



IMPLEMENTING BEYOND BUDGETING

Unlocking the
Performance Potential

2nd Edition

BJARTE BOGSNES

Foreword by Robert S. Kaplan

WILEY

Implementing Beyond Budgeting

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*Unlocking
the Performance Potential*

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For Jeremy and Peter

Contents

<i>Foreword</i>	xi
<i>Acknowledgments</i>	xiii
<i>About the Author</i>	xv
<i>Introduction</i>	xvii
 CHAPTER 1 Problems with Traditional Management	1
Introduction	1
Which Way in a New Business Environment?	4
The Trust and Transparency Problem	7
The Cost Management Problem	14
The Control Problem	22
The Target-Setting Problem	26
The Performance Evaluation Problem	30
The Bonus Problem	34
The Rhythm Problem	45
The Quality Problem	49
The Efficiency Problem	52
 CHAPTER 2 Beyond Budgeting	55
The Philosophy	55
Beyond Budgeting Roundtable	65
The Beyond Budgeting Principles	69

	Handelsbanken—the Pioneer	74
	Miles—a Master of Servant Leadership	80
	The Reitan Group—Values at the Core	84
CHAPTER 3	The Borealis Case	91
	Introduction	91
	Creation of Borealis	92
	The Journey Begins	94
	The Borealis Model	99
	Implementation Experiences and Lessons Learned	115
	Borealis Today	119
CHAPTER 4	The Statoil Case	123
	Introduction	123
	Creating the Foundation	126
	Starting Out	130
	The Statoil Model	134
	A Dynamic Ambition to Action	190
	What Could Be Next?	199
	The Beyond Budgeting Research Program	210
	How Are We Doing?	212
	A New Start for Statoil?	217
CHAPTER 5	Beyond Budgeting and Agile	221
CHAPTER 6	Making the Change: Implementation Advice	229
	Create the Case for Change	232
	Handle Resistance	238
	Design to 80 Percent and Jump	240

Keep the Cost Focus	241
Don't Start with Rolling Forecasting Only	243
Involve Human Resources and Agile IT	244
You Can't Get Rid of Command and Control through Command and Control	246
Do Not Become a Fundamentalist	249
Balanced Scorecard Pitfalls	250
Revolution or Evolution?	260
 <i>Closing Remarks</i>	 263
<i>Index</i>	265

Foreword

Bjarte Bogsnes's book is an important contribution to the transformation of finance from the controlling and bean-counting office to the company's value-creating office. Bogsnes describes how to transform finance's historical role of ex-post reporting and controlling into a new role that guides the enterprise forward for sustainable value creation. The transformation requires reexamining and, probably, abandoning some of the vestiges of finance's previous management control tools. In particular, several companies in Europe and North America have questioned their use of the annual operating budget, a management tool introduced at General Motors nearly a century ago by CEO Alfred Sloan and CFO Donaldson Brown. Although the operating budget was a great innovation at the time, today's dynamic and highly volatile environment has made an annual fixed operating plan an anachronism. The counterreaction to the high preparation cost, in time and money, of the annual budget and its inflexibility in light of rapidly changing external circumstances and internal opportunities has launched the Beyond Budgeting movement. Several academics and consultants have written articles and books, and led working groups of companies, about how to abandon the fixed annual budget.

The current book makes a major contribution to this movement. Unlike the previous writers, Bjarte Bogsnes has been there and done that. And not just once. Bogsnes was the intellectual and project leader at two transformational projects at major companies, Borealis and Statoil. The book draws on these rich

experiences to offer practical advice about how to introduce a new set of planning and performance management systems that inspire both managers and employees to achieve breakthrough performance. This book is an essential read for anyone frustrated with the organization's budgeting process and looking to achieve the intended benefits from the budget with new systems that work better, faster, cheaper, and more flexibly. Bogsnes takes *Beyond Budgeting* to a new level by describing in detail the management system, "Ambition to Action," that he helped introduce to replace the budget system. Along the way, he provides vivid examples of the implementation process in the two large companies that enabled them to abandon and replace a strongly embedded management system.

Bogsnes was trained in finance and worked for many years in finance organizations. He does not, however, view finance just through its typical left-brain analytic lens. Rather, he is eloquent on the importance of incorporating right-brain concepts such as trust, empowerment, leadership, transparency, and communication when designing and implementing a new management system, especially with today's workforce and competitive environment. The book is a refreshing integration of analytic left-brain concepts, including activity-based costing, balanced scorecards, and performance objectives, along with vital right-brain sensitivities on motivating and leading organizational change.

