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**“The future ain’t what it used to be”**

**Bedre styring uten budsjetter**

Bjarte Bogsnes  
StatoilHydro

# 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 Latvia

## Ambition: Lean retailing beyond expectations

Strategic objectives	Performance indicators	Actions (top 5)
<b>People and organisation</b> Right people at the right positions Leadership based on Statoil values Ensure brand delivery in the customer interaction Account for people and the partner's interests	Sick leave HQ Staff turnover site HQ manning (FTE) WEOS Change Capability WEOS Performance culture	Implement RCC: implement on the job training to improve customer satisfaction (01.12.2006.) Implement RCC: Implement e-recruitment tool to find the right people (01.04.2006.) Implement RCC lean training at sites (31.12.2006.) Implement new recruitment for sites to ensure selling culture and improve motivation (01.01.2006.) Implement RCC leadership program for top- and middle management (01.06.2006.)
<b>Health, safety and environment</b> Zero harm to employees, customers and environment (LV) ISO-Certification retained	SIF TRIF Robberies	Implement RCC Food safety program (31.12.2006.) Implement RCC Contractor safety program (31.12.2006.) Continuously implement Robbery prevention programme. Educate 100% of s/s staff through robbery prevention programme. (31.12.2006.) Reduce fuel thefts to 370LVL/site (31.12.2006.) Implement RCC: Implement HSE on Site (31.12.2006)
<b>Operation</b> Create a lean operation structure One fuel concept (Price, network, product quality & brand, card rebates)	Market share petrol % Integrated management (LV) R Site labour cost % of margin R Retail fuel volume growth % New sites opened R Mystery shopper	Implement RCC LEAN program (31.12.2006.) Network expansion - Franchise s/s - 9 franchise stations (31.12.2006.) FSS network expansion - 5 FSS (30.10.2006.) Implement RCC Fuel category management (incl. best supply) LPG network expansion - 18 LPG outlets
<b>Market</b> One store concept based on Scandinavian look and feel, driven by food to go and convenience solutions Customer driven category marketing targeting buying decision One B2C loyalty concept based on one card and rebate ladders Most efficient competitor in operating markets One strong 'out of the box' executing retail purchasing unit	Non-fuel sales growth % R Shop margin % Customer satisfaction	Implement RCC test pilot store (31.12.2006) Shop pricing strategy to ensure +19% non fuel growth (1.03.2006) Implement RCC rollout relevant modules of the RCC store development program (hot beverage/hot food) (31.12.2006) B2B sales goals + 10% volume increase (31.12.2006) Loyalty program implementation to increase volume on B2C by 10% (31.12.2006)
<b>Finance</b> EBIT2 2007 of LVL 3.5 million Improved ROACE through program and capital management Long term IT strategy in place	EBIT (LVL) R Transformation effect (LVL) R Total cost % total income	Implement RCC successful SOX implementation and line management take-over (31/03/2006) IT cost and project control to develop stable IT environment (30/04/2006) Bad debt exposure under 80 KLVL

Where are we going?

"Strategic objectives"

