

A bright sun is positioned at the top center of the frame, casting a strong, multi-colored lens flare across the sky. The sky is a deep blue with some wispy white clouds. Below the horizon line, the ocean is a dark blue with a shimmering reflection of the sun's light. Two small, distant boats are visible on the horizon.

Beyond Budgeting - management innovation
for new business and people realities

Ambition to Action - the Statoil journey



Outline

- The case for change - what is the problem?
- The Beyond Budgeting principles
- The Statoil model - Ambition to Action
- Implementation advice

Simple, clear purpose and principles
give rise to complex, intelligent behavior.

Complex rules and regulations
give rise to simple, stupid behavior.

(Dee Hock - founder and former CEO of Visa)



«Most of what we call
management is about
making it difficult for
people to do their job»

Peter Drucker

What is Management Innovation?

“Exploring news ways of leading and managing in knowledge organisations operating in dynamic and competitive business environments”

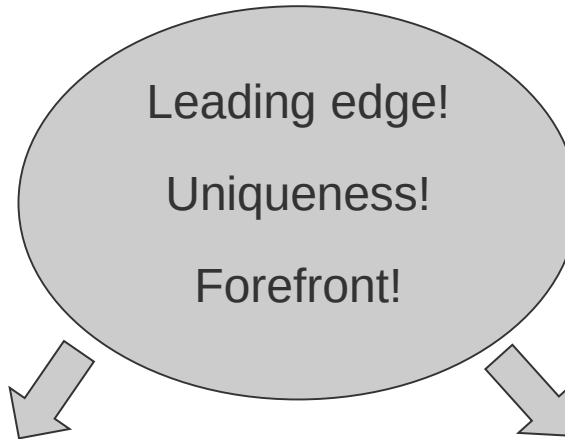
(Not management of innovation....)

The innovation paradox

Technology innovation

- a very crowded place

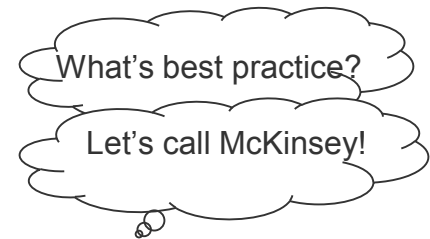
Great!



Management innovation

- not yet a crowded place

Scary!



Same purpose: Better performance!

Budget problems



Often weak link to strategy



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Assumptions quickly outdated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



“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?



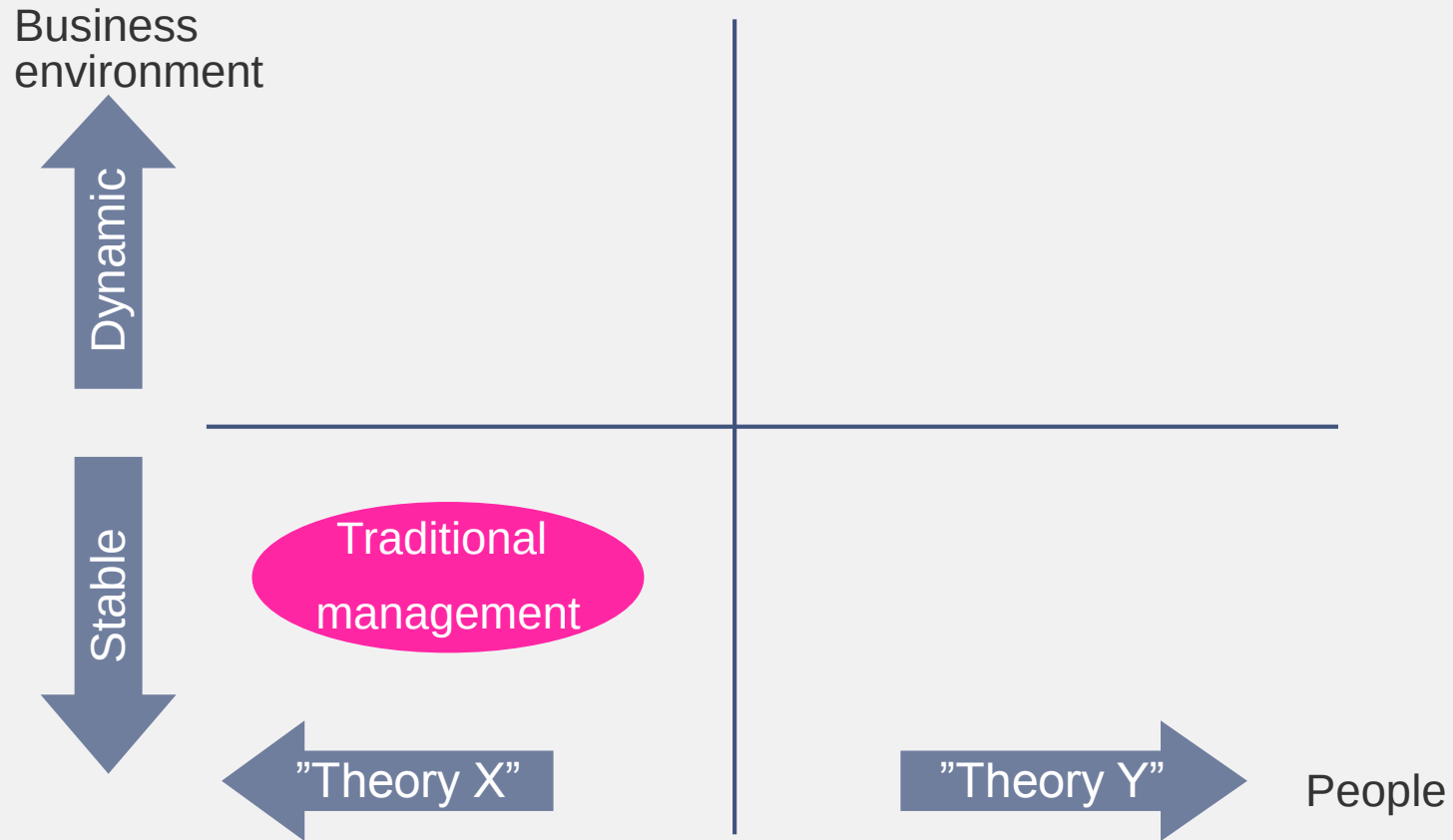
Which is most **efficient**?
Which is most **difficult**?



