

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

Ambition to Action - the Statoil journey

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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Assumptions quickly outdated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?

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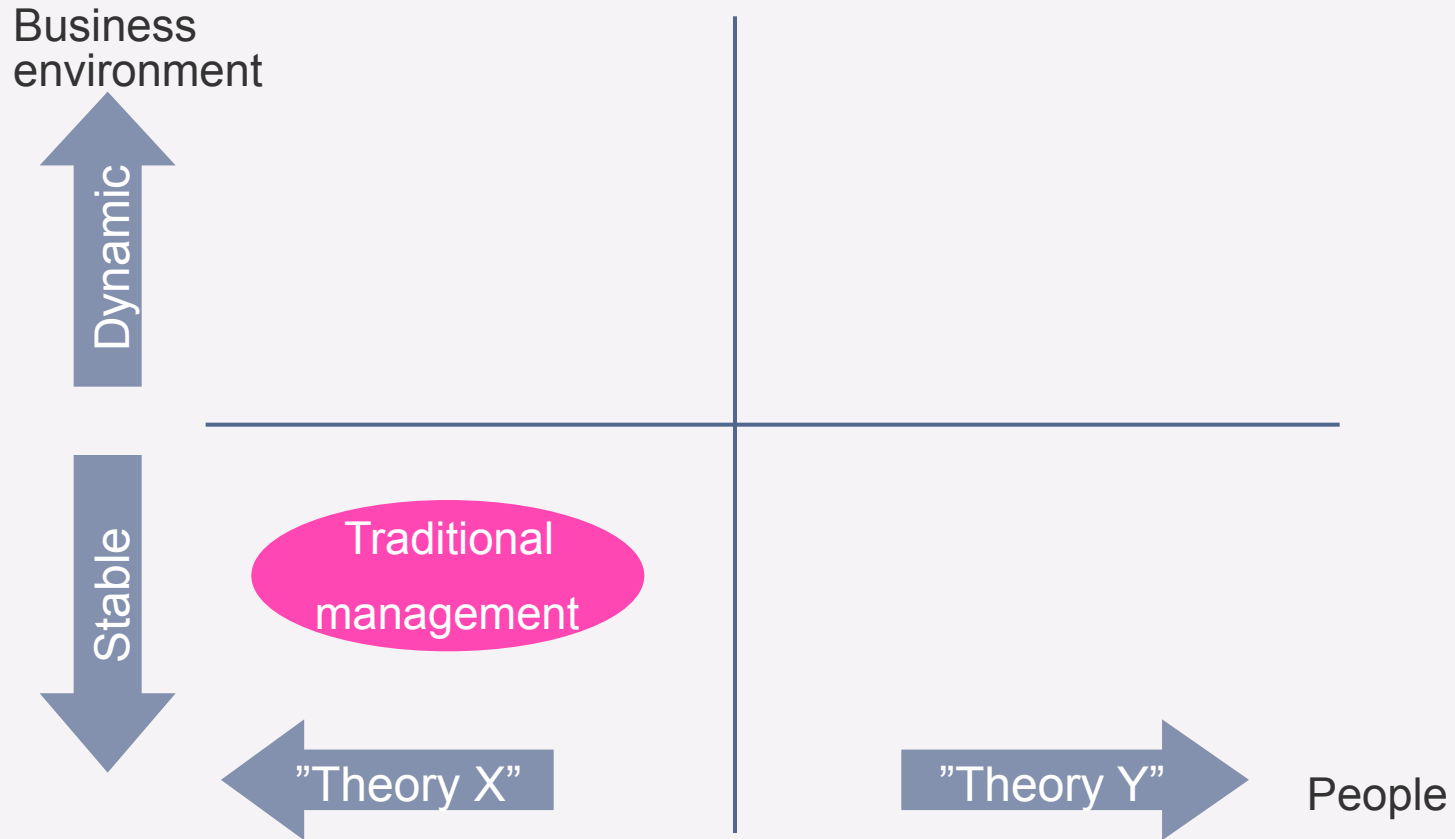


Which is most **efficient**?
Which is most **difficult**?

