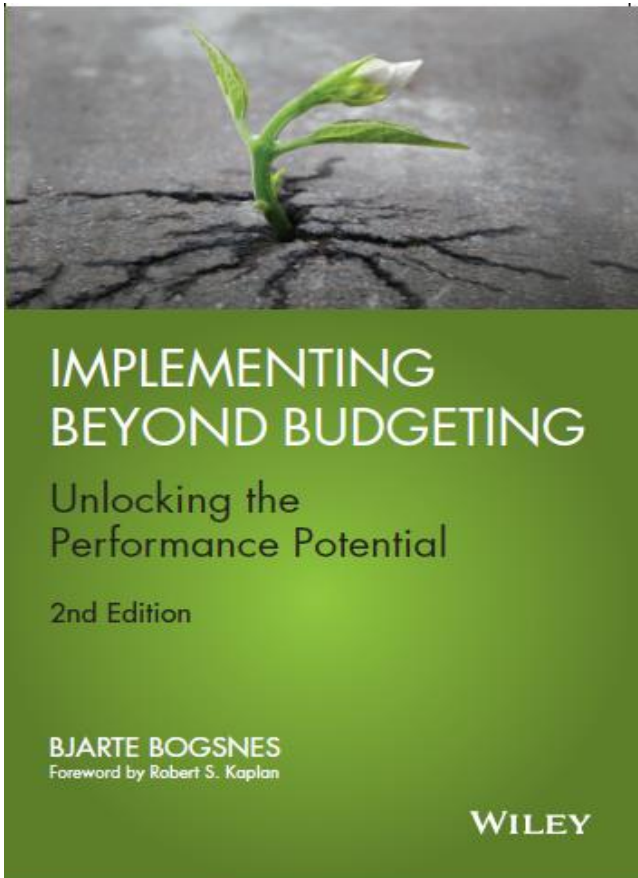
Thank you
for listening!

bjarte@bogsnesadvisory.com

Check me out on Twitter and LinkedIn

bogsnesadvisory.com

Beyond Budgeting Round Table - bbrt.org



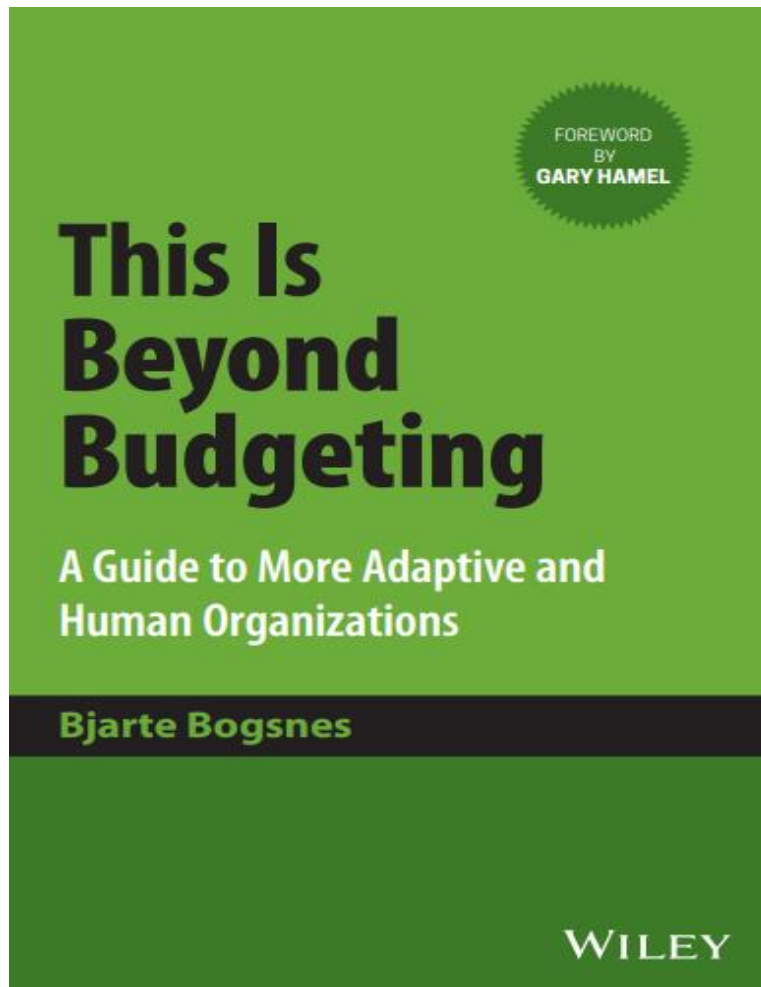
Want to hear more?