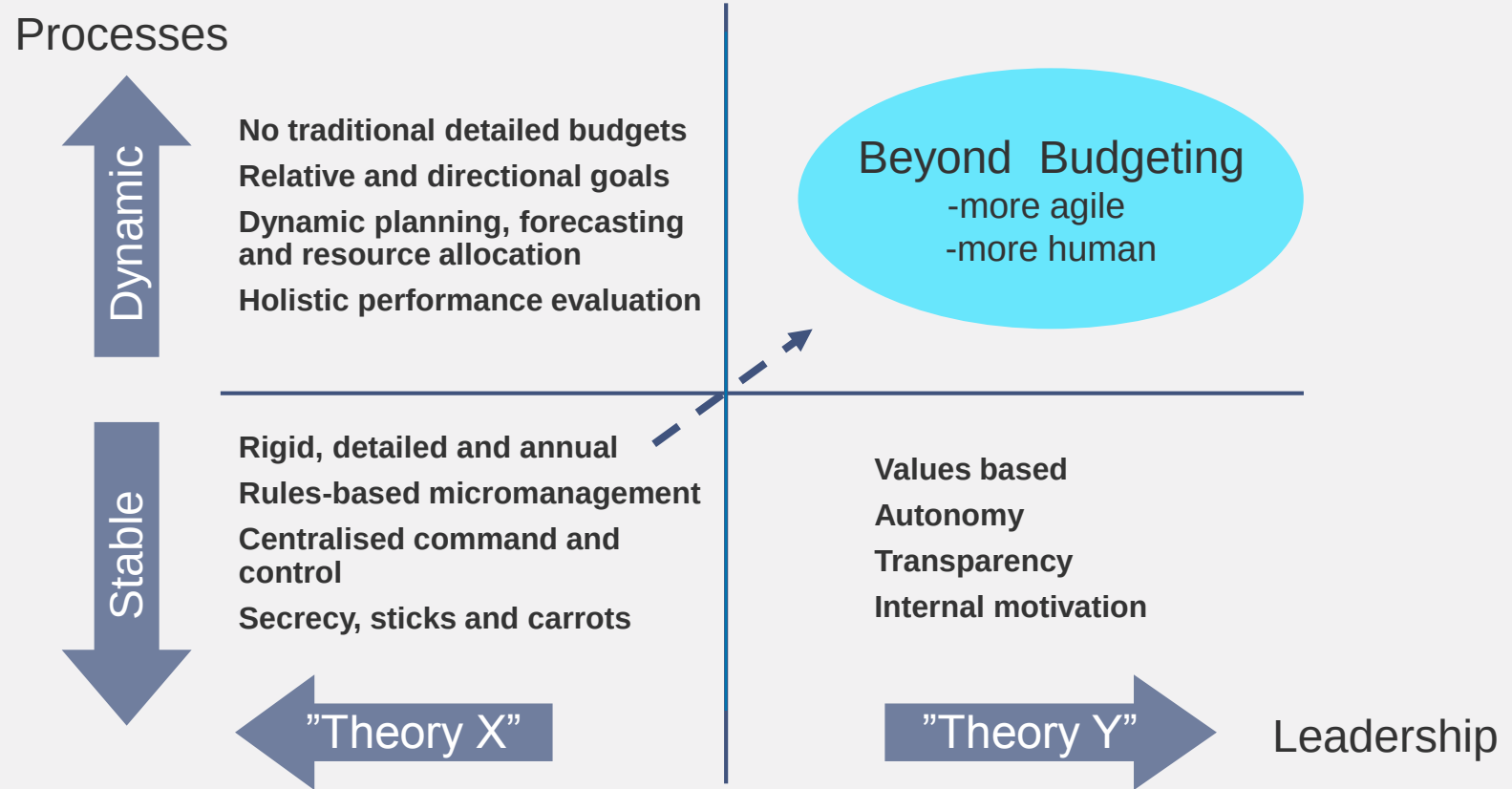
In which are **values** most important?