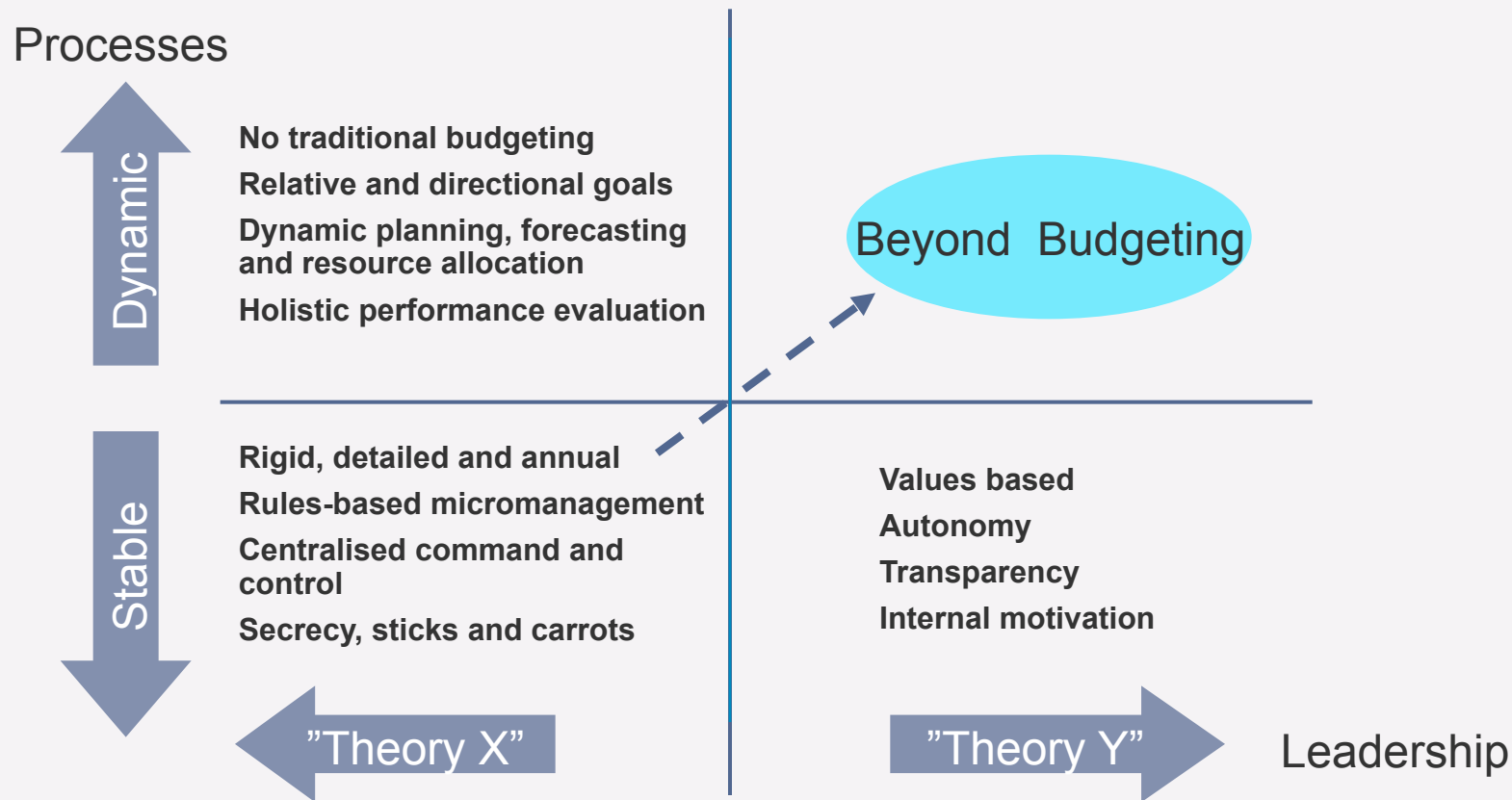


In which are **values** most important?