How do we

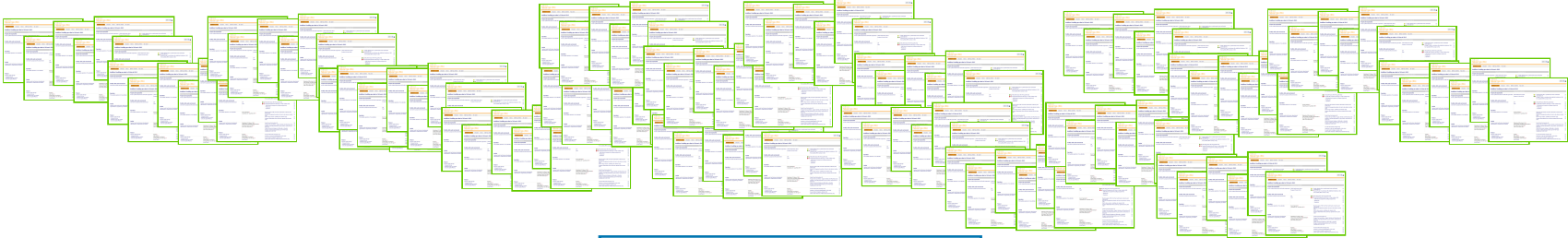
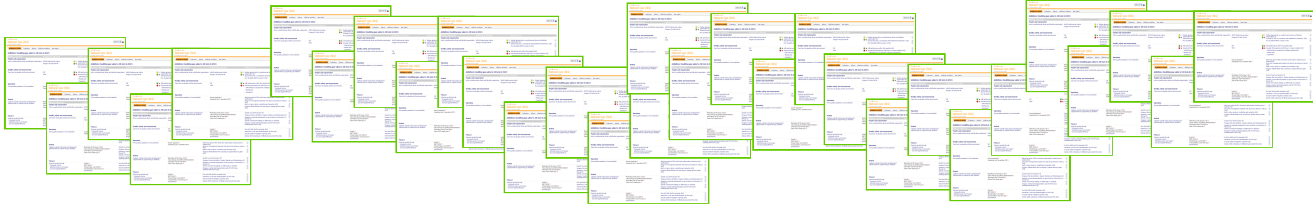
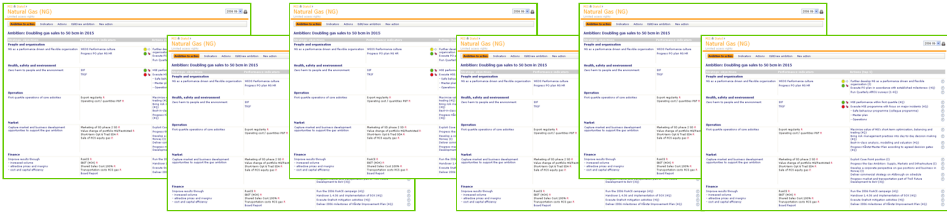
measure progress?

"Key Performance Indicators"

How do we get there?

"Actions"

