

Beyond Budgeting

- business agility in practice

Bjarte Bogsnes
Equinor
Chairman-Beyond Budgeting Roundtable

The illusion of control

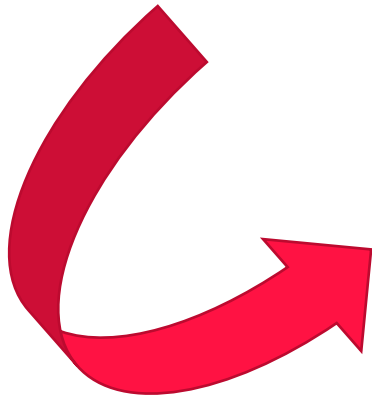
The definition

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



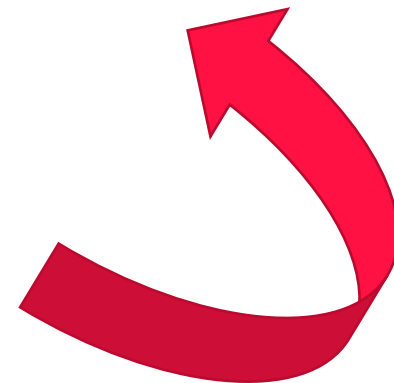
The grand illusion

- 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



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

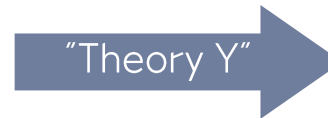
The world has changed

– what about the way we lead and manage?

Business environment



Traditional
management



People

We must change both processes and leadership

Processes



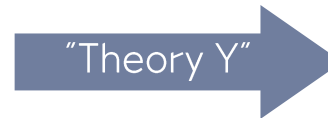
No traditional detailed budgets
Relative and directional goals
Dynamic planning, forecasting
and resource allocation
Holistic performance evaluation



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



Values based
Autonomy
Transparency
Internal motivation



Leadership

Beyond Budgeting

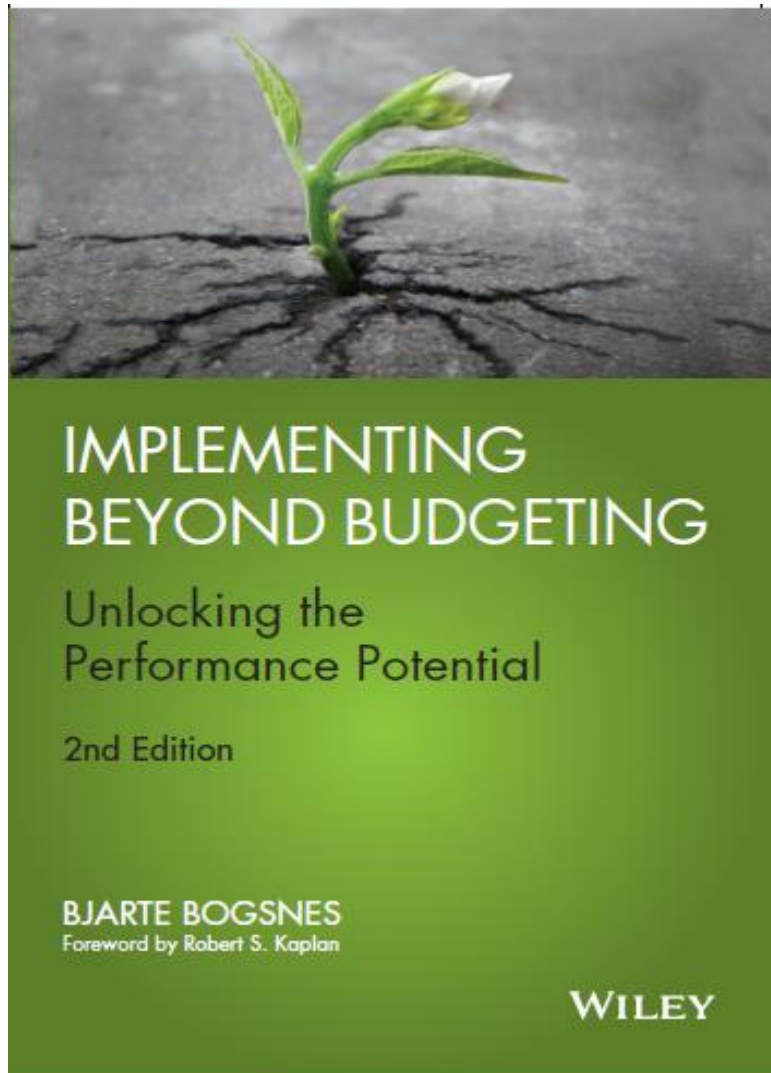
- enabling business agility

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



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

Thank you
for listening!

