
A journey Beyond Budgeting

- "because the future ain't what it used to be"

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The Beyond Budgeting principles

Change in *leadership*

1. Customers - Focus everyone on their customers, <u>not</u> on <i>hierarchical relationships</i>
2. Processes – Organize as a lean network of accountable teams, <u>not</u> as <i>centralized functions</i> .
3. Autonomy - Give teams the freedom and capability to act; <u>don't</u> <i>micro-manage them</i> .
4. Responsibility – Create a high responsibility culture at every level, <u>not</u> <i>just at the top</i> .
5. Transparency - Promote open information for self management; <u>don't</u> <i>restrict it hierarchically</i> .
6. Governance – Adopt a few clear values, goals and boundaries, <u>not</u> <i>detailed regulations</i> .

Change in *processes*

1. Goals - Set relative goals for continuous improvement; <u>don't</u> <i>negotiate fixed contracts</i> .
2. Rewards - Reward shared success based on relative performance, <u>don't</u> <i>pay incentives</i> .
3. Planning - Make planning a continuous and inclusive process, <u>not</u> <i>a top-down annual event</i> .
4. Controls - Base controls on relative indicators and trends, <u>not</u> <i>variances against plan</i> .
5. Resources - Make resources available as needed, <u>don't</u> <i>allocate them in advance</i> .
6. Coordination - Coordinate interactions dynamically, <u>not</u> <i>through annual planning cycles</i> .

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StatoilHydro

- Norwegian oil and gas company; Scandinavia's largest
- Turnover and market cap approx. 60 bn USD, listed in NY and Oslo
- 31.000 employees in 40 countries
- World's largest offshore operator, Europe's second largest gas supplier, the world's third largest crude oil seller
- Four times #1 on Dow Jones sustainability index



Key principles

- Performance is ultimately about **outperforming peers**
- **Do the right thing** in the actual situation, guided by the StatoilHydro Book, your Ambition to action, decision criteria & authorities and sound business judgement
- Within this framework, **resources** are available or allocated case-by-case
- Business follow up is **forward looking** and **action** oriented
- Performance evaluation is a **holistic** assessment of delivery and behaviour

Ambition to action example - Retail Poland

Ambition: Exceeding Customers Expectations with a lean retailing beyond expectations – aiming for a top MEC position

Strategic objectives	Performance Indicators	Actions (top 5)
People and organisation 1. Attract, recruit, develop and retain people dedicated to high performance and growth 2. Distinct on demonstrated sales competence and service attitude in all customer interactions 3. A job based on the principle of 'no one is doing it better' in the organization	GPS Living our values Staff turnover site	Build stronger employer brand to attract high performers 2008-12-31 Ensure execution of training programs for new site manager, new site employees and B2B with effect on reduced turnover and performance in customer interactions 2008-12-31 Implement performance based remuneration system for HQ and develop a performance based reward system for site 2008-12-31 Review and optimize site Staff retention program 2008-12-31 Strengthen value based performance culture with positive effect on working environment and results 2008-12-31
Health, safety and environment Zero harm to people and the environment	SIF TRIF Accidental oil spills Freq. Tanktruck accident - Freq. Robberies	Further improvement of HSE Leadership and Behavior 2008-12-31 Implementation and revision of programs for major accident risk reduction 2008-12-31 Implement basic HSE tools and procedures 2008-12-31
Operational 1. 50 days and over in profit 2. Excellence customer relations 3. Leading Wet Supply Chain operator 4. Professional category management as a core competence 5. Network expansion 6. C&I Business expansion	Site new months Site mystery shopper Site n° of new acquisitions Delivery loss	Expansion - new openings, new acquisitions, divestment of non station sites. 2008-12-31 Lean 08' phase II cont. program 2008-12-31 LPG / autogaz ; secure supply and storage capacity / optimize logistics 2008-12-31 Lubes - Implement new product line (cutting and HDDO) 12/31/2008 Smiley - new way forward 2008-12-31
Market 1. A distinct customer offer 2. Scandinavian look and feel, driven by food to go and convenience solutions. 3. Customer driven category marketing, target buying decisions. 4. Continuing to expand present B2B Routex activities/ programs. 5. Increased customer satisfaction index and loyalty.	Site n° sales growth Site customer satisfaction Market share tran in fuel and Bio fuel	B2B: implementation of B2B project outcome 2008-12-31 BIO - launch a new fuel brand (VC) 12/31/2009 Car Wash : revise category; support growth trend / optimize profitability. 12/31/2008 Customer satisfaction index - revise evaluation elements and results; score target. 12/31/2008 F2GO: Coffee / Hot Food promo + Sandwich new concept launch : 3 regions 12/31/2008
Finance 1. A sustainable EBIT 2. Standardised operating and support systems focused on the customer. 3. SOX Compliance 4. GBS Finance Implementation	EBIT (PLZ)	Continuation of implementation of agreed actions in relation to 2007 Working Capital project. (VC) 2008-12-31 Globalization/standartization (GBS FIN). Establish a good co-operation and working process with both central and new local GBS unit. 12/31/2008 Increase percent of invoices with purchase orders to at least 70%. 12/31/2008 Keep A&C controls 100% SOX compliance. 2008-12-31 Professional, lean & compliant Procurement 12/31/2009