# More than 500 Ambition to actions across the company



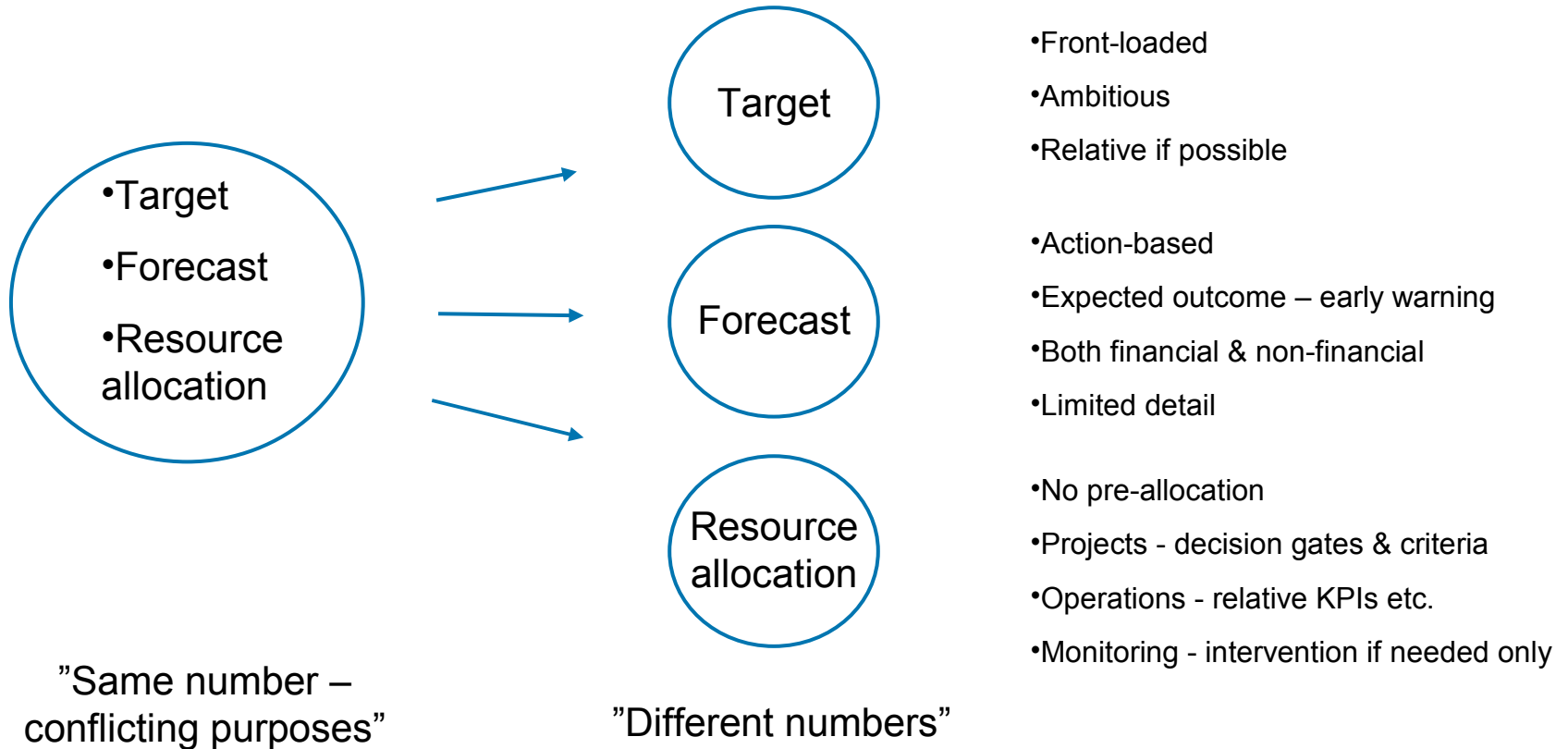
**.....and more**

# Separate and improve