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

Wiley (US). Translated to Chinese, Japanese and Russian

"At last, Bjarne Bogsnes has made his experience and enthusiasm for Beyond Budgeting available for a wider audience with this remarkable book. I have appreciated his engagement in these important management issues for many years, and his knowledge and leadership has been critical in the transformation of our organization."

-Eldar Sætre, former CFO/CEO Equinor



January 2023

Foreword by
Gary Hamel

Implementation advice

- The Change Formula
- The case for change
- A compelling risk picture
- Up with the umbrella
- The Viable Map
- Start with purpose separation
- Design to 80% and jump
- Finance and HR
- Nobody can do it for you

The Change Formula

$$D_{\text{issatisfaction}} \times V_{\text{ision}} \times F_{\text{irst steps}} > R_{\text{esistance}}$$

A target is not the target



The target is the best possible performance - given the circumstances

Target setting is just one way of achieving this (and not always the best)

A target:

What does good performance look like 12 months down the road?



When do we know
best – before or
after?



Goodhart's law

When a measure
becomes a
target, it ceases
to be a good
measure.

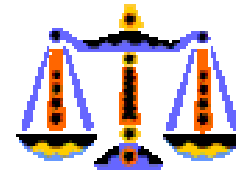
A surreal illustration of a man in a black suit and white shirt, seen from behind, aiming a bow and arrow towards a target in the sky. The target is a circular bullseye with concentric rings of yellow, red, blue, and black, set against a bright blue sky with white, fluffy clouds. The man is positioned in the lower-left corner, and the target is in the upper-right corner. The overall scene is a metaphor for setting ambitious goals.

Why set ambitious targets.....

...when it only
reduces my
chance of hitting
them?

Relative performance

- Connect input with output



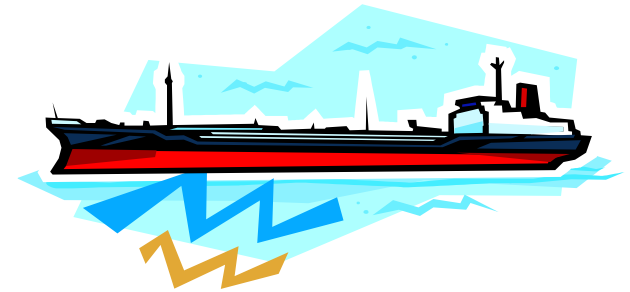
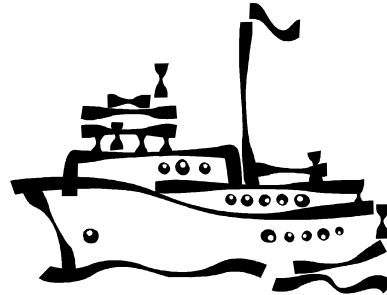
and/or

- Compare with others



Should all have the same radar screen?

Same reach - same resolution?



Oil trading, M&A

Bus.Dev., Retail, GBS

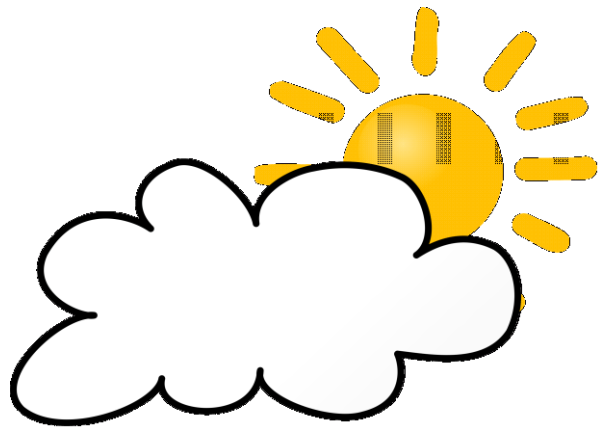
Exploration, project development

We need a dynamic forecasting process which reflects the variation in business rhythms and lead times.