I have heard Bjarte speak on many occasions. The enthusiasm, passion, and persuasion that he exudes in person come through well in his writing. Managers searching for new ways to motivate and evaluate their people will find him inspiring, refreshing, practical, and, even, entertaining, terms not usually applied to authors of management control books.

Robert S. Kaplan
Harvard Business School
Boston, Massachusetts

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It has been said that if you want to travel fast, travel alone. If you want to travel far, travel together. I want to thank all my fellow travelers on this journey.

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My other Finance colleagues and all of you out in the business, who have been taking this into your own units. I dare not list names, because there are so many of you. You know who you are!

My Human Resources colleagues. We are so much stronger together! A special thank-you to the wise and wonderful Siri Bentsen

My new friends in IT. Agile and Beyond Budgeting are a perfect fit.

I am deeply in debt to all my friends at the Beyond Budgeting Roundtable: Jeremy Hope (RIP), Peter Bunce (RIP), Robin Fraser, Steve Player, Steve Morlidge, Franz Rösli, Anders Olesen and Dag Larsson.

Thank you to Thomas Boesen in Borealis for a great job in Finance after I moved to Human Resources, and to everybody else on the Finance team, especially Gunnar Nielsen, Asbjørn Holte, and Anders Frøberg. I am also very grateful for all the support and patience from my HR colleagues.

A special thank-you to Bob Kaplan for the Foreword and for all the support since we first met almost 20 years ago.

A big salute to Katarina Kaarbøe and Trond Bjørnenak at NHH and their colleagues for introducing Beyond Budgeting to academia. Others will follow, but you were early!

And last, but also first, Svein Rennemo: Thank you for the challenge and for all your trust and support. Not everybody dares to ask for the unexpected. You did.

About the Author

Bjarte Bogsnes has a long international career, both in Finance and HR. He has been advocating Beyond Budgeting for more than 20 years and led its implementation at two large European companies, Statoil and Borealis. Bjarte is the chairman of Beyond Budgeting Roundtable (BBRT) and is a popular international business speaker. He is the winner of a Harvard Business Review/McKinsey Management Innovation award.

Introduction

“I may not have gone where I intended to go, but
I think I have ended up where I needed to be.”

Douglas Adams

Many years have passed since I sat down in my mountain cabin in Norway and started writing about my Beyond Budgeting journey. The book I ended up with was conceived in the cold and dark of winter, but was written with a burning belief about a new and better way. I am both humbled and proud that the book found its way into academic curriculums, and that business schools around the world are teaching the Borealis and Statoil cases, which the book introduced.

Many have encouraged me to write a second book. I knew I would. There has been so much progress for Beyond Budgeting and so much learning for myself, more than I ever could have dreamt of when my journey started way back in the mid-1990s.

This wealth of new insights and experiences is, however, hard to share in isolation, without linking back to where it all started in Borealis and later continued in Statoil. I was therefore uncertain if I should update the first edition or write a completely new book. My publisher and many others recommended a revision first. I ended up with something in between. I hope returning readers will find it more new than revised.

My writing has been accompanied by countless hours of great music. A big thank-you to Neil Young, Bob Dylan, Van Morrison, Elvis Costello, Tom Waits, Warren Zevon (I have to stop here) and so many other great artists for providing the soundtrack to these words. Many musicians say about their best albums (Yes, I still use that word; I am a vinyl guy!) that they first took those songs on the road before going in to the studio. Without any further comparison, I can connect to that. All the presentations and workshops I have done since my first “album” came out have sharpened and improved old songs you may have heard before, but also inspired a number of new ones. I really look forward to sharing my new set with you!

When I first thought about writing a book about my Beyond Budgeting journey, my immediate reaction was “no.” How could I possibly write 300 pages or more about something that actually should be nothing but common sense? So please bear with me that this book still is no brick. Maybe you don’t mind. Maybe there are enough bricks out there. But thank you for spending a few hours on something that is less of a story about budgets and more of a story about leadership and what makes people and organizations perform and excel. The main purpose is not to get rid of budgets. The budget is only a *barrier* that must be removed, and certainly not the only one. The main purpose is *liberation* from dictatorship, micromanagement, number worshipping, bureaucracy, calendar periods, secrecy, sticks and carrots, and all the other management myths about what is best for achieving great performance in teams and organizations. This is the regime we have to overthrow in order to make the business world a better place. Welcome to the revolution!