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



We must change both processes and leadership



Companies on the journey



Beyond Budgeting

- from command & control to empower & adapt

Leadership principles

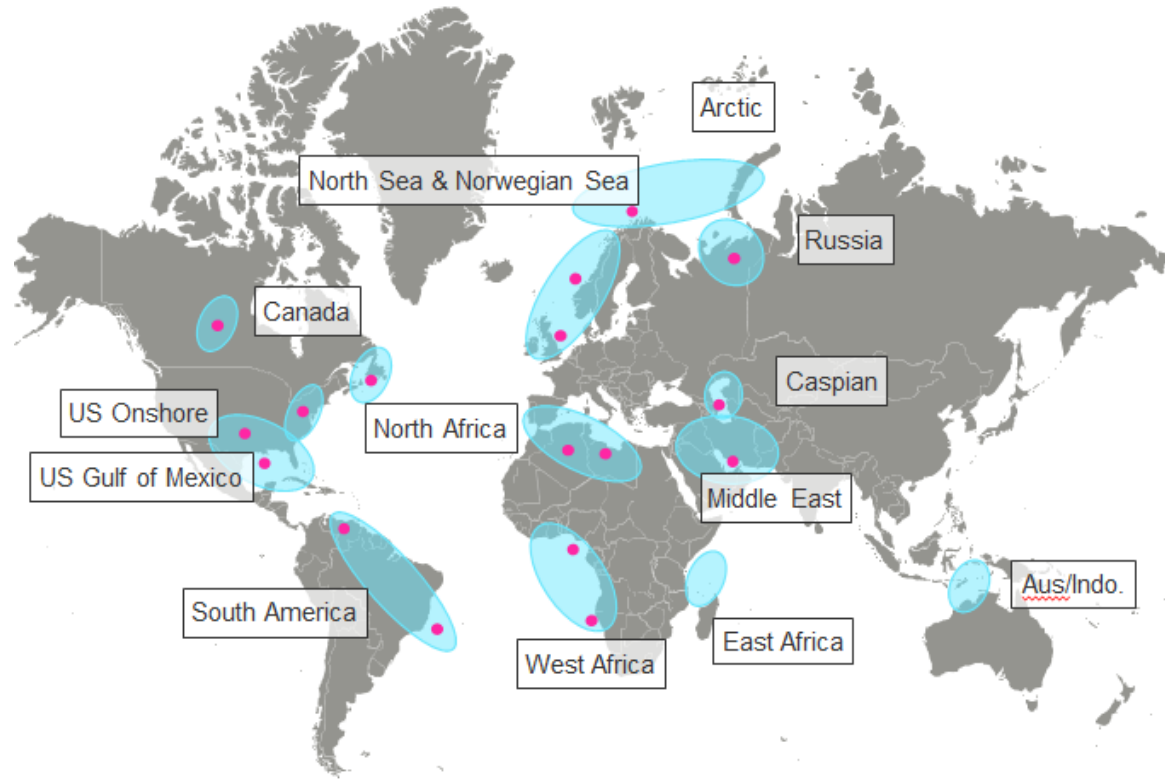
- 1. Purpose** - Engage and inspire people around bold and noble causes; **not** around short-term financial targets
- 2. Values** - Govern through shared values and sound judgement; **not** through detailed rules and regulations
- 3. Transparency** - Make information open for self-regulation, innovation, 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

Statoil in brief

- Turnover approx. 100 bn. USD
- 22000 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



