



Beyond Budgeting
Institute

White Paper

The end of Performance Management (as we know it)

By Bjarte Bogsnes

Chairman, Beyond Budgeting Institute

Vice President Performance Management Development, Statoil

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We would like to offer our appreciation to Bjarte Bogsnes for sharing this insight. Bjarte is Vice President of Performance Management Development in the Statoil Group. In this capacity, Bjarte has headed the successful implementation of Statoil's groundbreaking management model which is referred to as "Ambition to Action". This represents a new way of thinking about the whole performance management process, and has included the abolishment of traditional budgeting.

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About Beyond Budgeting Institute and BBRT

The Beyond Budgeting Institute is at the heart of a movement that is searching for ways to build lean, adaptive and ethical enterprises that can sustain superior competitive performance. We promote a set of principles that lead to more dynamic processes and front-line accountability. Organizations that follow this approach transform their management model in line with these principles.

Our ideas are spread through the Beyond Budgeting Round Table (BBRT); a shared learning network of member organizations with a common interest in transforming their performance management models to enable sustained, superior performance. We help organizations learn from worldwide best practice studies and encourage them to share information and experiences to move beyond command and control.

For more information about Beyond Budgeting and BBRT membership, please contact:

Beyond Budgeting Institute
One Kingdom Street
Paddington Central
London W2 6BD
United Kingdom
Tel: +44 20 3755 3692
Mail: info@bbrt.org
Web: www.bbrt.org

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The End of Performance Management (as we know it)

Traditional performance management has run its course. It does not make us the agile and human organizations we need to be. Can we learn something from traffic?

Statoil is a Norwegian energy company with 21,000 employees in 36 countries. On Fortune, the company ranked in 2011 #1 in Social Responsibility and #7 in Innovation, and has over the last ten years consistently performed above peer average on return on capital and value creation.

We have continuously developed our management model “Ambition to Action” with “agile” and “human” as key guiding principles. For instance, in 2005 we abolished traditional budgeting, and we decided in 2010 to leave the calendar year in our management processes where-ever possible.

“Self-regulation” has become an increasingly important word for us on this journey, not as a goal in itself, but as a great way of achieving great performance. We found inspiration in something which one initially might think of as very different from organizations and business, but where we all also want the best possible performance. I have yet to meet anyone enjoying being stuck in traffic or exposed to inefficient and dumb traffic controls. We would all like a safe and efficient traffic flow.

Here is a great story from the Netherlands. As in most cities, the consequences of increasing traffic were a major problem in the city of Drachten. Traffic jams and accidents in the town centre were steadily increasing, as did the doses of the standard medicine for this modern disease; more traffic lights and more signs to regulate and control drivers, cyclists and pedestrians. The same medicine as any other growing city would chose to combat its traffic problems. However, traffic authorities in Drachten found that increasing doses did not help. In 2003 the city decided to challenge accepted truth. A bold decision was made to remove all traffic lights and signs in the town centre, based on a belief that people pay more attention to their surroundings when they cannot rely on strict traffic rules.

Results were impressive. On the busiest intersections crossing times fell significantly, and accidents were reduced to almost zero.

I find this a fascinating example of self-regulation as an alternative to more traditional ways of managing performance in increasingly complex environments. We will return to Drachten a bit later.

About “performance management”

Readers of my book “Implementing Beyond Budgeting” may remember that I am not too fond of the phrase “performance management” (even if I have it in my title!). I definitely like the word “performance”, but not in combination with “management”. Chew on those two words put together. “If I don’t manage you, there will be no performance”, is what I hear. I have had many managers throughout my career, many great ones but also a few of more mixed quality. But none of them ever told me that they wanted to “manage my performance”. If one would have uttered those words, I am afraid the effect would have been the very opposite of the intention. My defence system would have gone on red alert. No one is going to mess around in my head, or treat me like a dancing marionette. I actually get offended if someone believes I will only do my best if I am managed; instructed to deliver on a very



specific and detailed target, told exactly how to get there and with which resources available, put under a tight and suspicious follow-up regime, and given a dangling carrot as a motivational incentive for getting there, with “getting there” meaning “hitting that number”.