Questions or comments - now or later?

Bjarte Bogsnes

bjbo@equinor.com

+ 47 916 13 843

Twitter @bbogsnes

Beyond Budgeting Round Table

www.bbrt.org

Companies on the journey





The innovation paradox

Technology innovation

- a very crowded place



Management innovation

- not yet a crowded place

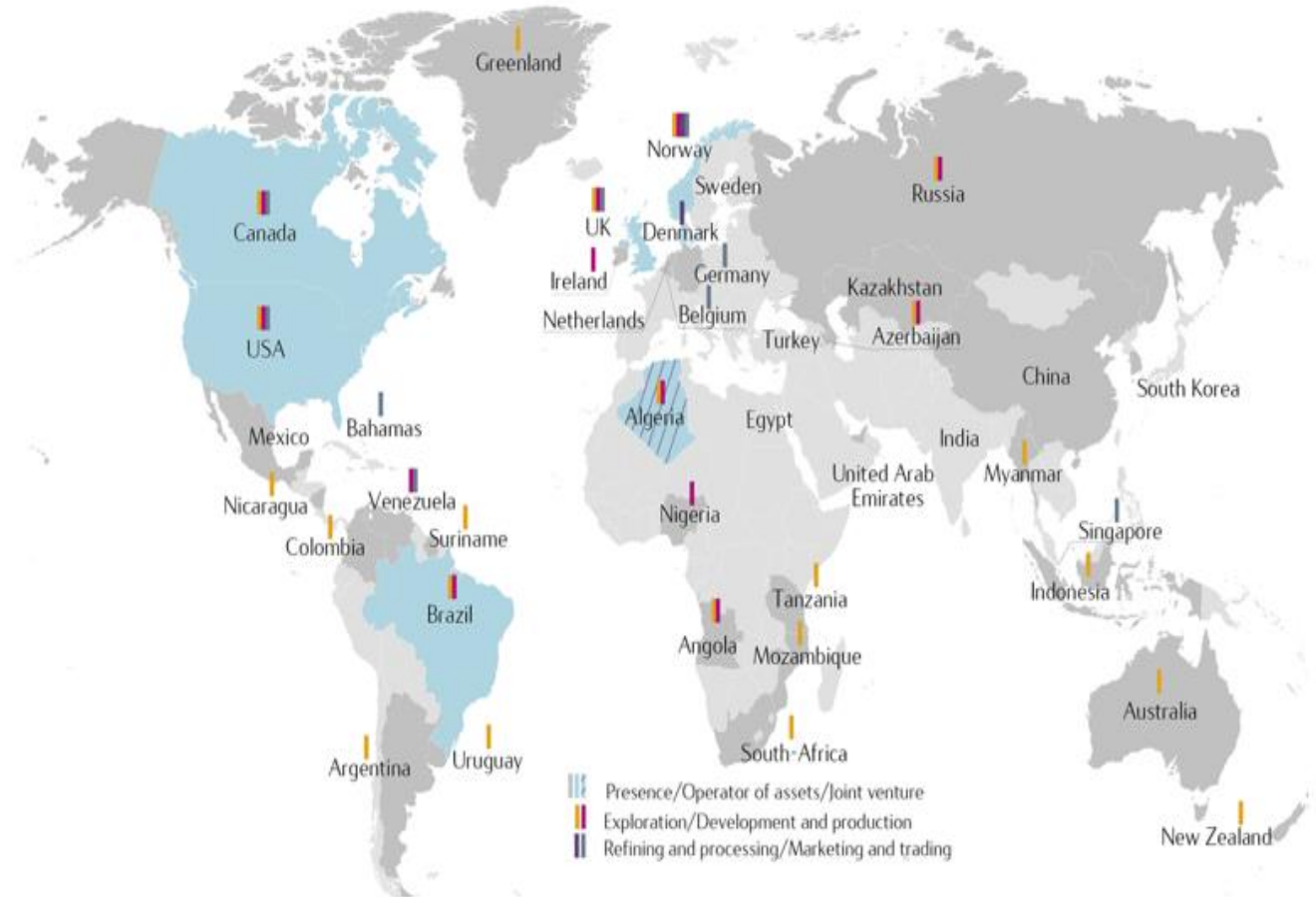
Great!