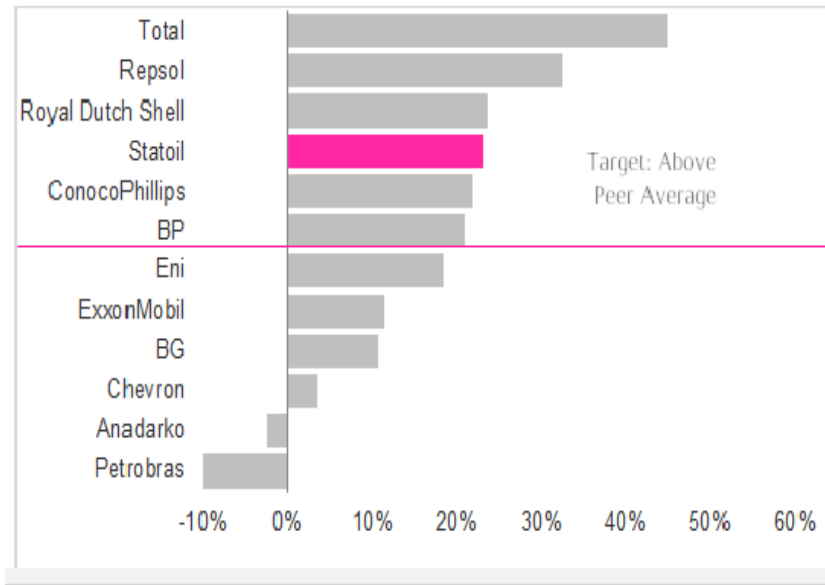
Start of the Statoil journey

- solving a serious budget conflict

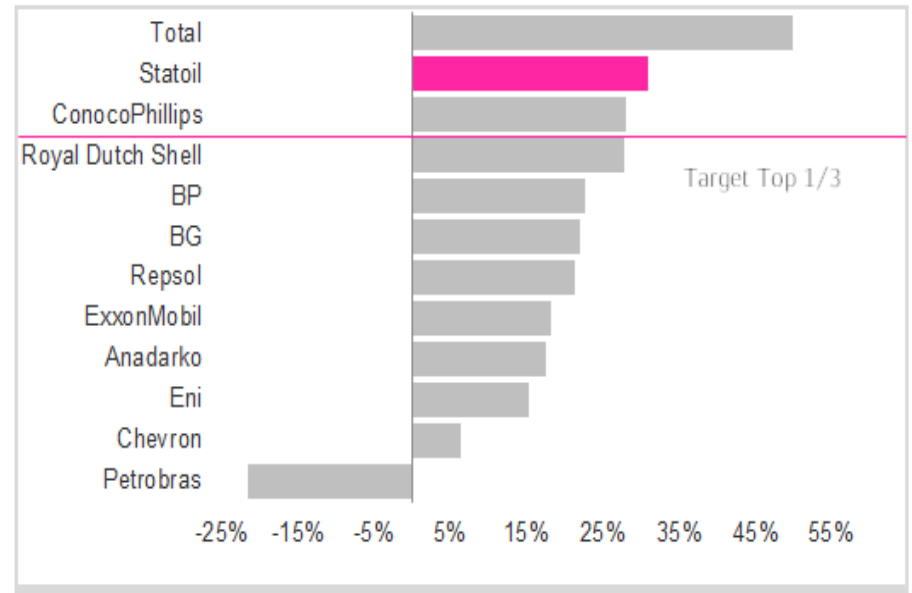
	Step 1	Step 2
The budget purposes	Separate	Improve
Budget = • Target • Forecast • Resource allocation	 Target What we want to happen  Forecast What we think will happen  Resource allocation What it takes to make it happen	• Inspiring & stretching • VUCA robust • No targets? • Unbiased - expected outcome • 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 we define it

Shareholder Return

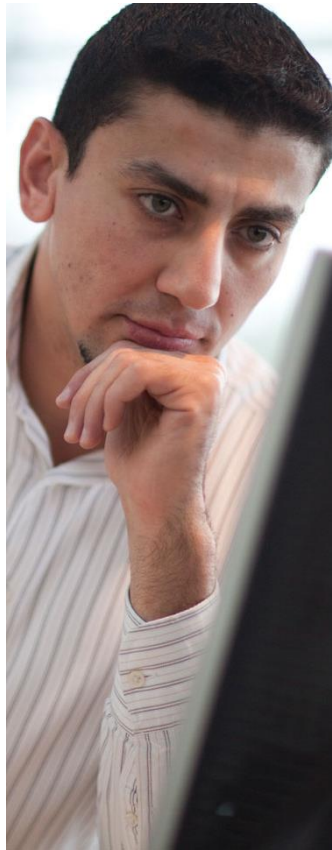


Return on Capital

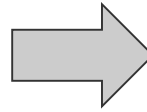
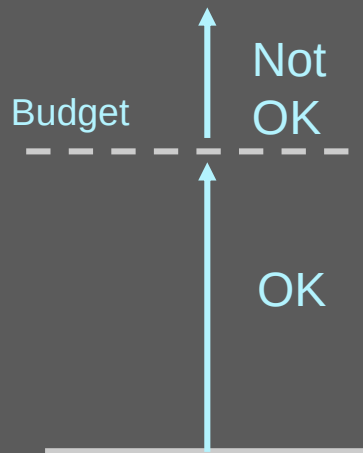


Managing cost - the mindset required.....

– cost conscious from the first penny



Do I have a budget for this?

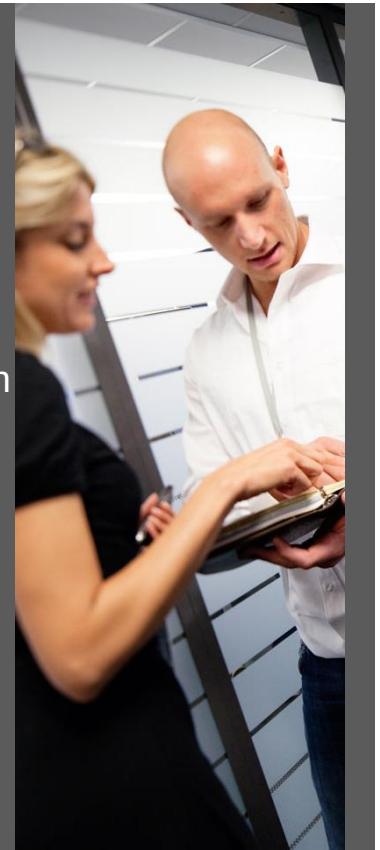
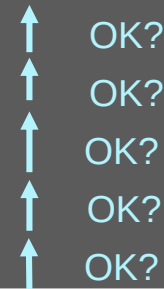


Is this really necessary?