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



We must change both processes and leadership



Companies on a similar journey

Handelsbanken



The Beyond Budgeting principles

Change in leadership

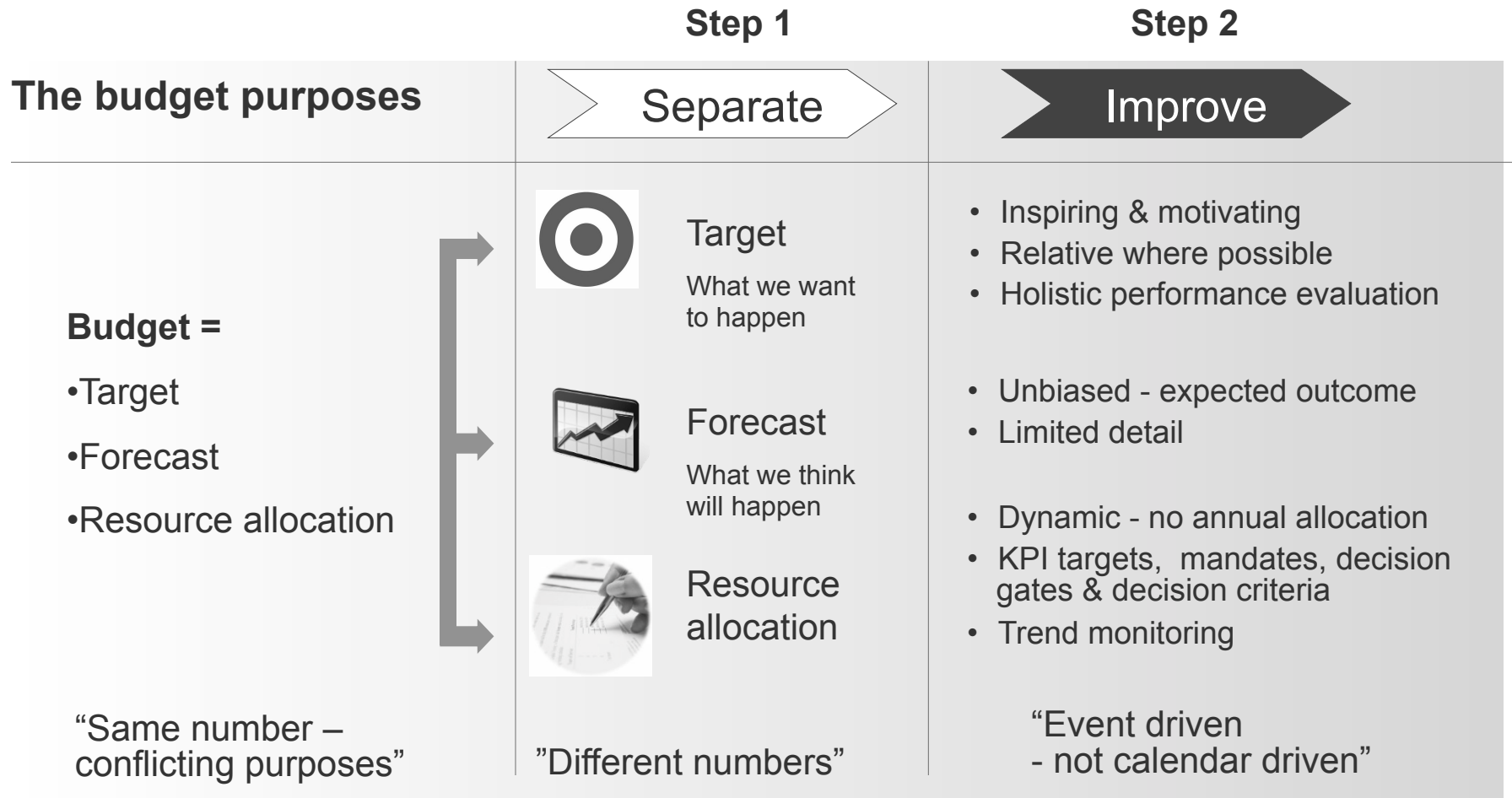
1. **Values** - Govern through a few clear values, goals and boundaries, **not detailed rules and budgets**
2. **Performance** - Create a high performance climate based on relative success, **not on meeting fixed targets**
3. **Transparency** - Promote open information for self management, **don't restrict it hierarchically**
4. **Organization** - Organize as a network of lean, accountable teams, **not around centralized functions**
5. **Autonomy** - Give teams the freedom and capability to act; **don't micro-manage them**
6. **Customers** - Focus everyone on improving customer outcomes, **not on hierarchical relationships**

