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

Ambition to Action - the Statoil journey

Bjarte Bogsnes
Vice President - Performance Management Development
Chairman - Beyond Budgeting Roundtable Europe
Outline

• The case for change - what is the problem?
• The Beyond Budgeting principles
• The Statoil model - Ambition to action
Statoil in brief

• Turnover approx. 130 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
Some of the budget problems

- Often weak link to strategy
- Very time consuming
- Decisions made too early and often too high up
- Assumptions quickly outdated
- Can prevent value adding activities
- “Accordion” forecasting horizon
- Often a bad yardstick for evaluating performance

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?
The world has changed - what about the way we lead and manage?
We must change both processes and leadership

Processes

Dynamic

- No traditional budgeting
- Relative and directional goals
- Dynamic planning, forecasting and resource allocation
- Holistic performance evaluation

Stable

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

Leadership

Beyond Budgeting

- Values based
- Autonomy
- Transparency
- Internal motivation

"Theory X"

"Theory Y"
Companies on a similar journey

Handelsbanken
# The Beyond Budgeting principles

<table>
<thead>
<tr>
<th>Change in leadership</th>
<th>Change in processes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Values</strong> - Govern through a few clear values, goals and boundaries, not detailed rules and budgets</td>
<td><strong>7. Goals</strong> - Set relative goals for continuous improvement, <em>don’t</em> negotiate fixed performance contracts</td>
</tr>
<tr>
<td><strong>2. Performance</strong> - Create a high performance climate based on relative success, not on meeting fixed targets</td>
<td><strong>8. Rewards</strong> - Reward shared success based on relative performance, not on meeting fixed targets</td>
</tr>
<tr>
<td><strong>3. Transparency</strong> - Promote open information for self management, don’t restrict it hierarchically</td>
<td><strong>9. Planning</strong> - Make planning a continuous and inclusive process, not a top-down annual event</td>
</tr>
<tr>
<td><strong>4. Organization</strong> - Organize as a network of lean, accountable teams, not around centralized functions</td>
<td><strong>10. Coordination</strong> - Coordinate interactions dynamically, not through annual planning cycles</td>
</tr>
<tr>
<td><strong>5. Autonomy</strong> - Give teams the freedom and capability to act; don’t micro-manage them</td>
<td><strong>11. Resources</strong> - Make resources available as needed, not through annual budget allocations</td>
</tr>
<tr>
<td><strong>6. Customers</strong> - Focus everyone on improving customer outcomes, not on hierarchical relationships</td>
<td><strong>12. Controls</strong> - Base controls on relative indicators and trends, not on variances against plan</td>
</tr>
</tbody>
</table>
Start of the Statoil journey
- solving a serious budget conflict

<table>
<thead>
<tr>
<th>The budget purposes</th>
<th>Step 1</th>
<th>Step 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget =</strong></td>
<td>Improve</td>
<td></td>
</tr>
<tr>
<td>• Target</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Forecast</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Resource allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Same number – conflicting purposes”</td>
<td>• Inspiring &amp; motivating</td>
<td>“Event driven - not calendar driven”</td>
</tr>
<tr>
<td></td>
<td>• Relative where possible</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Holistic performance evaluation</td>
<td></td>
</tr>
<tr>
<td><strong>Step 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Target</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What we want to happen</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Step 2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Forecast</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What we think will happen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Resource allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Different numbers”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Same number – conflicting purposes”</td>
<td>• Unbiased - expected outcome</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Limited detail</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Dynamic - no annual allocation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• KPI targets, mandates, decision gates &amp; decision criteria</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Trend monitoring</td>
<td></td>
</tr>
</tbody>
</table>
Financial performance - as we define it

Shareholder Return
- Total
- Repsol
- Royal Dutch Shell
- Statoil
- ConocoPhillips
- BP
- Eni
- ExxonMobil
- BG
- Chevron
- Anadarko
- Petrobras

Target: Above Peer Average

Return on Capital
- Total
- Statoil
- ConocoPhillips
- Royal Dutch Shell
- BP
- BG
- Repsol
- ExxonMobil
- Anadarko
- Eni
- Chevron
- Petrobras

Target Top 1/3
The mindset required.....
– cost conscious from the first penny

Do I have a budget for this?

Not OK

OK

Is this really necessary?