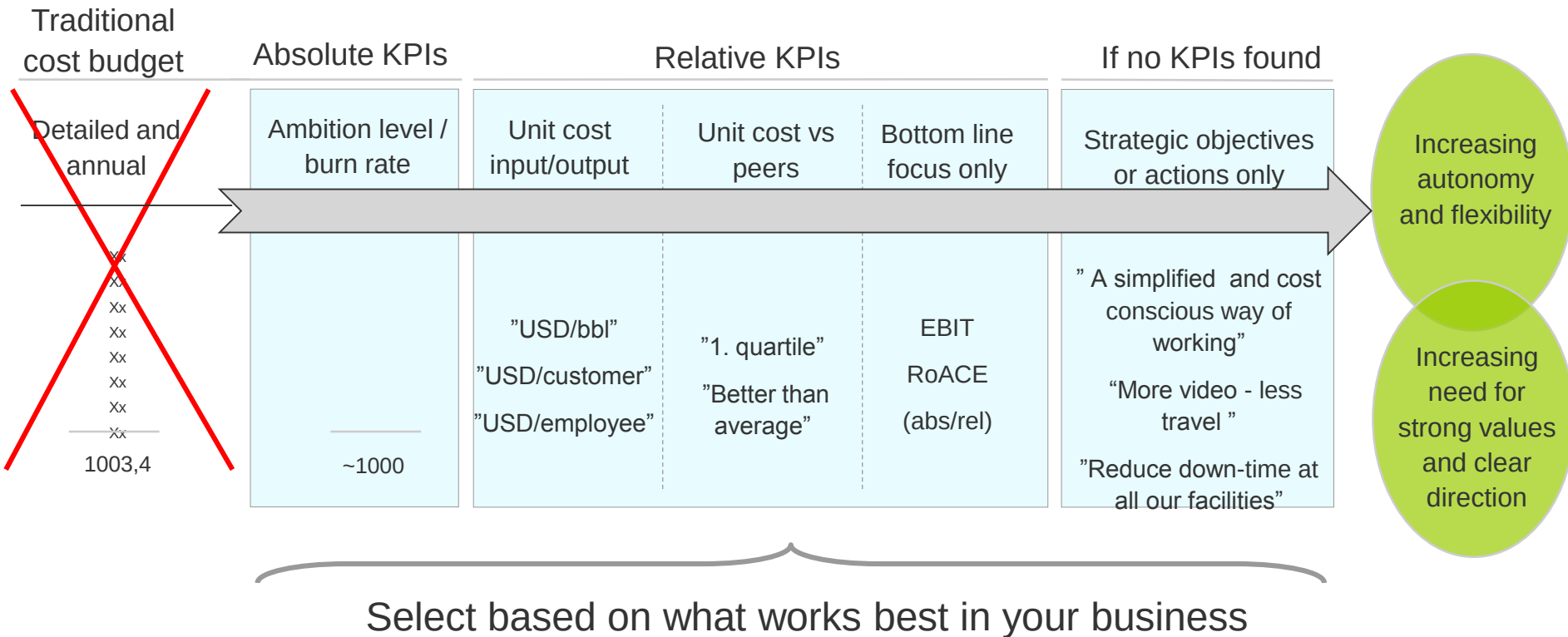
What is good enough?

How much value is this creating?

Is this within my execution framework?



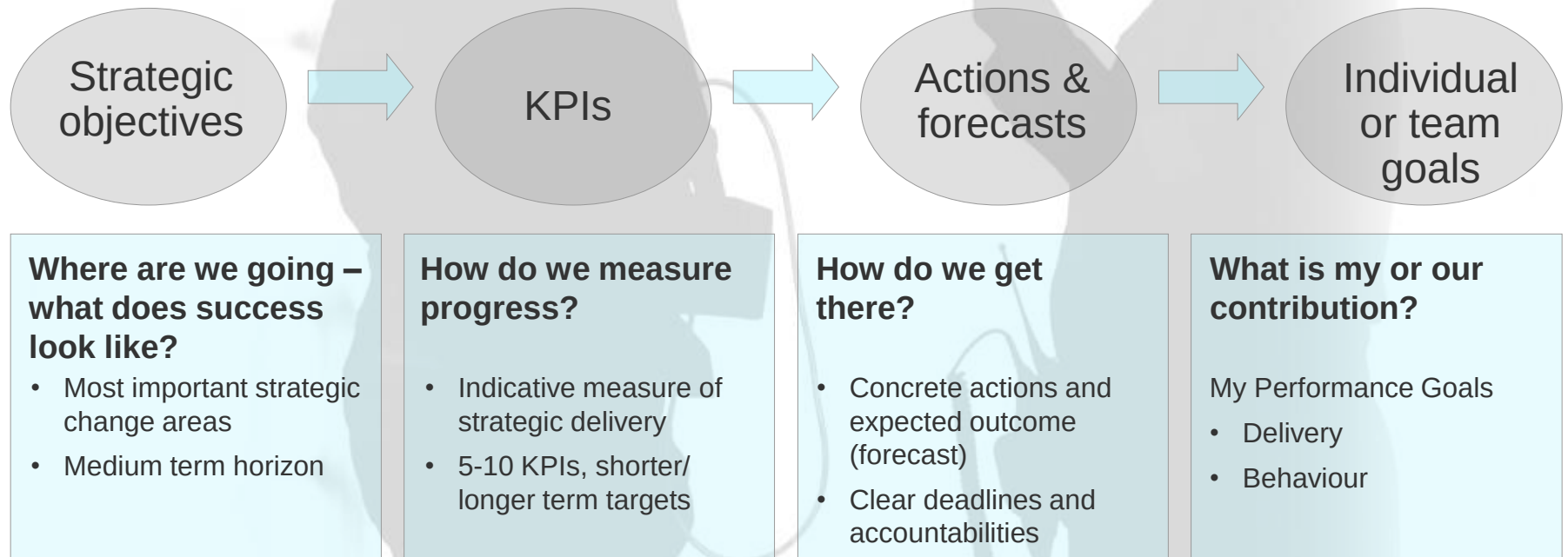
.....and the tools available



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 leader in carbon footprint	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 rigs and wells (15.12.11)	➡
			Fully implement our health and working environment strategy (25.12.11)	➡
			Operationalise climate strategy	➡
▼ Operation				
Operational and functional efficiency	PE NCS (Regulation)	➡ ➡	Deliver ramp-up of Leismer demo, Peregrino, Marcellus and Eagle Ford according to milestones (del.) (30.11.12)	ⓘ
Business and operational excellence and 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	➡ ➡	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”

Where are we going?