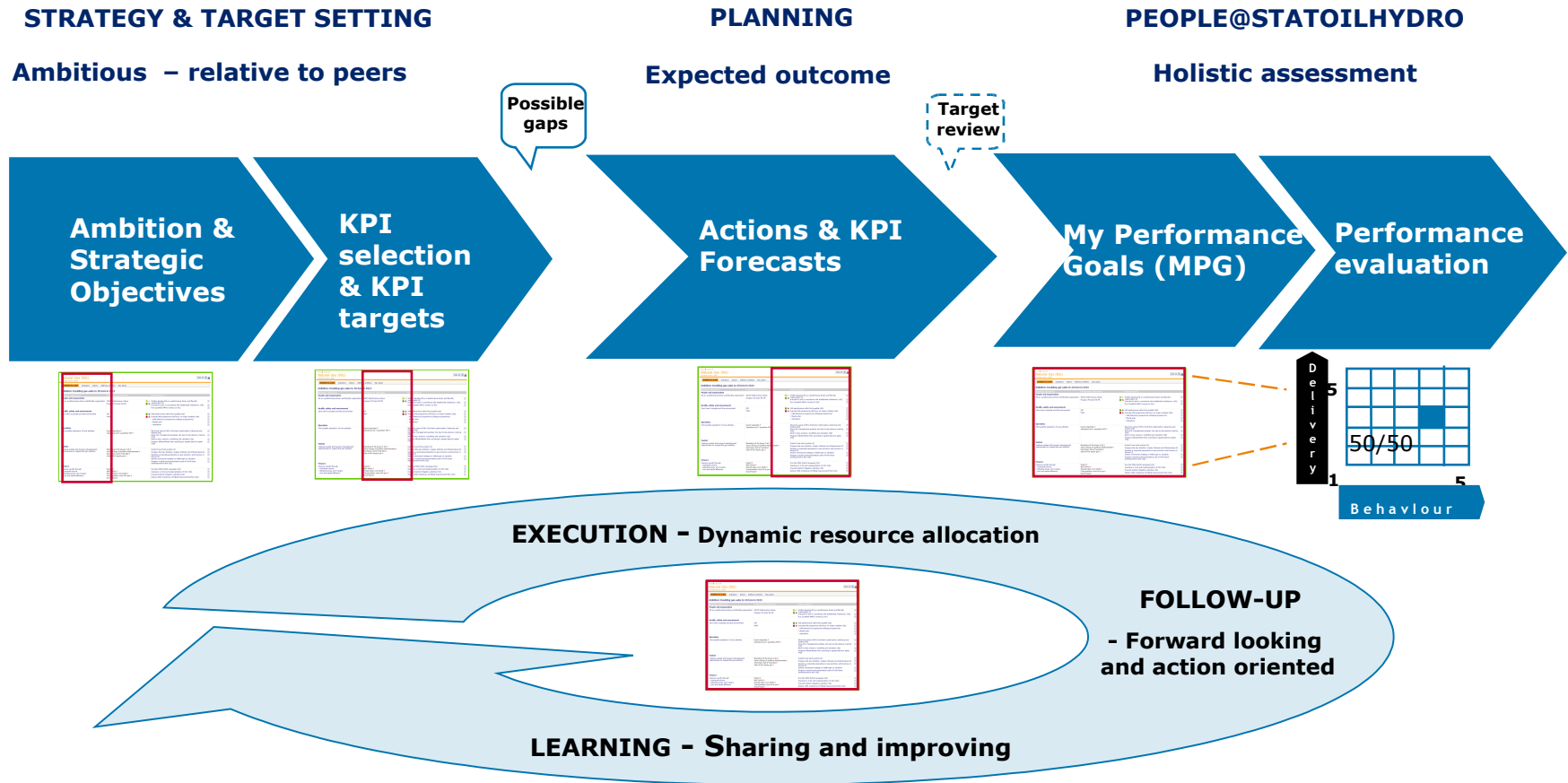
"Traditional"  
budget/plan

Step 1 - Separate

Step 2 - Improve

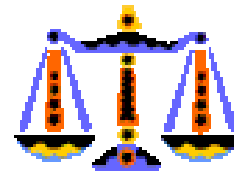