What is good enough?
How much value is this creating?
Is this within my execution framework?

OK?
OK?
OK?
OK?
OK?
.....and the tools available

<table>
<thead>
<tr>
<th>Traditional cost budget</th>
<th>Absolute KPIs</th>
<th>Relative KPIs</th>
<th>If no KPIs found</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ambition level / burn rate</td>
<td>Unit cost input/output</td>
<td>Unit cost vs peers</td>
</tr>
<tr>
<td></td>
<td>&quot;USD/bbl&quot;</td>
<td>&quot;USD/customer&quot;</td>
<td>&quot;1. quartile&quot;</td>
</tr>
<tr>
<td></td>
<td>~1000</td>
<td>&quot;Better than average&quot;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Select based on what works best in your business

Monitoring of actual development, intervention if needed only
Ambition to Action - purpose and process

- Translating strategy - from ambitions to actions
- Securing flexibility - 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

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

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

What is my or our contribution?
My Performance Goals
- Delivery
- Behaviour
Ambition to Action example

<table>
<thead>
<tr>
<th>People &amp; Organisation</th>
<th>How do we get there?</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSE</td>
<td>Actions</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
</tr>
<tr>
<td>Market</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
</tr>
</tbody>
</table>

Where are we going?

“Strategic objectives”

<table>
<thead>
<tr>
<th>Strategic objectives</th>
<th>Key performance indicators (KPI)</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>People and organisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A values-based and performance driven organisation</td>
<td>Living the values</td>
<td>Accelerate performance, people development and mobility (31.12.11)</td>
</tr>
<tr>
<td>Secure compliance and learning</td>
<td>P2S process</td>
<td>Secure strong ownership to compliance and ethics on all levels (30.12.11)</td>
</tr>
<tr>
<td>Health, safety and environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serious incident frequency</td>
<td></td>
<td>Implement learning from major external and internal incidents</td>
</tr>
<tr>
<td>Climate</td>
<td></td>
<td>Improve the quality of HSE management at all levels (31.12.11)</td>
</tr>
<tr>
<td>TTS Observations and actions</td>
<td></td>
<td>Ensure technical integrity for projects and wells (15.12.11)</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td></td>
<td>Fully implement our HSE and quality environment strategy</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td></td>
<td>Operationalise climate change</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td>Deliver ramp-up of Oseberg, Pergeir, Marcellus and Eagle Ford according to milestones (del.) (31.12.11)</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td>Ensure sufficient supply in the region has for Smøkman Final investment Decision</td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td>Deliver on technology programme to enhance value in the oil sands and Tenghe (01.03.12)</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td>Sustain NCS production though improved regularity, optimised rig capacity, well deliveries, IHR and the fast-track initiative (30.11.13)</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td>Secure petroleum activities in Northern NCS areas and high impact exploration opportunities globally (30.09.12)</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td>Mature new resources to booking, including Mariner Bressay, Luva and commercialisation of Shah Deniz (30.11.13)</td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td>Deliver onshore manufacturing improvement programme (01.08.13)</td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td>Secure cost efficient procurement and project deliveries (01.08.13)</td>
</tr>
<tr>
<td>Finance</td>
<td></td>
<td>US bond issue (15.12.11)</td>
</tr>
</tbody>
</table>

How do we measure progress?

“Key Performance Indicators”

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>People &amp; organisation</th>
<th>HSE</th>
<th>Operations</th>
<th>Market</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve replacement ratio (RRR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downstream NOE (NNP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finding cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Resources from Exploration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
More than 1400 "Ambition to Action’s" across the company

......and more
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?

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!
The CEO on Ambition to Action

We have a management model which is very well-suited to dealing with turbulence and rapid change. It enables us to act and reprioritise quickly so that we can fend off threats or seize opportunities. This is much more difficult in a traditional ‘budget world’.

One of the main principles in our Ambition to action concept is that Statoil consists of mature, professional and able people who both can and want to accept responsibility.

CEO Helge Lund
Questions or comments - now or later?

Bjarte Bogsnes
bjbo@statoil.com
+ 47 916 13 843
Twitter @bbogsnes

Beyond Budgeting Round Table
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

Out on Wiley (US)
Available from e.g. Amazon.co.uk

(Now available in Russian and Japanese)