I hope I did not lose you with this slightly emotional outburst. Please hang on. I promise to prove the case with sober evidence and lots of practical examples. Many will be uncomfortably familiar.

I am a finance guy by education. My first job was actually in Statoil's corporate budget department. Trust me; I know the budget game from the inside—not just from that job, but also from many later finance manager jobs. I have paid my dues, almost camping in my office during the frenzy of budget peak periods. Looking back, I did some incredibly stupid things during the early days of my career! Hopefully, it makes my criticism not only credible but also useful.

I am still with Statoil, in the role of vice president of Performance Management Development. I know it is an odd title, but it was the best we could come up with when an organization chart had to be finalized in a hurry back in 2007. Anyway, it is a great job!

For someone used to changing jobs every third year (and often country, too), it has been a surprising blessing to be in the same job and place for more than ten years now. My wife would probably disagree on “the same place,” given my travel schedule. Fortunately, she is sometimes able to join me. She could probably step in and speak for me anytime and anywhere!

I am still actively engaged in the Beyond Budgeting Roundtable: more later about the amazing development of this network that started out in the late Nineties and is today stronger than ever.

Beyond Budgeting is about leadership more than anything else. I have been in leadership roles for almost 20 years, most of the time with international teams outside my home country. I sincerely enjoyed the leadership role. It is the most challenging and rewarding job there is after the ultimate leadership role, which always will be parenthood.

I also learned about leadership in the Norwegian Army, where I spent a year at an officer school before getting to practice it all in a second year. Much of my learning was, as I saw it, about how *not* to lead, enough to abort my plans about

a military career and go for business studies instead. The army has fortunately changed since I got my overdose of command and control back in the 1970s.

I belong to the rather small group of finance people who have also worked in Human Resources (HR). I headed up an HR function for four years. I never learned more in any other job. That period gave me invaluable insights and inspiration for the next part of my journey. First, I realized something that should be obvious, but unfortunately isn't for most finance and HR people: Performance management cuts across both functions and neither will succeed without the other onboard. Second, the leadership side of Beyond Budgeting now gave so much more meaning.

I also have the practical experience of heading up two Beyond Budgeting implementations. Borealis was Europe's largest petrochemicals company at the time, while the energy company Statoil is Scandinavia's largest company. I have shared my experiences from these two companies at thousands of conferences and workshops across the world. I have met and had discussions with countless managers and professionals, and experienced overwhelming and heartwarming support, but also hesitation, confusion, and at times, outright disagreement.

I have always been curious about what lies underneath what we all observe on the surface. I have learned a lot from great stuff written on both leadership and management. This book is very much about the difference between the two. But I am also a practitioner. For me, the crossroads where theory meets practice is the place to be. When I studied at the Norwegian School of Economics (NHH), it was hard to relate to much of the organizational theory, and not only because I was perhaps not among the most frequent visitors to the study hall. I needed the painful but rewarding experience of trying it all out in practice, where theory hits the trenches of real life. This is a story from those trenches. Too often, the theory failed.

When I graduated and joined Statoil in 1983, it was a smaller company than what it is today. Most small companies want to grow. When preparing for the growth journey, many look to those who have already succeeded and become big. How are these companies managing themselves? Discovering their impressive menu of advanced management processes can be a daunting experience: scenario planning, strategy development, balanced scorecards, budgets, risk management, incentive systems, compliance, audits and controls, and on and on. The list is long. Sometimes management consultants are called in to help. It rarely makes the list any shorter! Then the company starts out, both growing and working on the list. New management processes are introduced one on top of the other.

Some succeed, not just in growing, but also in implementing everything on the list. They may even have become one of those benchmarks that small companies now look to with awe and admiration. Many will, however, discover that they have not only become big. They have also become bureaucratic, rigid, inflexible and slow, and sometimes also quite sad places to work. They have lost the agility and the “yes!” spirit they had when they were small.

The growth journey of organizations shares many similarities with the aging process of humans. As we grow older, we lose more and more of what we took for granted in our younger days: the agility and flexibility of youth. I am starting to get some personal experience here! As age takes its toll, some also get weary of life and lose their spirit and that twinkle in the eye. This development in the human body and mind is unavoidable and irreversible, at least the physical part. It can be delayed through a healthy lifestyle, but in the end, age takes us all. We have no choice.

Organizations, however, have a choice. They are not destined to become slow and sad because they grow and become older. If they do, it is mostly self-inflicted and cannot

be blamed on destiny or age. Fortunately, the damage is reversible, although dismantling what was introduced during the growth journey will always be much harder than avoiding it in the first place.