# The Ambition to action process



# Relative performance

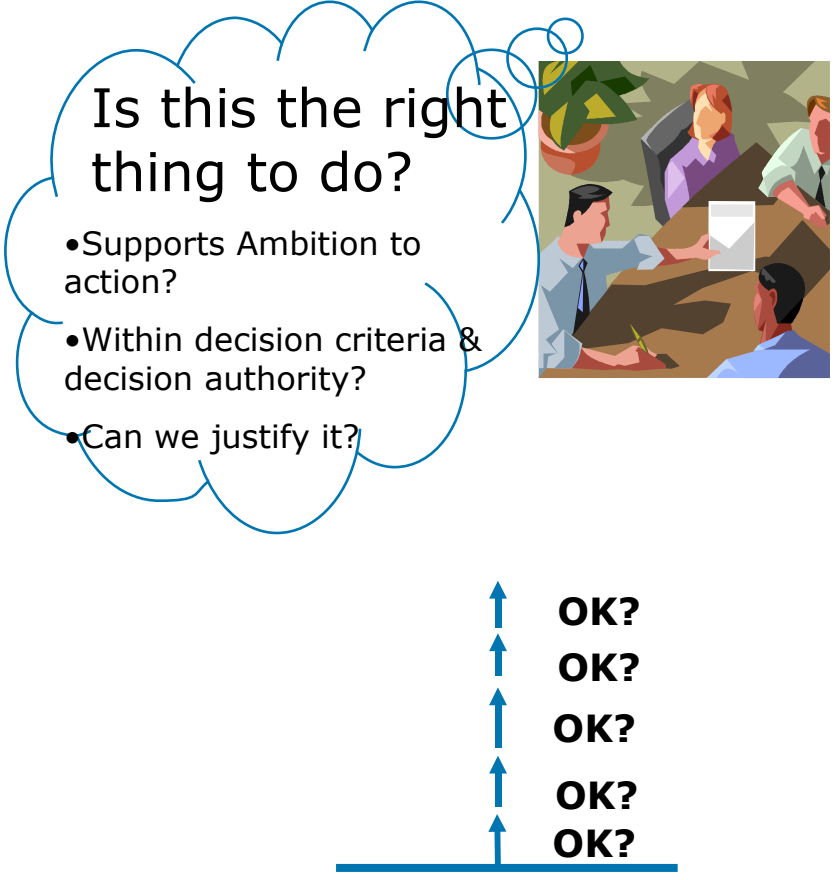
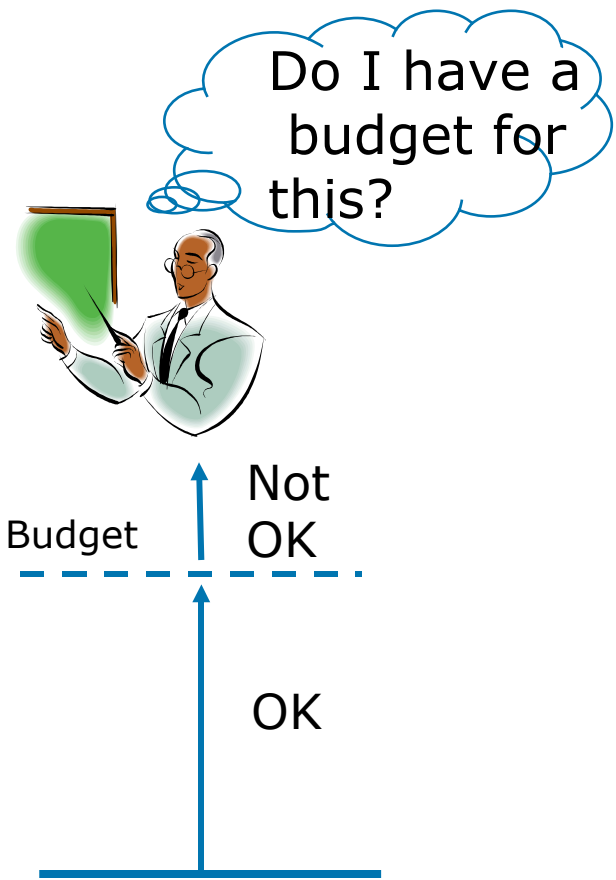
- Connect input with output