Change in processes

7. **Goals** - Set relative goals for continuous improvement, **don't negotiate fixed performance contracts**
8. **Rewards** - Reward shared success based on relative performance, **not on meeting fixed targets**
9. **Planning** - Make planning a continuous and inclusive process, **not a top-down annual event**
10. **Coordination** - Coordinate interactions dynamically, **not through annual planning cycles**
11. **Resources** - Make resources available as needed, **not through annual budget allocations**
12. **Controls** - Base controls on relative indicators and trends, **not on variances against plan**

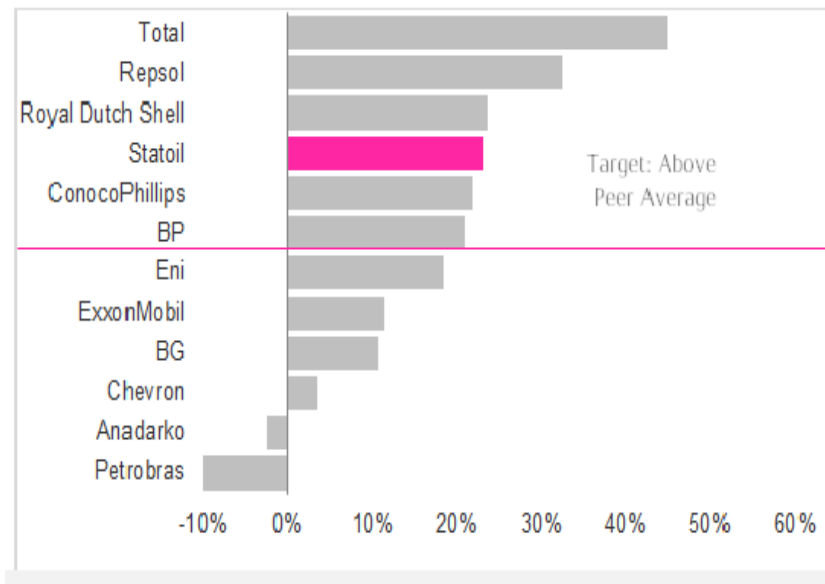
Start of the Statoil journey

- solving a serious budget conflict

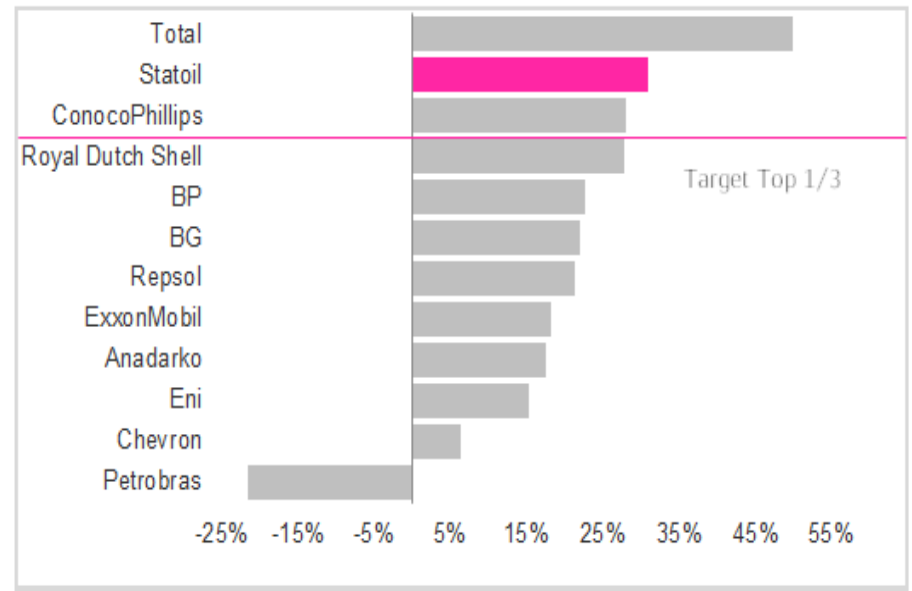


Financial performance - as we define it

Shareholder Return