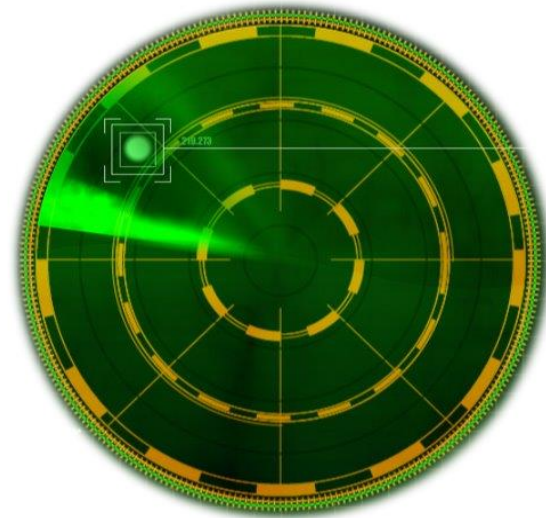
Does not mean *more* forecasting – but better; done at the right time with the right time horizon

Can we measure forecasting accuracy?

Yes

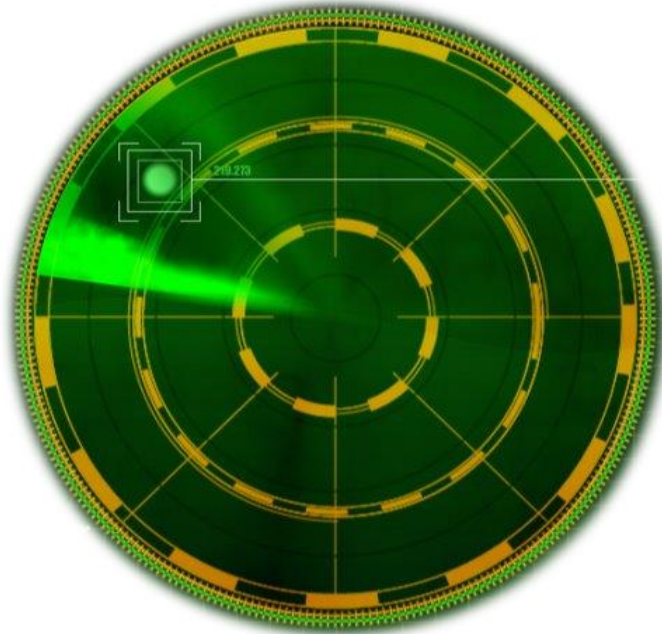
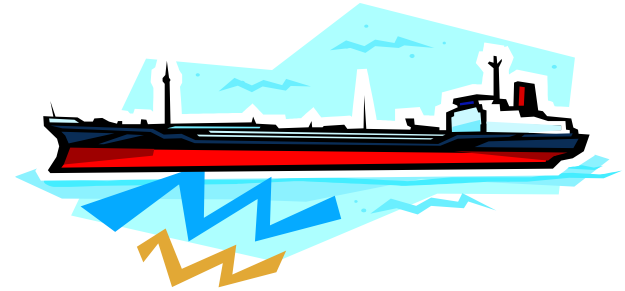