Where are we going?

"Strategic objectives"

How do we measure progress?

"Key Performance Indicators"

How do we get there?
 "Actions"

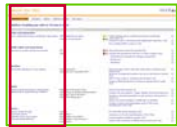
Solving a budget conflict



The Ambition to action process

STRATEGY & TARGET SETTING

Ambitious – relative to peers



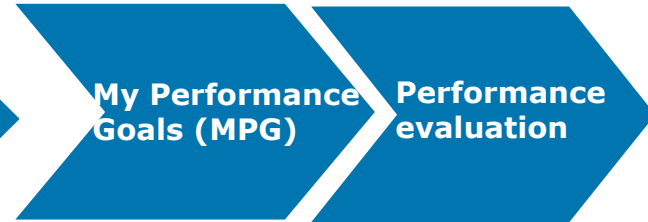
PLANNING

Expected outcome



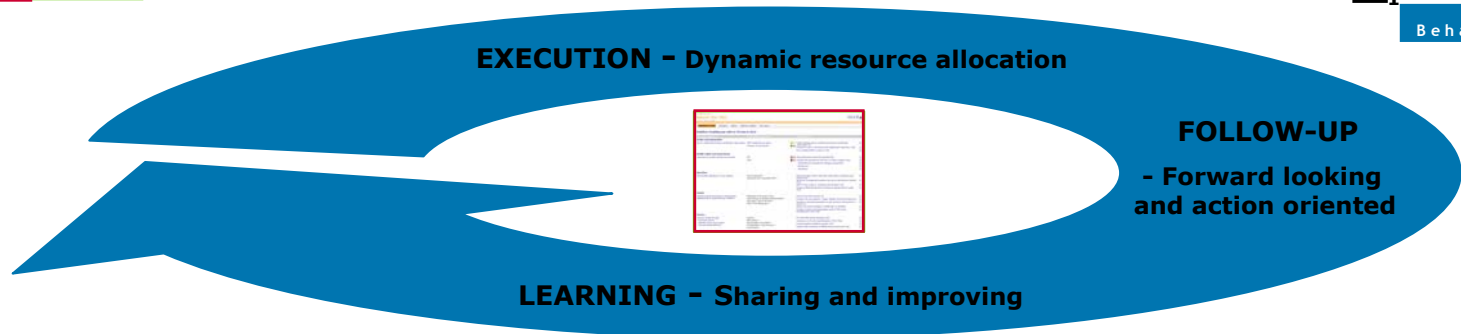
PEOPLE@STATOILHYDRO

Holistic assessment

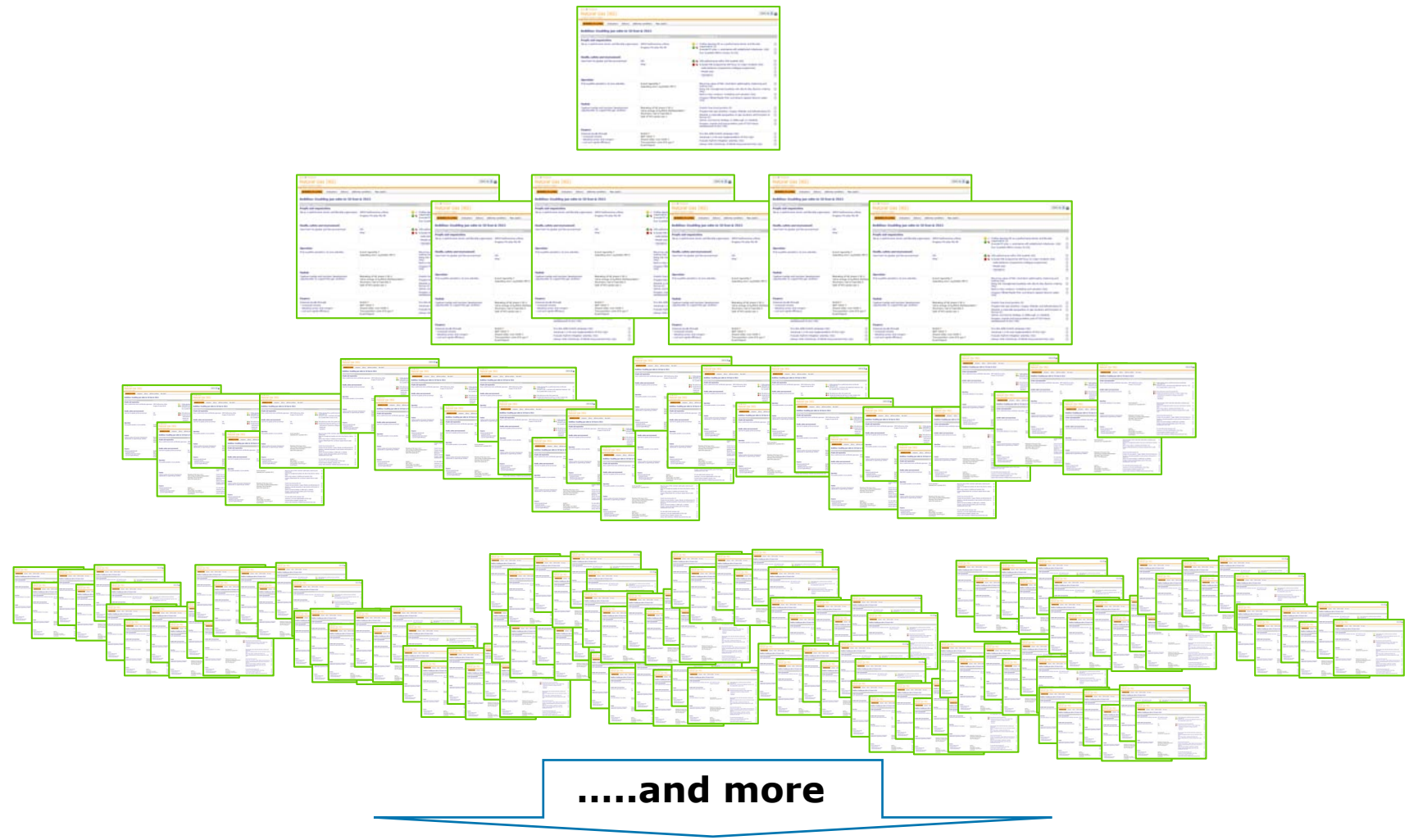


Possible gaps

Target review



More than 800 "Ambition to action" across the company



A new performance language

- from mechanical to holistic assessment

(Previously only KPI targets)

"Ambition to Action"