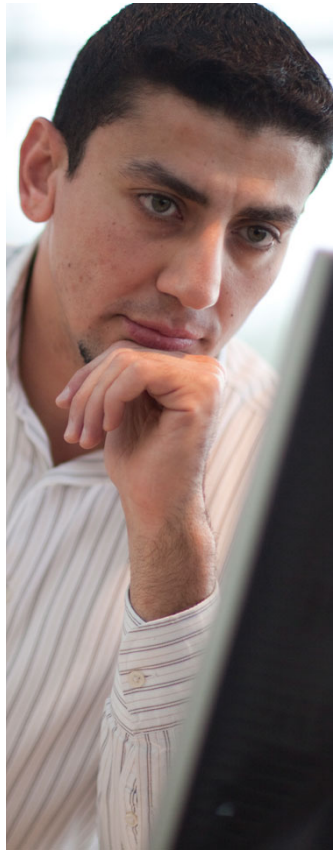


Return on Capital

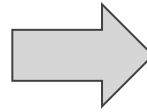
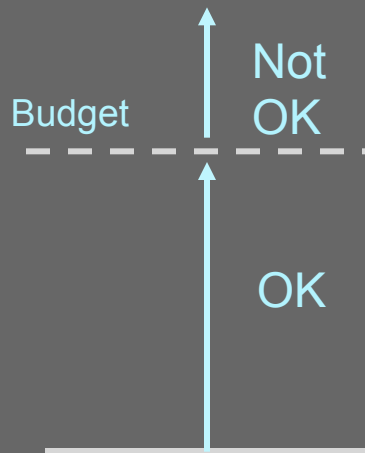


The mindset required.....

– cost conscious from the first penny



Do I have a budget for this?

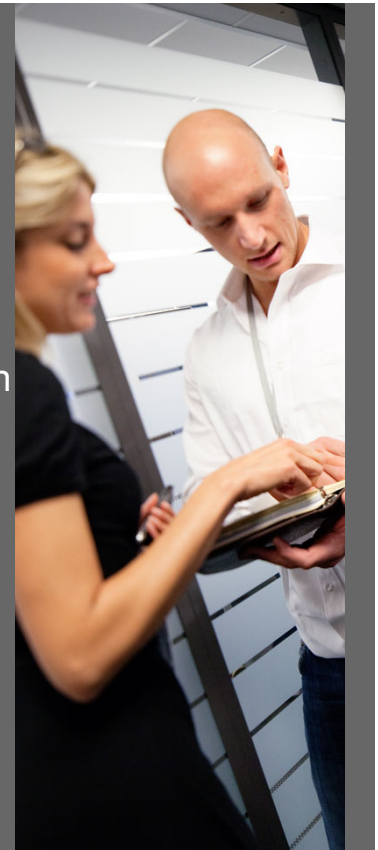
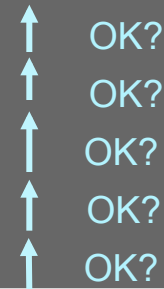


Is this really necessary?

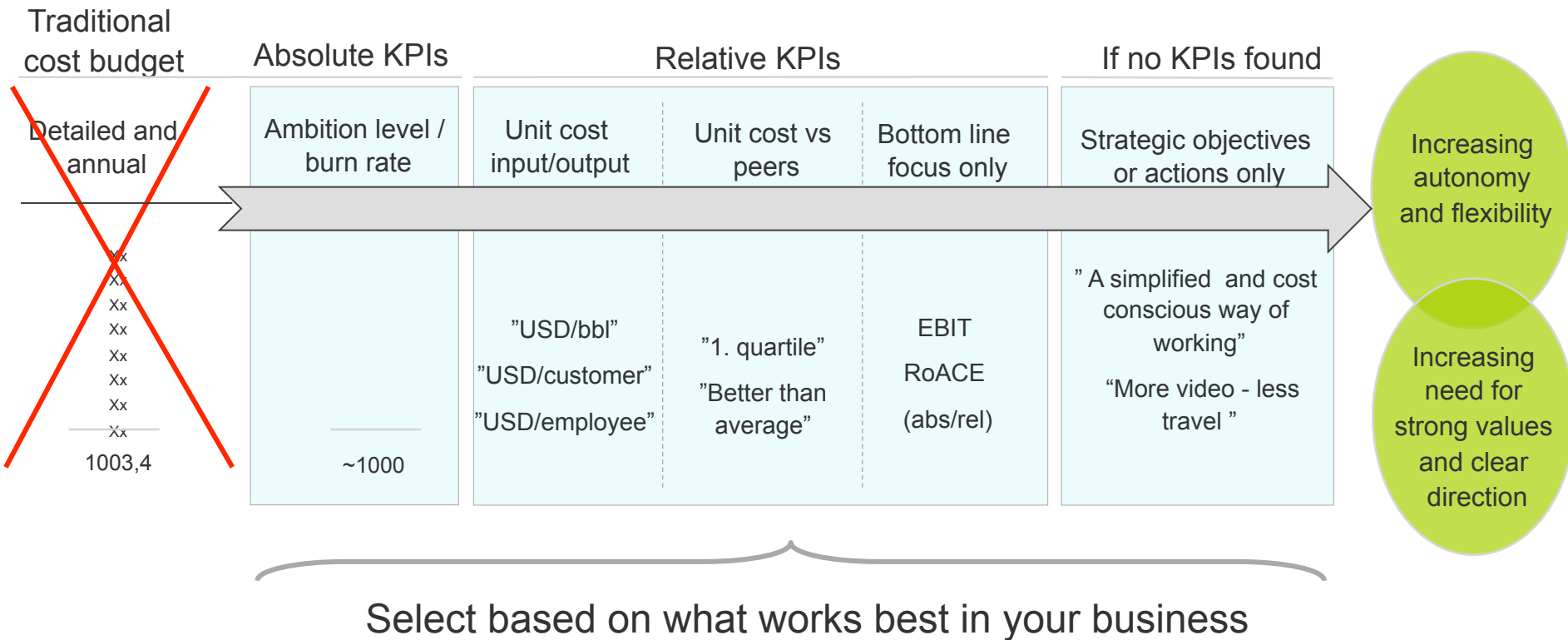
What is good enough?