I don't want to be “managed”. I want something else. I want a definition of performance that makes me tick. I want to understand and be ignited about direction. I want to contribute. I want support and learning, and I want to have fun. I want to perform at my very best, but I don't want to be “managed”.

Peter Drucker put it like this “Most of what we call management consists of making it difficult for people to get their work done.”

Maybe I am a bit harsh with “performance management” here, but isn't much of what I just described familiar ingredients in a traditional performance management process?

I am not saying it never works. For organizations operating in predictable and stable surroundings, with simple tasks and with little motivation in the work itself, where results are easily measured, and with most employees prone to do what detailed control mechanisms are there to prevent (maybe they actually behave like this because the controls say they will?), then “performance management” might be the right medicine and also the right phrase. But is this really a good description of your own organization?

In knowledge organizations operating in dynamic and unpredictable environments, people can't be treated like robots and organizations can't be viewed as machines. Traditional performance management easily becomes a medicine with side effects so serious that they completely outweigh the benefits. We might feel we get “control”, although a closer examination will probably reveal that much of it is only an illusion of control.

Do detailed job descriptions really ensure that talent, competence and resources are fully utilised? Do thick procedure manuals cover every possible situation that can occur? Do detailed variance analyses of actual vs. budget secure that we now are safely back on track? Does actual cost coming in spot on for every single budget item prove that we spent our resources in the most optimal way? Does “hitting the number” represent great performance if our path is covered by casualties, if there was strong and unexpected tailwind, if we were completely outperformed by peers?

Traditional management certainly gives us “control”, but does it really give us best possible performance? Our goal can't be to “manage performance”, our goal must be the best possible sustainable performance, given the circumstances. Performance Management people sometimes seem to get this order wrong. Control can actually get out of control.

But what can and should we do if we can't “manage” performance? Don't worry, there is still a big and important job to be done, but it is a very different one that requires a very different mindset. It is about creating the conditions needed for great performance to take place and for business to flourish. You can't make a flower grow by pulling on it.

We need to create a new and different framework for teams and people to perform within, with different and wider boundaries but also with new rules of the game. This requires something new, but also just as much dismantling of the old, all the stuff that work more as barriers than support for great performance. There are significant implications for how we define performance and set targets,



how we forecast, how we allocate resources and how we evaluate and reward performance. The traditional fixed, detailed and annual budget and the whole mindset it builds on have to be first to go.

Our new framework must take reality seriously, both inside and outside the company gates. It must understand what it really means to be a people-oriented knowledge organisation. It must tackle a dynamic business environment of uncertainty, turbulence and constant changes in assumptions. It must reduce number-crunching, stupid gaming and the need for constant management interventions. Our new framework should actually require as little management as possible; it should be as self-regulating as possible. Not because self-regulation is a goal in itself, but because it is a much better way of getting that best possible performance.

Let us return to traffic and to self-regulation as a way of achieving this.

(By the way, I have yet to find a good alternative for the phrase “performance management”. If you find one, please let me know, because we desperately need it!)

A self-regulating control system

In traffic, we define good performance as a safe and smooth traffic flow. Traffic authorities have different ways of “managing” us to achieve this.

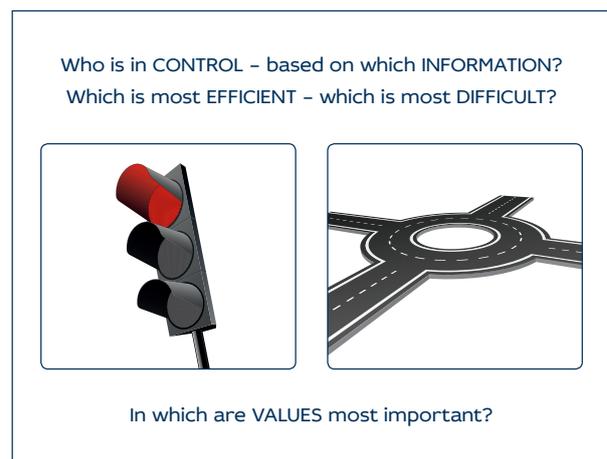
One alternative is the traffic light. Let us ask ourselves a few questions about this option. Who is actually “managing”; who is actually in “control”? There is no-one sitting inside the traffic pole as far as I know (and let us not stretch the metaphor to include sensor systems etc.!) Someone programmed those lights, because they are just dumb machines. And which information did these guys base their programming on? Those red-green intervals were decided at some point in time, based on historical and expected future traffic volumes and patterns. For obvious reasons, we can hardly expect that information to be fresh and fully updated as we sit there waiting for the green light.