"Strategic objectives"

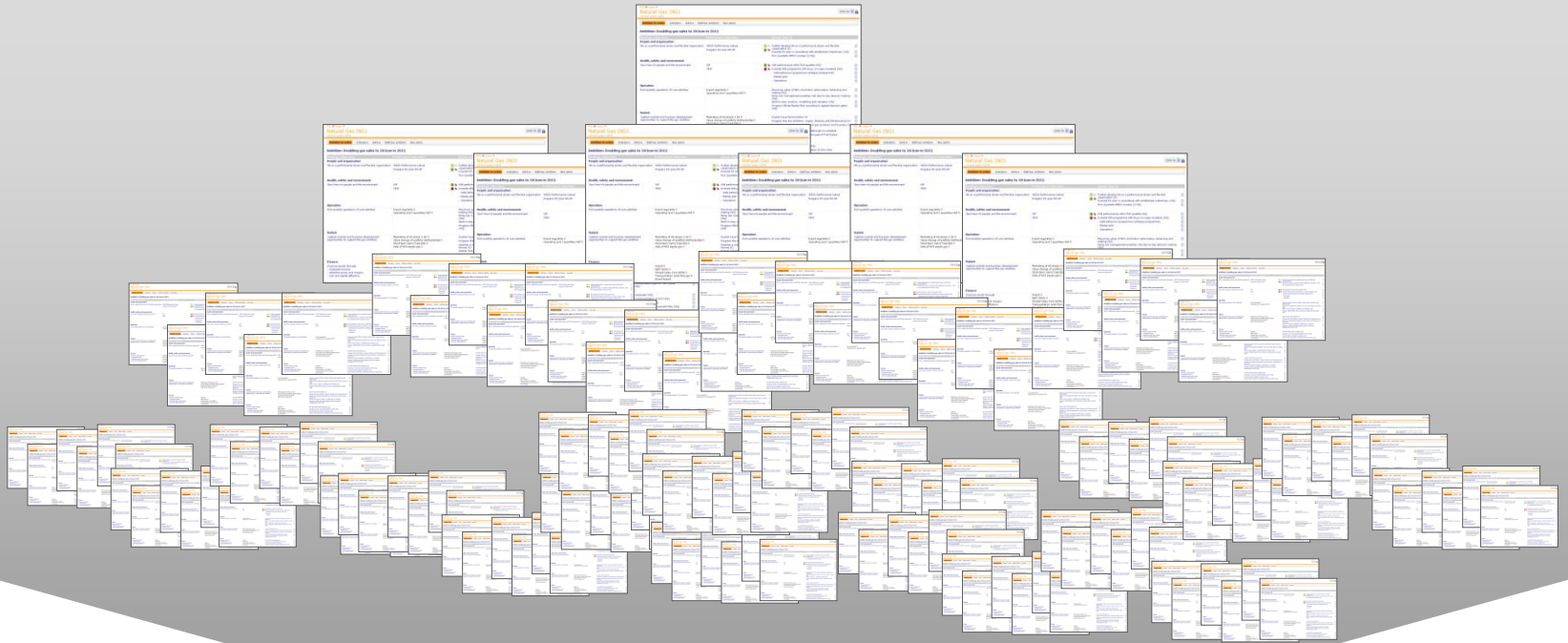
How do we measure progress?

"Key Performance Indicators"

How do we get there?

"Actions"

More than 800 "Ambition to Actions" across the company



.....and more

Next step: Integrating Risk Management

Ambition to Action

Strategic objectives	Key Performance Indicators	Indicators	Actions
Avoid incidents			
People, Security and Environment			
Create sustainable value			
Operation			
Market and Environment			
Results			

Risk

Risks	Impact	Probability	Actions
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Principal objectives:

Avoid incidents:

Safety and Security
Integrity

Create sustainable value:

Access
Maturation
Project execution
Operation
Market

Country specific

Performance evaluation

- 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	Key performance indicator 1	Target 1	Status 1
Strategic objective 2	Key performance indicator 2	Target 2	Status 2
Strategic objective 3	Key performance indicator 3	Target 3	Status 3
Strategic objective 4	Key performance indicator 4	Target 4	Status 4
Strategic objective 5	Key performance indicator 5	Target 5	Status 5
Strategic objective 6	Key performance indicator 6	Target 6	Status 6
Strategic objective 7	Key performance indicator 7	Target 7	Status 7
Strategic objective 8	Key performance indicator 8	Target 8	Status 8
Strategic objective 9	Key performance indicator 9	Target 9	Status 9
Strategic objective 10	Key performance indicator 10	Target 10	Status 10

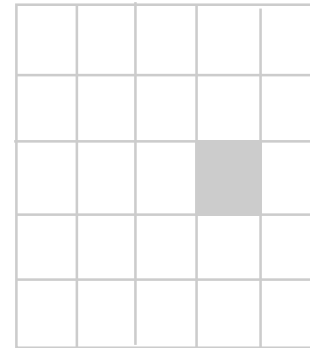


Pressure testing KPI results:

- Deliver towards the strategic objectives?
- How ambitious KPI targets?
- Changed assumptions, with positive or negative effect?
- Which risks were taken?
- Delivered results sustainable?