How much value is this creating?

Is this within my execution framework?



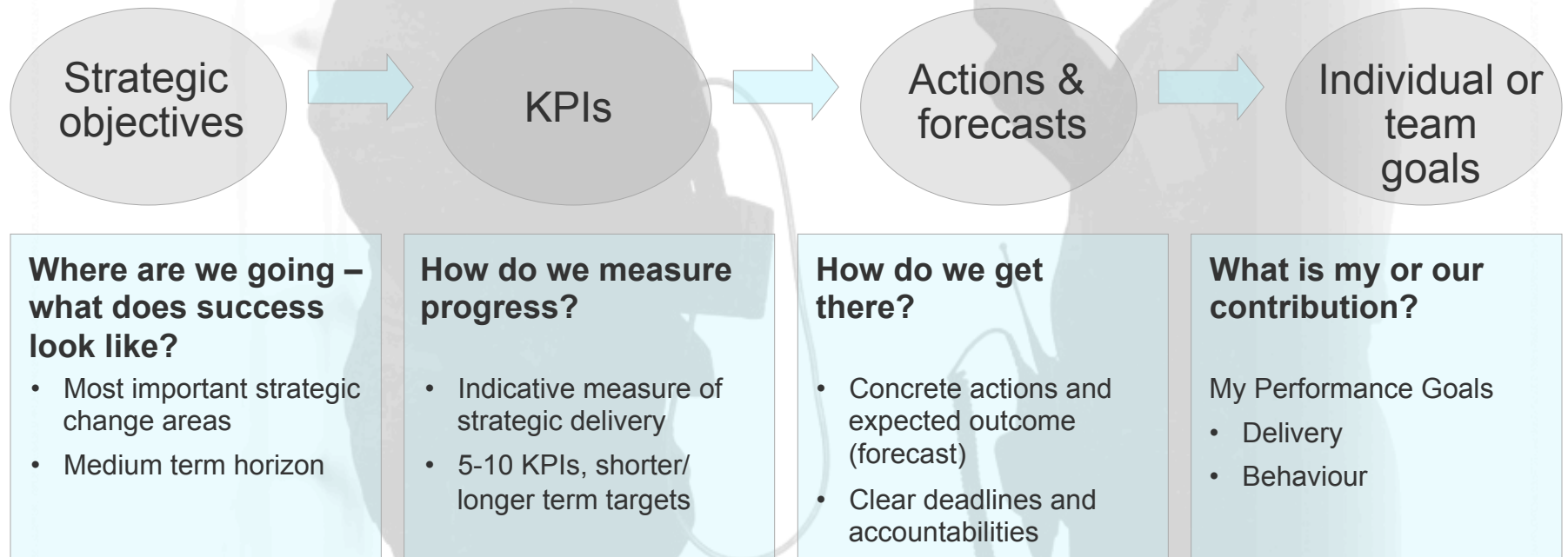
.....and the tools available



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



Ambition to Action example

People &
Organisation



HSE



Operations



Market



Finance

Globally competitive – an exceptional place to perform and develop

Strategic objectives	Key performance indicators (*: linked)	Actions (top 5 in period)
People and organisation		
A values-based and performance driven organisation	Living the values	Accelerate performance, people development and mobility (31.12.11)
Secure compliance and learning	P@S process	Secure strong ownership to compliance and ethics on all levels (30.12.11)
Health, safety and environment		
Industry best performance in safety	Serious incident frequency	Implement learning from major external and internal incidents (31.12.11)
	Climate	Improve the quality of HSE risk management at all levels (01.12.11)
	TTS Observations and actions	Ensure technical integrity of our facilities and wells (15.12.11)
		Fully implement our health and working environment strategy (25.12.11)
		Operationalise climate change (30.12.11)
Operations		
Operational and functional efficiency	PE NCS (Regularly)	Deliver ramp-up of Leismer demo, Peregrino, Marcellus and Eagle Ford according to milestones (del.) (30.11.12)
Business and value driven technology development	Production of Statoil share	Ensure sufficient quality in the decision basis for Shtokman Final Investment Decision (30.11.12)
Competitive cost and quality project design and execution	Cost efficiency DG3 (IPA) *	Deliver on technology programme to enhance value in the oil sands and Paleogene (01.03.12)
	Relative unit production cost (NCS)	Sustain NCS production through improved regularity, optimised rig capacity, well deliveries, IHR and the fast-track initiative (30.11.11)
Market		
A trusted company	Reserve replacement ratio (RRR) *	Secure petroleum activities in Northern NCS areas and high impact exploration opportunities globally (30.06.12)
Ensure quality and efficiency from our suppliers	Downstream NOI (NOK)	Mature new resources to booking, including Mariner Bressay, Luvu and commercialisation of Shah Deniz (30.11.12)
A recognized and value creating exploration company	Finding cost	Deliver onshore manufacturing improvement programme (01.03.12)
Maximise value creation through our value chains	New Resources from Exploration	Secure cost efficient procurement and project deliveries (01.03.12)
Secure early phase and value enhancing business development options		US bond issue (15.12.11)
Finance		
Retain financial robustness	Relative RoACE	Implement and deliver on the seven corporate initiatives listed under "Improvement initiative Safety and Operations" (25.03.12)
Competitive shareholder return and value	Relative Shareholder Return	Building a commercial and cost conscious mindset (31.01.12)
		Improve exploration cost efficiency (31.05.12)

Where are we going?