The big question for big organizations should therefore be: “How can we find our way back to the agility and humanity we had being small? How can we be big *and* small at the same time, old *and* young, wise *and* brave?” The big question for small organizations wanting to grow should be: “How can we avoid ending up in the same place?” Most organizations are actually born Beyond Budgeting. They become something else because they think they have to in order to grow up. Of course, one cannot manage a big organization exactly like the small one it used to be. But could there be alternatives? Could there be other ways that better balance the benefits of being big, which of course are both real and important, with the benefits of being small?

For humans, older normally means wiser. For organizations, this is not necessarily the case, as many struggle to capitalize on a mountain of collective wisdom and experience acquired during the growth journey. The solution is often another new process: “knowledge management.” Many employees experience instead a “dumbing-down” trend, as they observe more and more strange decisions being made further and further away from their own reality.

Many of the issues raised in this book have been discussed before in some shape or form. Douglas McGregor, for example, addressed many of the Beyond Budgeting leadership issues in his classic book, *The Human Side of Enterprise*, back in 1960. His “Theory X and Y” is spot on. What are your fundamental beliefs about people? Does your sympathy lie with Theory X? Do you believe that people generally dislike work and responsibility, have low ambitions, and prefer to be directed and controlled? Or do you instead believe in Theory Y, that people want to be involved, take responsibility, develop and perform, and make a

positive difference? McGregor's book is timeless reading and is highly recommended.

The issue is not a lack of theory. There are thousands of other books and articles to draw from. The knowledge is out there. What we need is all of this theory to be put to work. We need to get all those managers who believe they finished their education at graduation to understand that they are at risk of becoming more finished than educated. We need to see radical change in the millions of organizations and teams where old-fashioned management is executed every day. Theory X is alive and kicking as if little has happened over the last 50 years.

One label for what this book is about could be “performance management.” I actually don't like that phrase, despite having it in my title. “Performance” is great; it is the combination with “management” I struggle with. How do you feel if someone tells you they are going to “manage your performance”? I know what my response is. My defense system immediately goes on red alert. Nobody is going to mess around in my head! Nobody is going to pull my strings as if I am some kind of dancing marionette! In fact, I do not believe that performance really can be “managed” at all, at least not in the traditional way that so many management theories want us to believe. People are not robots, organizations are not machines, and the future is more unpredictable than ever. Managers can't just sit in the control room, pull strings, push buttons, and “manage” performance. You can't make a flower grow by pulling on it.

What we can do, however, is to create the *conditions* needed for growth and performance. We can create an environment of trust and transparency, of positive challenge and stretch, of care and support, where people perform because they want to, not because they are told to. But this is all we can do. People are not marionettes. They can choose to respond to these conditions, but they cannot be forced; they cannot be “managed.” Many feel *over-managed* and *under-led*. They are hungry

for good leadership: direction, inspiration, and support. Good leaders create *clarity*, *capability*, and *commitment*: direction on which mountain to climb, and the ability and wish to get up there. That is leadership in a nutshell, and also very much what *Beyond Budgeting* is about. It is not so much those budgets we are after. It is more the *mindset* and the myths and beliefs of traditional management we need to fight. It is the naiveté of believing that if we only describe the future with enough decimal places, then we know what will happen and can safely set sail. It is the blind belief that good performance is all about hitting those budget numbers. It is thinking that as long as we in great detail can explain why we once again got it wrong, we are in control. It is the myth that throwing money at people is the only or best way to motivate. It is Theory X again; unless people are kept on short leashes and are tightly controlled, they will all cheat and abuse.

You will still at times catch me using the phrase “performance management,” because I have yet to find a better one. “Organizational behavior” could be an alternative. Unfortunately, many of those we need to reach with the Beyond Budgeting message immediately switch off when they hear such soft and nonfinancial words. Until we find a better name, I am afraid “performance management” will have to do. Please let me know if you have a better proposal!

There would have been no journey to write about if it weren’t for Svein Rennemo, perhaps the best leader I ever worked for, among quite a few great ones. I was reporting to Svein when I headed up Corporate Control (*that* is a terrible name, and I even picked it myself!) in the newly formed Borealis back in the mid-1990s. Svein was the CFO and later the CEO.

