Business Agility in practice
- an introduction to Beyond Budgeting

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Equinor
Chairman-Beyond Budgeting Roundtable
Outline

• The case for change - what is the problem?
• Beyond Budgeting – the model
• Beyond Budgeting cases
• The Equinor model - Ambition to Action
About control

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

In business terms
• Controlling people
• Controlling the future

The grand illusion
• People can and must be managed
• The future is predictable and manageable
«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

Leading edge!
Unique!
Forefront!

Great!
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?
From *managing* performance......

....to *enabling* performance
The world has changed – what about the way we lead and manage?

Business environment

- Dynamic
- Stable

People

- "Theory X"
- "Theory Y"

Traditional management
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 micro management
  - Centralised command and control
  - Secrecy, sticks and carrots

**Leadership**

- "Theory X" (Rigid, detailed and annual)
  - Rules-based micro management
  - Centralised command and control
  - Secrecy, sticks and carrots

- "Theory Y" (Values based, Autonomy, Transparency, Internal motivation)

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**Business Agility**

- *more adaptive*
- *more human*
Companies on the journey
## Beyond Budgeting
- enabling business agility

### Leadership principles

<table>
<thead>
<tr>
<th>1. Purpose</th>
<th>Engage and inspire people around bold and noble causes; <strong>not around short-term financial targets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Values</td>
<td>Govern through shared values and sound judgement; <strong>not through detailed rules and regulations</strong></td>
</tr>
<tr>
<td>3. Transparency</td>
<td>Make information open for self-regulation, innovation, learning and control; <strong>don’t restrict it</strong></td>
</tr>
<tr>
<td>4. Organisation</td>
<td>Cultivate a strong sense of belonging and organise around accountable teams; <strong>avoid hierarchical control and bureaucracy</strong></td>
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<tr>
<td>5. Autonomy</td>
<td>Trust people with freedom to act; <strong>don’t punish everyone if someone should abuse it</strong></td>
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<tr>
<td>6. Customers</td>
<td>Connect everyone’s work with customer needs; <strong>avoid conflicts of interest</strong></td>
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### Management processes

<table>
<thead>
<tr>
<th>7. Rhythm</th>
<th>Organise management processes dynamically around business rhythms and events; <strong>not around the calendar year only</strong></th>
</tr>
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<tbody>
<tr>
<td>8. Targets</td>
<td>Set directional, ambitious and relative goals; <strong>avoid fixed and cascaded targets</strong></td>
</tr>
<tr>
<td>9. Plans and forecasts</td>
<td>Make planning and forecasting lean and unbiased processes; <strong>not rigid and political exercises</strong></td>
</tr>
<tr>
<td>10. Resource allocation</td>
<td>Foster a cost conscious mind-set and make resources available as needed; <strong>not through detailed annual budget allocations</strong></td>
</tr>
<tr>
<td>11. Performance evaluation</td>
<td>Evaluate performance holistically and with peer feedback for learning and development; <strong>not based on measurement only and not for rewards only</strong></td>
</tr>
<tr>
<td>12. Rewards</td>
<td>Reward shared success against competition; <strong>not against fixed performance contracts</strong></td>
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Equinor in brief

- Turnover approx. 80 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
Getting started - solving the budget conflict

The budget purposes

- Target
- Forecast
- Resource allocation

1. Separate
   - Target
     - What we want to happen
   - Forecast
     - What we think will happen
   - Resource allocation
     - What it takes to make it happen

Same number - conflicting purposes

Different numbers

2. Improve
   - An aspiration
   - Inspiring & stretching
   - VUCA robust
   - An expectation
   - Unbiased - expected outcome
   - Limited detail
   - Dynamic - no detailed allocation
   - KPI targets, mandates, decision gates and decision criteria
   - Trend monitoring

Event driven - not calendar driven
Ambition to Action - purpose and process

- Translating strategy and managing risk
- Securing agility - 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

What are the risks?
- Identify
- Analyse
- Evaluate

How do we get there?
- Concrete actions and expected outcome (forecast)
- Clear deadlines and accountabilities

How do we measure progress?
- Indicative measure of strategic delivery
- 5-10 KPIs, shorter/longer term targets where relevant

What is my or our contribution?
- My/our Performance Goals
  - Delivery
  - Behaviour

Strategic objectives
Risks
Actions & forecasts
Indicators
Individual or team goals
# Shaping the future of energy

## Strategic Objectives

<table>
<thead>
<tr>
<th>Safety, security and sustainability</th>
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<tbody>
<tr>
<td>An industry leader in safety, security and efficiency</td>
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<table>
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<tr>
<th>People and organisation</th>
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<tbody>
<tr>
<td>A values-based and high-performing organisation</td>
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<table>
<thead>
<tr>
<th>Operations</th>
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<tr>
<td>A driver of energy industry transformation</td>
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<table>
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<tr>
<th>Market</th>
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<tr>
<td>A flexible and resilient energy portfolio</td>
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<table>
<thead>
<tr>
<th>Finance</th>
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<tr>
<td>A cash generating, profitable and competitive company</td>
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## Risks

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<th>Major accident</th>
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<tr>
<td>Injury to personnel</td>
</tr>
<tr>
<td>Cyber-attack</td>
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<td>Regulatory framework related to climate</td>
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## 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 Statfot's information systems and assets |

| Strengthen people development through learning and deployment |
| Support effective decision making and culture |

## Indicators

<table>
<thead>
<tr>
<th>Serious incidents frequency (SIF) Serious HSE incidents</th>
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<td>Total recordable injury frequency (TRF)</td>
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<td>CO2 intensity for the upstream portfolio</td>
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<td>Oil/gas leakage</td>
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<th>Employee Engagement</th>
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<td>People Development</td>
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<th>Production Equity</th>
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<tbody>
<tr>
<td>Production Efficiency</td>
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<tr>
<td>Reserve Replacement Ratio (RRR)</td>
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## Questions

- Where are we going?
- What are the risks?
- How do we get there - managing the risks?
- How do we measure progress?
More than 600 Ambitions to Actions across the company

- **Alignment:** Through translation, not cascading

- **Rhythm:** More business and event-driven than calendar-driven
A broader performance evaluation - from narrow measurement to a holistic assessment

Ambition to Action

“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

B e h a v i o u r

Living the values
- Day-to day-observations
- Global People Survey

- Development
- Rewards
Thank you for listening!

Questions or comments - now or later?

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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

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