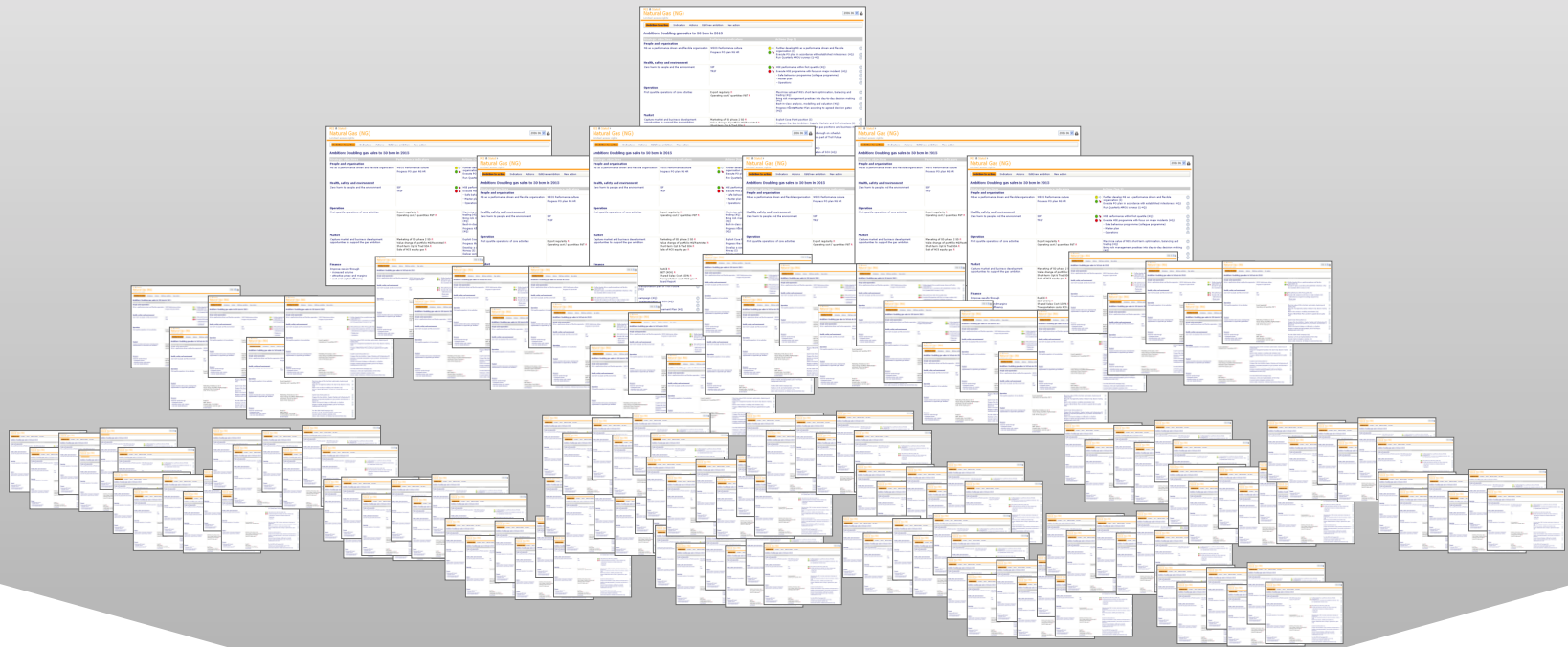
"Strategic objectives"

How do we measure progress?

"Key Performance Indicators"

How do we get there?
"Actions"

More than 1400 "Ambition to Action's" across the company



.....and more

A broader performance language

- from narrow measurement to a holistic assessment

Ambition to Action



Strategic Objectives - an integrated view to actions and results			
Strategic Objective	Key Performance Indicator	Target	Status
Strategic Objective 1	KPI 1.1	Target 1.1	On Track
Strategic Objective 1	KPI 1.2	Target 1.2	At Risk
Strategic Objective 2	KPI 2.1	Target 2.1	On Track
Strategic Objective 2	KPI 2.2	Target 2.2	At Risk
Strategic Objective 3	KPI 3.1	Target 3.1	On Track
Strategic Objective 3	KPI 3.2	Target 3.2	At Risk

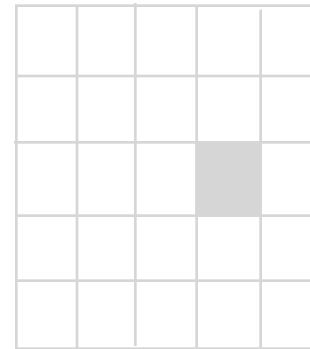


Pressure testing KPI results:

- 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?

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50/50



- Development plan
- Rewards

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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



Thank you
for listening!

Questions or comments - now or later?

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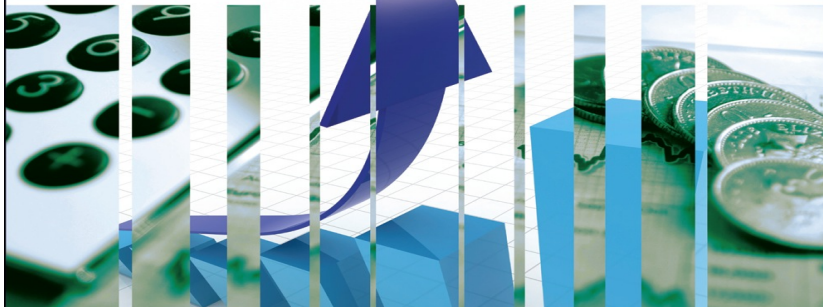
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Beyond Budgeting Round Table

www.bbrt.org

Implementing Beyond Budgeting



Unlocking the Performance Potential

Bjarte Bogsnes

Foreword by **Robert S. Kaplan**

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

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