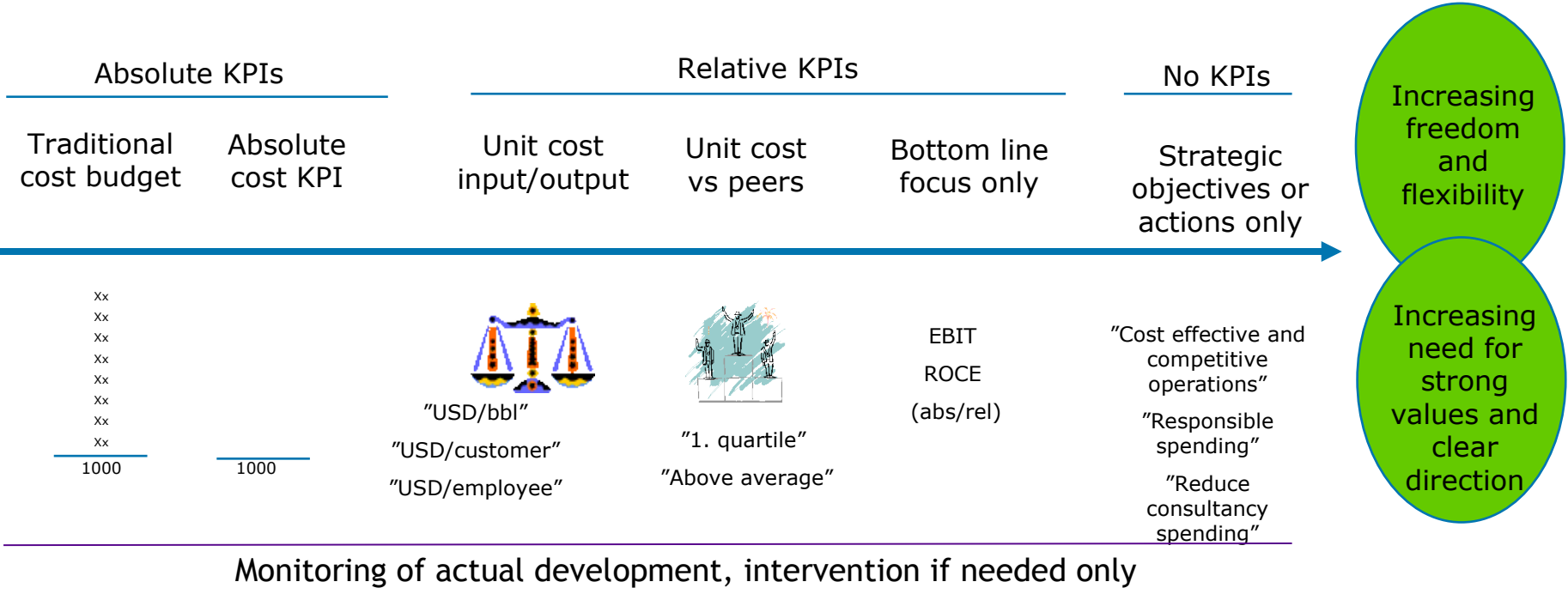
- Compare with others



# Dynamic resource allocation: A different mindset - cost conscious from the first penny

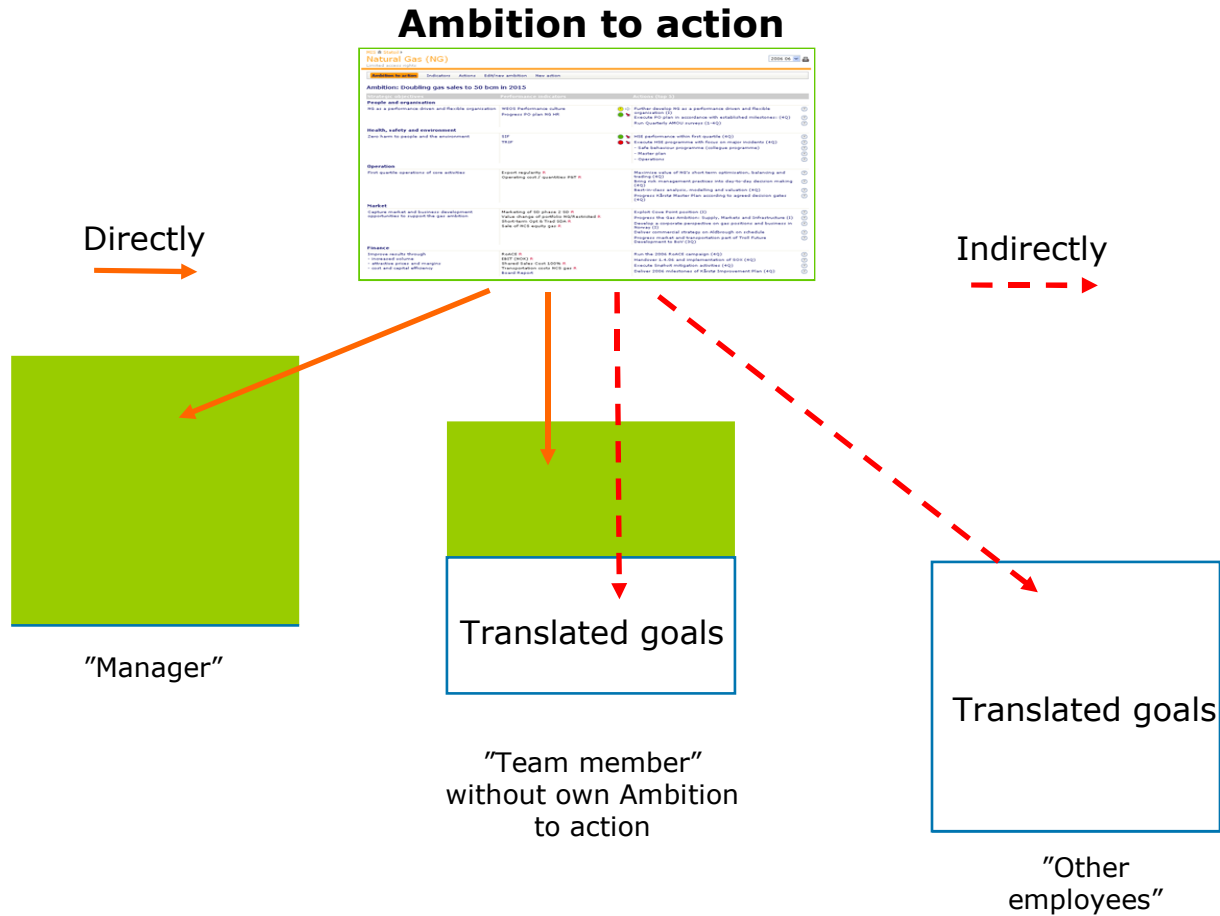


# Dynamic resource allocation – the menu



Select based on what is right and works for your organisation

# Delivery goals are based on Ambition to action - directly or indirectly



# A new performance language

## - from mechanical to holistic assessment

(Previously only KPI targets)