- Strategic objectives
- KPI targets
- Actions

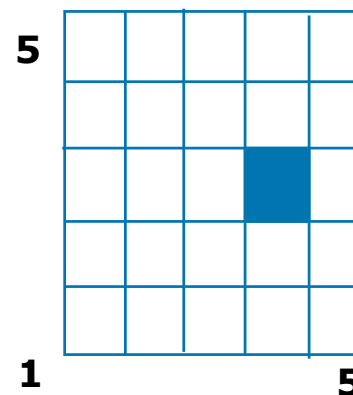


Pressure testing KPI results:

- 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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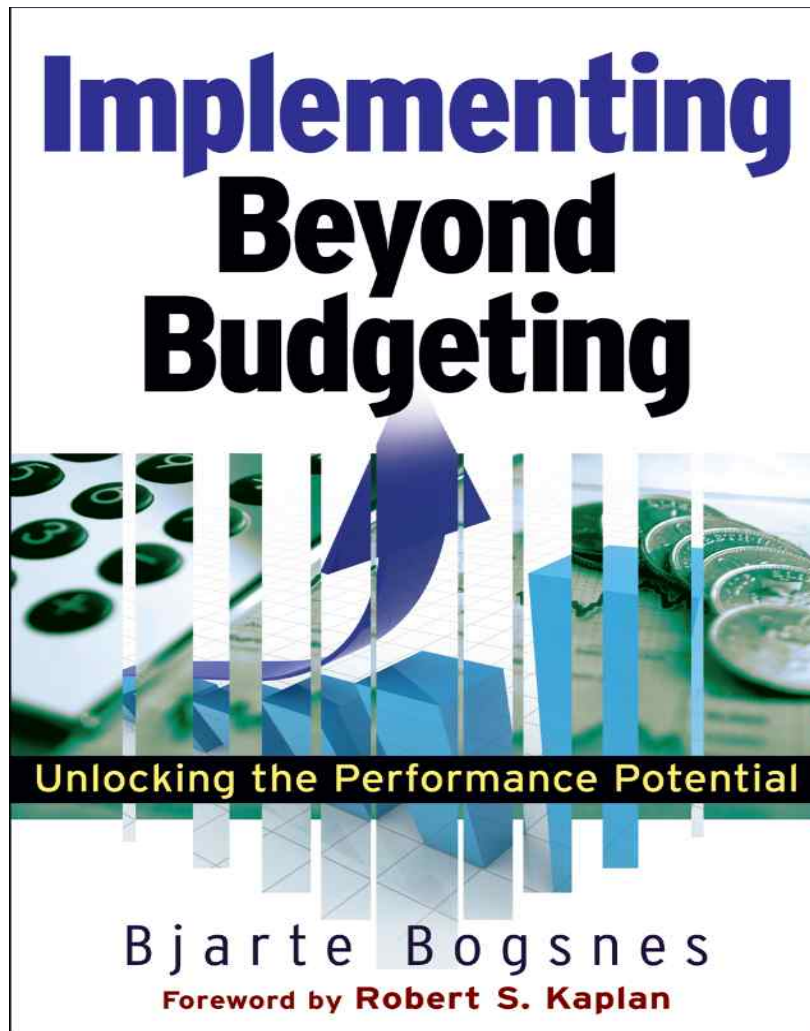
B e h a v i o u r

Living the values

- Day-to day-observations
- 360° / 180° / 90° surveys
- People survey
- Individual development plan

10 things that can't be explained in 20 minutes....

1. Why we need to change...
2. How to get the green light and top management support....
3. How to overcome resistance and scepticism in the organisation....
4. How to manage costs without budgets....
5. Why we don't do five quarter rolling forecasts....
6. Why budgets must go if you want to realise the full potential of the balanced scorecard...
7. Why KPIs can't do the job alone....
8. How to avoid seven balanced scorecard pitfalls....
9. Why individual bonus can cause more damage than good....
10. Why HR must be onboard....



...but it is all
in the book!

(and a lot more...)

Out now on Wiley (US)

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Thank you for listening!

Questions or comments – now or later?

Beyond Budgeting Round Table (BBRT)

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