**D
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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

Thank you
for listening!

Questions or comments - now or later?

Bjarte Bogsnes

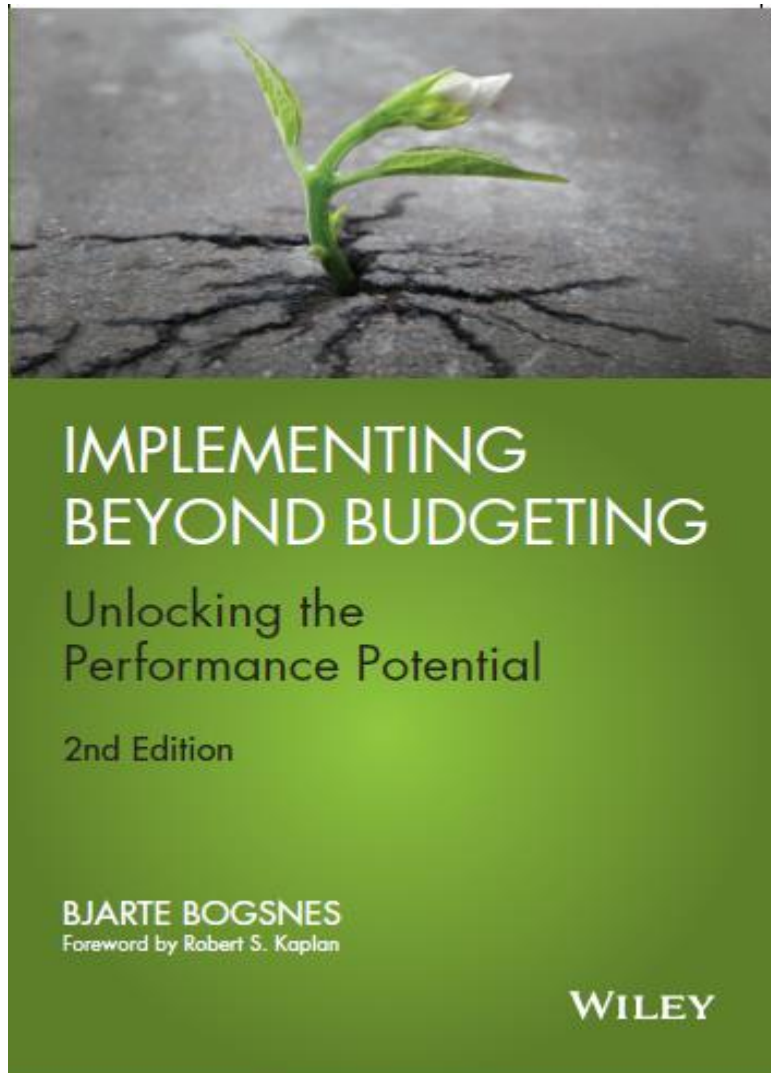
bjbo@statoil.com

+ 47 916 13 843

Twitter @bbogsnes

Beyond Budgeting Round Table

www.bbirt.org

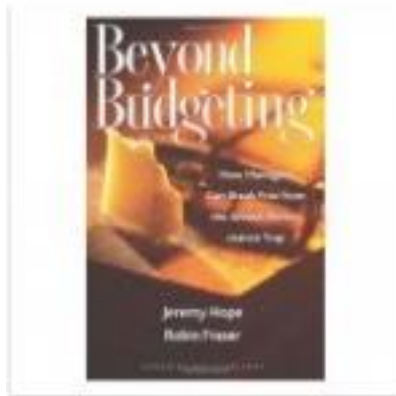


Want to hear more?

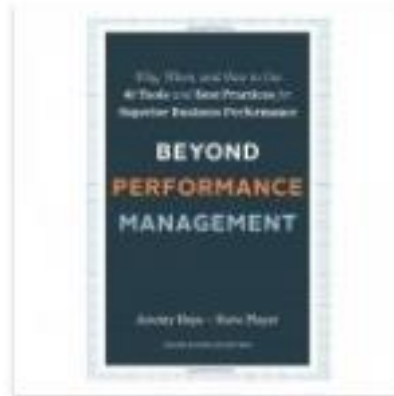
1. The problems with traditional management
2. The Beyond Budgeting model
Cases: Handelsbanken, Miles, Reitangruppen
3. The Borealis case
4. The Statoil case
5. Beyond Budgeting and Agile
6. Implementation advice