### "Ambition to Action"

- Strategic objectives
- KPI targets
- Actions

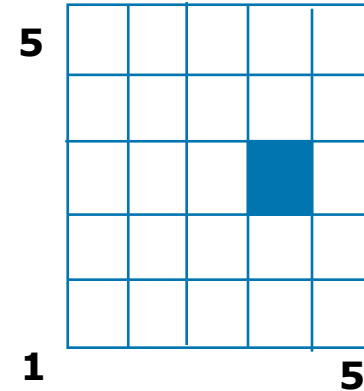


### Pressure testing KPI results:

- 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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50/50



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

# A systematic change through the whole process

	From "Annual command and control"	To <ul style="list-style-type: none"> <li>• <b>Continuous and dynamic</b></li> <li>• <b>More freedom and responsibility</b></li> <li>• <b>New performance language</b></li> </ul>
<b>Targets</b>	<ul style="list-style-type: none"> <li>• Equal to plan – "what we can deliver"</li> <li>• KPI targets</li> <li>• Absolute targets</li> </ul>	<ul style="list-style-type: none"> <li>• Aspiration driven – "what we must deliver". Targets before plan.</li> <li>• "Ambition to action"</li> <li>• Relative targets</li> </ul>
<b>Plans</b>	<ul style="list-style-type: none"> <li>• Plan = target, forecast and resource allocation</li> <li>• Gaps vs targets hidden</li> <li>• One outcome only</li> <li>• Very detailed</li> </ul>	<ul style="list-style-type: none"> <li>• Plan = forecast only (actions and <u>expected</u> performance)</li> <li>• Gaps vs. targets visible</li> <li>• Main uncertainty spans</li> <li>• Less detailed</li> </ul>
<b>Resource allocation</b>	<ul style="list-style-type: none"> <li>• Annual pre-allocation through budgets</li> <li>• Budgets "an entitlement – my money"</li> </ul>	<ul style="list-style-type: none"> <li>• Resources available when needed, but within KPI targets + mandates + decision criteria. Monitoring of development</li> </ul>
<b>Business reporting</b>	<ul style="list-style-type: none"> <li>• Backward looking</li> <li>• Variance vs. YTD budget</li> </ul>	<ul style="list-style-type: none"> <li>• Forward looking</li> <li>• Forecast vs. targets, and actions to close gaps</li> </ul>
<b>Evaluation/ rewards</b>	<ul style="list-style-type: none"> <li>• Only based on budget figures and KPI targets</li> </ul>	<ul style="list-style-type: none"> <li>• A broader evaluation: "Ambition to action" + Behaviour</li> </ul>

# Implementation advice

- Create problem understanding before talking solutions
- What's the real risk – upside vs downside
- Design to 80% and jump
- Pull-based and company owned
- "One war but a thousand battles"
- Involve HR
- Don't become a fundamentalist

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**Thank you for listening!**

**Questions or comments – now or later?**

Bjarte Bogsnes

[bjbo@statoilhydro.com](mailto:bjbo@statoilhydro.com)

+ 47 91613843

Beyond Budgeting Roundtable

[www.bbrt.org](http://www.bbrt.org)

# Dynamic resource allocation – an example

Mechanism	Global Exploration
KPI targets (illustrative figures)	<ul style="list-style-type: none"> <li>•Access cost max 4 USD/bbl (3 yrs avg)</li> <li>•New resources 200 mill barrels (3 yrs avg)</li> </ul>
Decision authorities	<ul style="list-style-type: none"> <li>•100 mill NOK</li> <li>•New country/partner</li> </ul>
Decision gates & criteria	<ul style="list-style-type: none"> <li>•Expected Net Present Value min x MUSD</li> <li>•Probability of drilling success min xx%</li> <li>•Plus others</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>•Monitoring of actual trends and development</li> <li>•Intervention only if needed</li> </ul>

Spending expected to be within direction of Ambition to action