Scary!

Same purpose: Better performance!

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

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

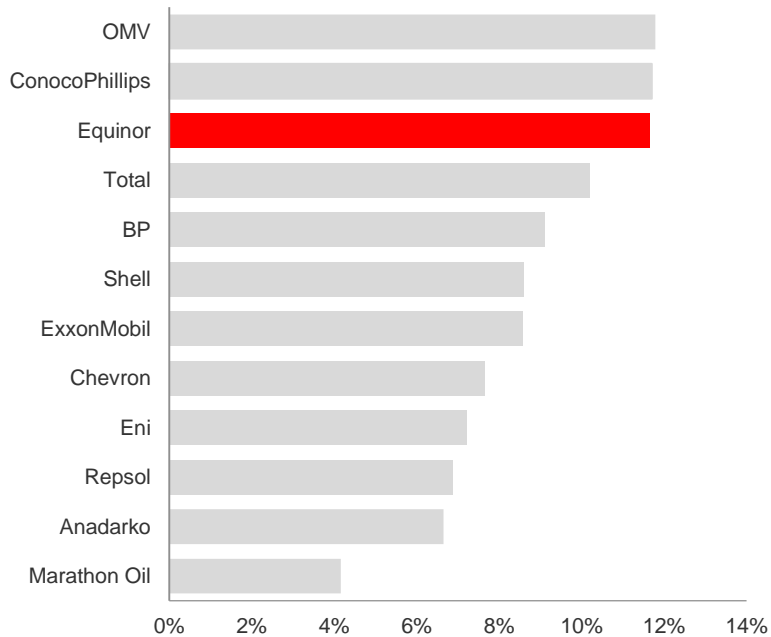
Same number - conflicting purposes

Different numbers

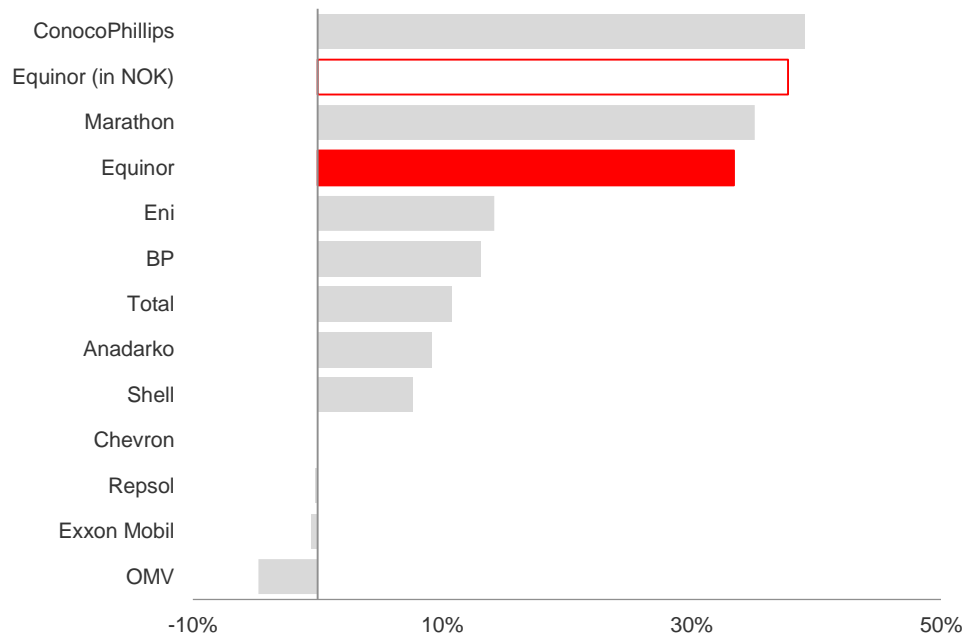
Event driven - not calendar driven

Financial performance – as Equinor defines it

Return on capital employed 2018



Shareholder return 2018



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 carbon 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 improve production attainment
Drive efficiency and cost reduction through 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