....and no



Remember the purpose of forecasting

Get issues on the radar screen early enough
to be able to act

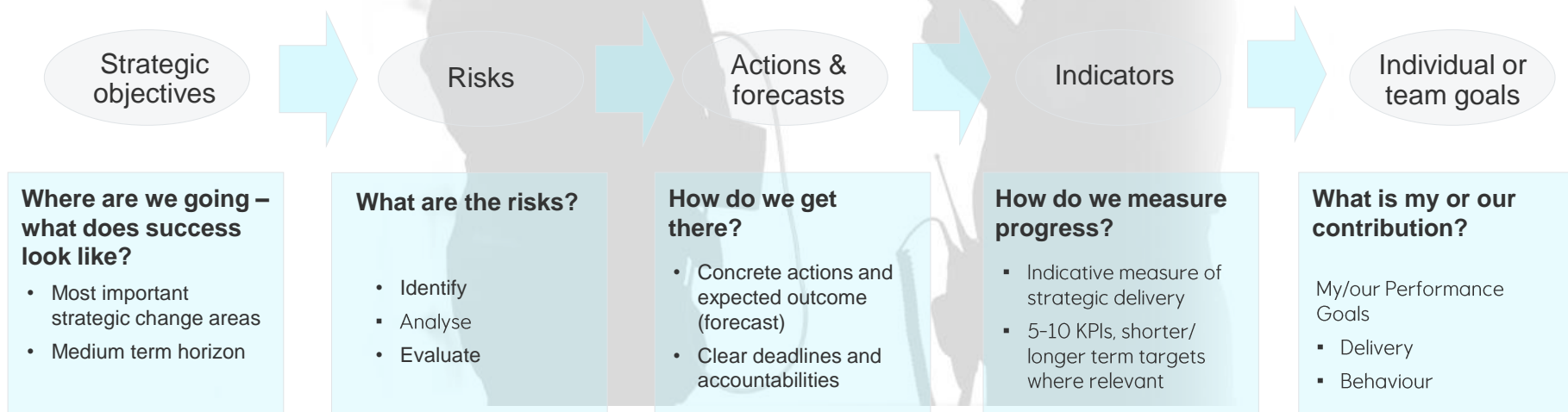


Forecasting - compensating for lack of agility?



Ambition to Action - purpose and process

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



Shaping the future of energy

STRATEGIC OBJECTIVES

Safety, security and sustainability

An industry leader in safety, security and cost-to-own efficiency

Where are we going?

People and organisation

A values-based and high-performing organisation

Operations

A driver of energy industry transformation

Market

A flexible and resilient energy portfolio

Finance

A cash generating, profitable and competitive company

RISKS

Major accident
Injury to personnel
Cyber-attack
Regulatory framework related to climate

What are the risks?
Workforce capabilities
Corporate governance
Business integrity

Production
Project execution
Digitalization and efficiency

Resource replenishment
Energy transition
Oil price
Natural gas price

Robustness and Financial Flexibility
Unstable regulatory and fiscal framework
Competitive cost level

ACTIONS

Enhance safety initiatives to accommodate a step change in safety
Continue to implement 2020 security roadmap with focus on compliance and competence development
Strengthen information security measures to safeguard Statoil's information systems and assets

Strengthen people development through learning and deployment
Support new initiatives through cultural, leadership and culture

How do we get there - managing the risks?
Optimise production to maximise value creation
Develop and implement production attainment
Drive efficiency and cost control through digitalisation and Lean implementation

Access, mature and drill high quality prospects
Highgrade the portfolio, and strengthen core areas through attractive BD opportunities

Ensure sufficient financial capacity
Secure trust, support and a strong reputation among key stakeholders (continued)
DPUSA 90-50

INDICATORS

Serious incidents frequency (SIF) Serious HSE incidents
Total recordable injury frequency (TRIF)
CO2 intensity for the upstream portfolio
Oil-/gas leakage