Out on Wiley (US). Chinese and Icelandic translation underway

Other recommended books



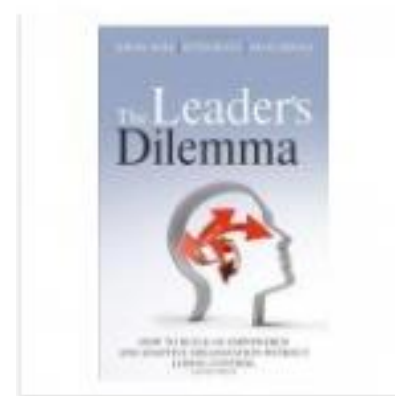
**Beyond
Budgeting**



**Beyond
Performance
Management**

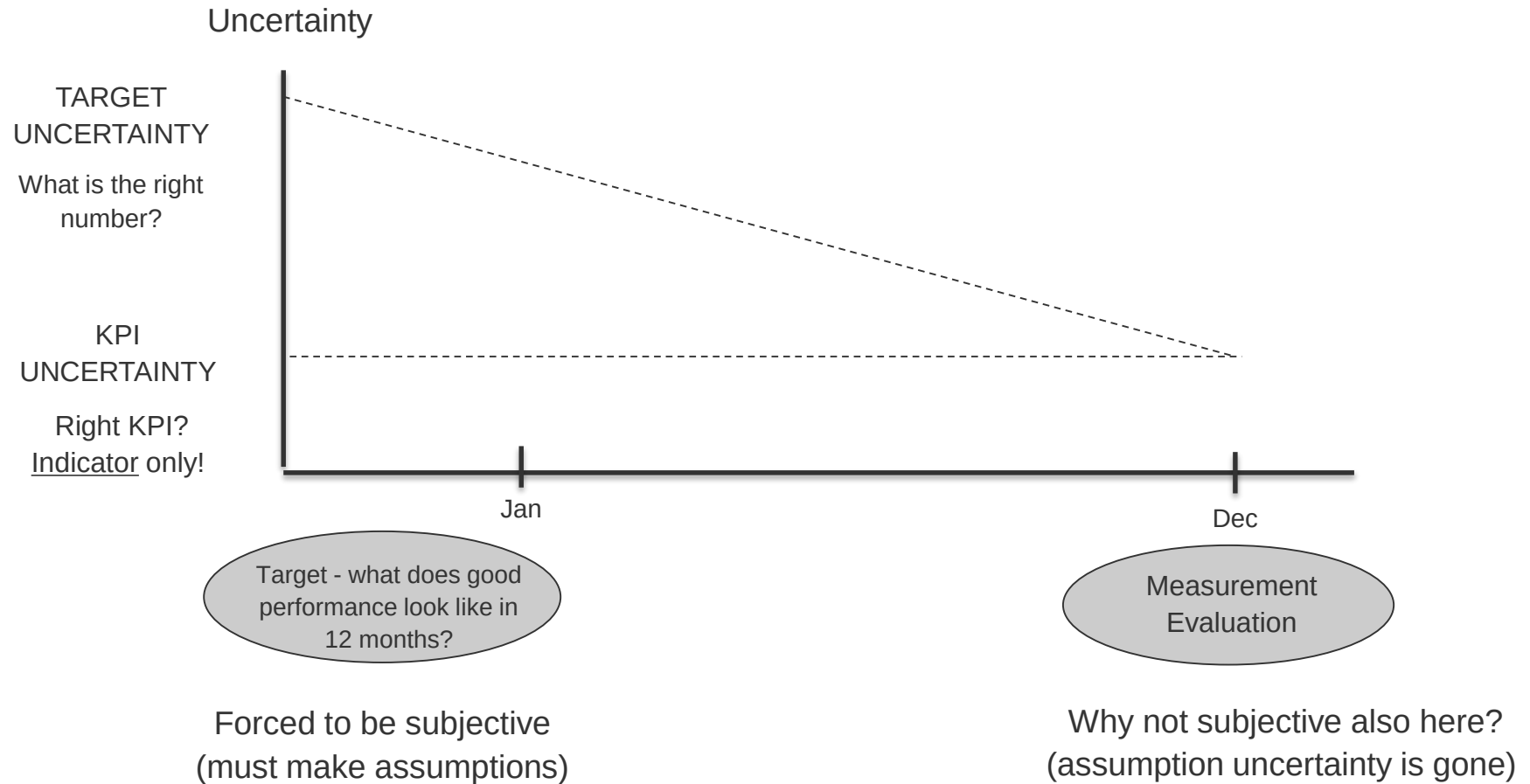


Future Ready



**The Leader's
Dilemma**

Too holistic, too subjective? Performance evaluation can never be 100% objective!



Towards an integrated performance process

Where are we going?

How do we get there?

How did we do?



Who we are

How we work

What we learnt



Implementation advice

- Create problem understanding before talking solutions
- What's the real risk - upside vs downside
- Design to 80% and jump
- You can't get rid of «command and control» through command and control
- Careful if starting with rolling forecasting
- Keep the cost focus
- Involve HR and Agile IT
- Don't become a fundamentalist

A very different finance role

Traditional management

- Autumn stunt
- Backwards looking reporting
- Variance oriented
- Precision and detail
- Finance/accounting focus
- Cascading and (Illusions of) control
- Finance silo

- Simpler!
- Boring?

Beyond Budgeting

- Dynamic and continuous
- Forward looking reporting
- Action oriented
- Relative and holistic
- Business focus
- Autonomy and trust
- Cooperation (e.g HR, Strategy)

- More challenging!
- More fun!