“What do you expect from us?” That was the question I asked him back in 1995, when Borealis was undertaking a full-blown “business process reengineering,” which is (or was) consultancy language for “Leave no stone unturned and look for a

better way.” I was asked to head up a part of this project called “management effectiveness,” and I was quite uncertain about what content to put behind such a fancy label. So I asked Svein what he really expected from us. I will never forget his response. He looked at me with his mild and kind eyes, which I knew should never be mistaken for any lack of will or determination, “Bjarte, I expect the unexpected.” That was all. So much challenge, and so much trust, in so few words.

Triggered by that message, some months later we had decided to abolish budgeting in Borealis. For me, those words from a great leader became the start of a long journey. You will learn much more about what we did and how we jumped without any knowledge at the time of anyone else jumping.

Before we get to this story, we have to start with the case for change, with all the problems caused by traditional management. We will do so in Chapter 1, where we discuss how traditional management has become more of a barrier than a support for great performance. The budget is one of the problems, but certainly not the only one. We discuss serious and often overlooked problems related to trust, cost management, rhythm, target setting, performance evaluation, bonus, quality, and efficiency. All sections are revised and expanded compared to how I presented these problems in the first edition. This didn’t make them any smaller. On the contrary! I have also added a new section about “control,” undressing some of the illusions of control that unfortunately so many believe in.

In Chapter 2 we move to Beyond Budgeting. First, we review the philosophy behind and the latest update of the 12 principles, before we visit the Beyond Budgeting Roundtable. The chapter has been updated with everything happening since 2009—a lot, actually. There has been significant progress, but also sad and serious setbacks.

We will then make the concept more tangible by taking a look at the famous Handelsbanken case. This Swedish bank

made radical changes to its management model already back in 1970 and continues to be a great reference and source of inspiration. I have updated the story with new insights about this fascinating Beyond Budgeting pioneer.

We will also look at two new cases. Miles is an amazing IT company, a master of servant leadership with no budgets and no targets. The Reitan Group is one of Norway's largest companies with a vision of being "the most values-based organization." You have two wonderful stories to look forward to!

We then move to Borealis and Statoil in Chapters 3 and 4. The Borealis case is a story from the 1990s. If you read the first edition, this might be what to skip, as the chapter is relatively unchanged. Or could I tempt you back to those great questions and defining moments that turned out to be so incredibly important? Take that simple but big question from a very tired Borealis controller as we just had completed two budgets in one year during an extremely busy 1994 startup: "What if we don't budget at all?" Or the relief when we finally cracked it all with another simple question: "*Why* do we budget—what is actually the *purpose* of these numbers?" Those were the days!

The Statoil case is a field report from an ongoing journey, which keeps providing great learning even as these words are written. Much of the chapter is rewritten and also expanded as so much has happened in Statoil since the first edition was published in 2009. It was written during exciting merger times between Statoil and competitor Hydro's oil and gas business. I wrote this edition during equally special circumstances. The oil price collapsed once again. This time, the whole industry, including Statoil, has embarked on deep and fundamental changes not only on activity levels but also on operating models. The price crash that again took everybody by surprise clearly demonstrated the need for Beyond Budgeting agility, but it also put the model under pressure as some (so wrongly!) had assumed it meant that cost was not important. The skeptics came out from hiding, eyeing an opportunity for a return to the

easier days of traditional management. I promise to come back to how this played out.

Chapter 5, “Beyond Budgeting and Agile,” is new. Discovering the Agile community has been a wonderful experience, and not just because we have so much in common. There are so many warm and wise people in this amazingly vibrant community. Unfortunately, in most organizations where IT is not the core activity, those outside of the function have not yet discovered how Agile has revolutionized the way great software is developed.

I have significantly expanded Chapter 6, which addresses implementation, adding new insights from both inside and outside of Statoil. Today, there are so many companies on the journey that keep discovering new ways and routes. You will, however, find a wealth of implementation insights already in the Borealis and Statoil chapters.

There are also a number of new illustrations, especially in the Statoil chapter.

Before we move on, I need to issue a warning. Throughout this book, you will often find me shouting. You will probably feel that I from time to time make things quite black and white, when for instance criticizing the budget and the damage it causes. I do this on purpose and with no guilt, because I am convinced that something is fundamentally wrong. That starting point is non-negotiable. I just want to make sure that at least some of my worries and warnings about traditional management come through. If I succeed, I also want to offer help and a way out of the misery. As a minimum, I want to leave you with a feeling that perhaps there is something to this. I do, however, have high hopes. I believe most of you will agree with most of what I have to say, because it is nothing but common sense.

If you are a returning reader, I wish you a warm welcome back. Great to see you again! If you are new, I wish you an equally warm welcome to the fascinating world of Beyond Budgeting!