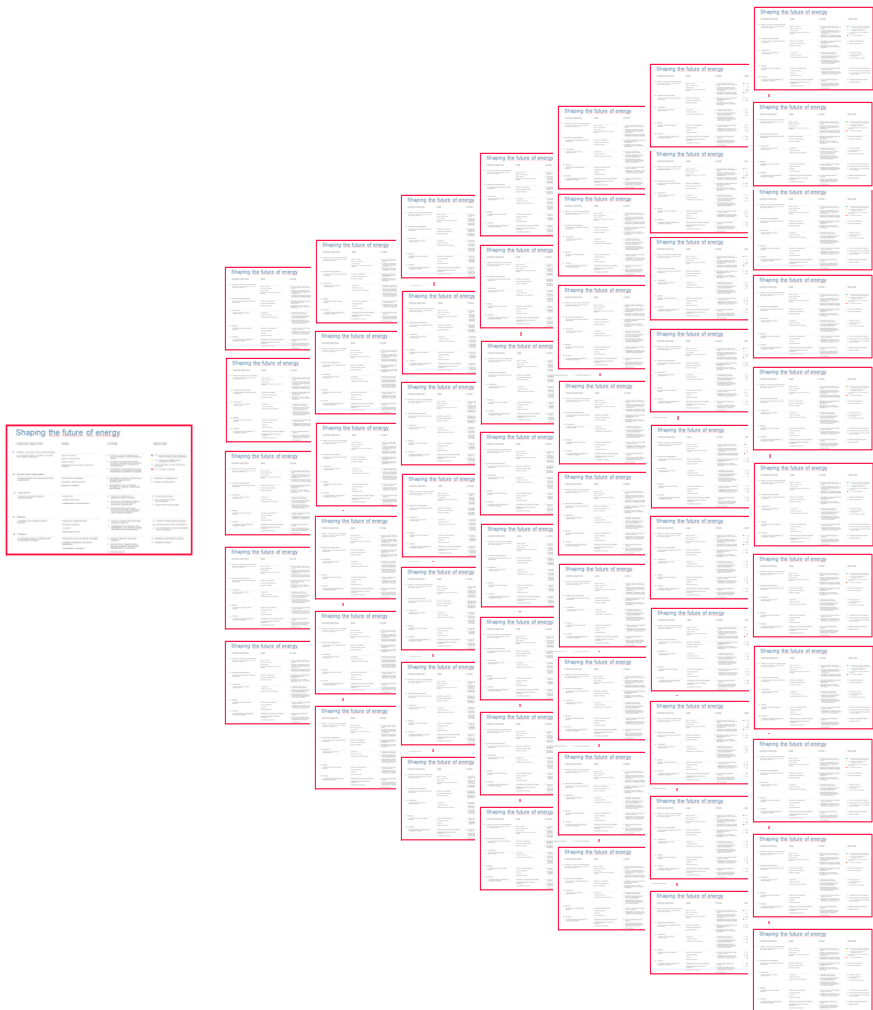
Employee Engagement
People Development

How do we measure progress?
Production Equity
cec PRODUCTION EFFICIENCY
cec RESERVE REPLACEMENT RATIO (RRR)
cec RESOURCE REPLACEMENT
cec RESERVE REPLACEMENT RATIO (RRR)

Relative Shareholder Return
Relative RoACE



More than 900 Ambitions to Actions across the company



- **Alignment:** Through translation, not cascading
- **Rhythm:** - More business and event-driven than calendar-driven

Performance evaluation at Equinor

- from narrow measurement to a holistic assessment

Ambition to Action

Shaping the future of energy

STRATEGIC OBJECTIVES	RISKS	ACTIONS	INDICATORS
<p>01. Develop, commercialize and sustainably manage our energy assets</p> <p>02. Provide clean energy solutions</p> <p>03. Operate safely</p> <p>04. Maximize shareholder value</p> <p>05. Promote our people and communities</p>	<p>Market volatility</p> <p>Operational risks</p> <p>Financial risks</p> <p>Reputation risks</p> <p>Regulatory risks</p> <p>Human resources risks</p> <p>Environmental risks</p> <p>Technology risks</p>	<p>Investment in new energy assets</p> <p>Production of oil, gas and renewable energy</p> <p>Operational performance</p> <p>Financial performance</p> <p>Health, safety and environment (HSE) performance</p> <p>Employee engagement</p> <p>Community relations</p> <p>Shareholder value</p>	<p>Oil and gas production</p> <p>Renewable energy production</p> <p>Operational performance</p> <p>Financial performance</p> <p>HSE performance</p> <p>Employee engagement</p> <p>Community relations</p> <p>Shareholder value</p>

D
e
l
i
v
e
r
y

50/50

B
e
h
a
v
i
o
u
r

“Pressure testing” KPI results:

- Deliver towards the strategic objectives?
- How ambitious KPI targets?
- Change in assumptions, headwind/tailwind?
- How was risks handled?
- Delivered results sustainable?

Living the values

- Day-to day-observations
- Global People Survey

- Development
- Rewards