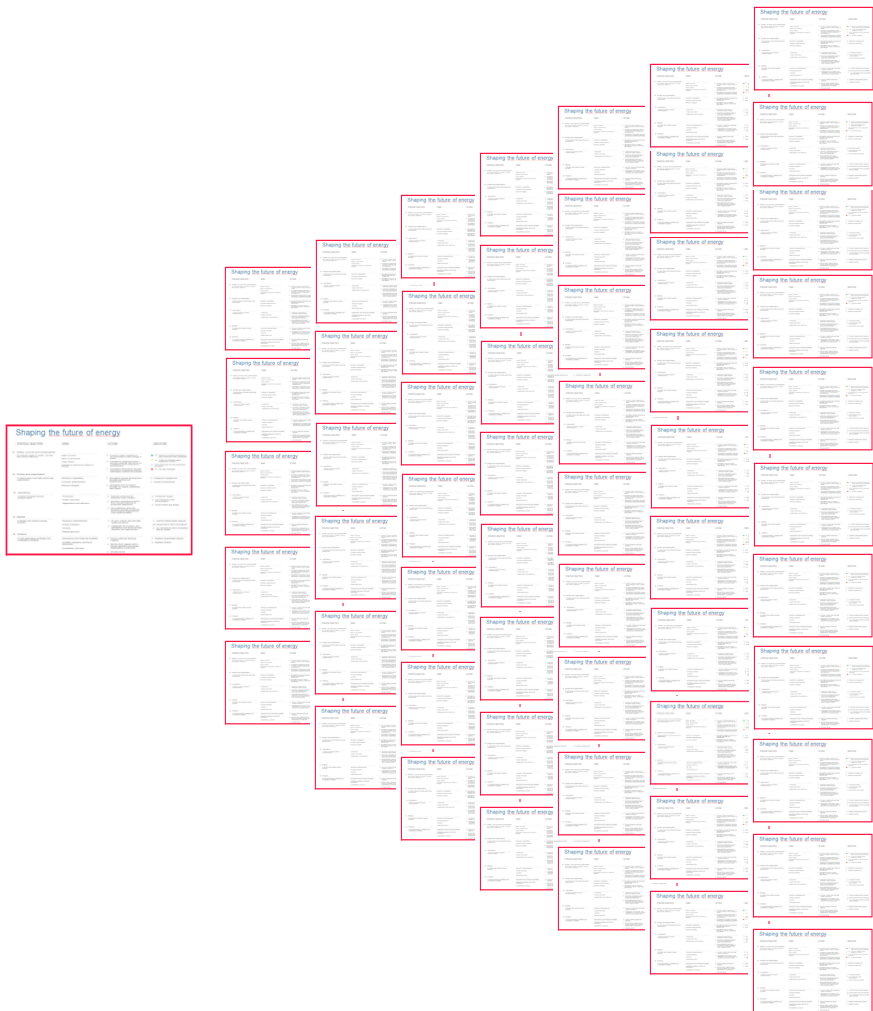
Employee Engagement
People Development

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

Relative Shareholder Return
Relative RoACE



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

STRATEGIC OBJECTIVES	RISKS	ACTIONS	INDICATORS
1. Deliver sustainable and profitable energy solutions to our customers, while contributing to society and the environment	Energy transition risks Climate change Energy security Energy efficiency	Investment in renewable energy Energy efficiency programs Energy security programs Energy efficiency programs	Renewable energy capacity Energy efficiency savings Energy security incidents Energy efficiency savings
2. Provide safe and reliable energy solutions to our customers, while contributing to society and the environment	Operational risks Safety Quality Customer satisfaction	Operational excellence programs Safety programs Quality programs Customer satisfaction programs	Operational excellence metrics Safety incidents Quality defects Customer satisfaction scores
3. Maximize shareholder value	Financial risks Market risks Credit risks Liquidity risks	Financial performance programs Market performance programs Credit performance programs Liquidity performance programs	Financial performance metrics Market performance metrics Credit performance metrics Liquidity performance metrics
4. Attract and retain top talent	Talent risks Diversity and inclusion Employee engagement Leadership development	Talent development programs Diversity and inclusion programs Employee engagement programs Leadership development programs	Talent development metrics Diversity and inclusion metrics Employee engagement metrics Leadership development metrics
5. Protect the environment and society	Environmental risks Social risks Governance risks Ethical risks	Environmental performance programs Social performance programs Governance performance programs Ethical performance programs	Environmental performance metrics Social performance metrics Governance performance metrics Ethical performance metrics

Delivery

50/50

Behaviour

- Development
- 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?

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