To conclude, performance is managed by someone who is not present in the situation, based on assumptions which are rarely updated (and if they are, often with considerable delay). It is a simple, rules-based system. Green means drive, red means stop; while yellow seems to have a few different interpretations! It is a centrally regulated system, with decisions made too high up and too early.

Now imagine a roundabout, another way of managing traffic performance. Let us ask the same two questions. Who is in control, and which information are decisions based on?

Now, we arrive at very different answers. Drivers are in control, and they apply real-time information to guide their decisions. They all aim to make the right decisions as they enter the roundabout. They seize opportunities (an opening in the traffic), or react to threats (an incoming car) based on observing the actual situation, not based on fixed and pre-defined instructions or plans from above. Traffic

Figure 1





authorities limit their involvement to a general principle of “give way to those already in the roundabout”. But this is much more directional and open to interpretation than the “yes/no” green and red. It says nothing about which speed to enter with or which distance to other cars is required.

So for the roundabout to work well something else must be in place. It is a control system that is highly dependent on a strong (and positive) set of values among drivers. A “me first” attitude is not a big problem in front of a traffic light because it is overruled by the red light. But it is definitely a problem in a roundabout, where there has to be a shared purpose of wanting traffic to flow well. Drivers need to be more considerate and observant, as they try to understand the intentions of others as well as making their own intentions clear and visible. They need to honour, and they all benefit from the “zipper” or “every second car” principle (which I believe is not a roundabout rule, but more a gentleman’s agreement).

No single individual is “in control”, but there is still control because traffic is flowing, arguably more efficiently than it does with traffic lights.

I hope we agree that this self-regulating approach can be a great way of managing traffic. We probably also agree that the reason why the roundabout is more efficient is because it is based on decision-making at the right level (close to the situation) and at the right time (as late as possible to secure fresh information).

But we also know that it is much more difficult to drive in a roundabout than it is to relate to a traffic light. At driving school, that first traffic light was a piece of cake compared to entering the first roundabout. More mature driving skills are required compared to the much simpler red/green situation. This competence only comes with experience. Just like in organizations; competence is key and the good stuff is often more difficult!

This is also why the roundabout does not always work perfectly. Take the “zipper” principle. We have all been irritated when it was “our turn” and the other car refused to give way. We are all likely guilty of the same sin. But what should our response be, when observing situations where values are ignored or violated? Whether in traffic or in organizations, the solution should not and must not be to give up because “this values stuff doesn’t work, rules are much simpler”. That is the easiest solution and often seen as the most “action-oriented” one. But it is the wrong one.

What about the alternative of the police-officer in the middle of the crossing, whistling, waving, shouting and pointing? Doesn’t he also make decisions based on fresh information from the actual situation on the ground? Absolutely, but who really needs that middle manager and his command and control when a self-regulating system can do the job both better and cheaper?

But what about the risk of a roundabout gridlock? Fair enough. But the two alternatives can actually be combined, but with the roundabout as the default and the traffic light as a backup solution in those few instances when the roundabout can’t cope.

Let us summarize our conclusions. Roundabouts are generally more efficient than traffic lights, because traffic authorities are not “managing performance”. Instead, they create conditions for performance to take place. They establish a framework that is more values- than rules based. They provide authority for those closest to the situation to make the right decisions, based on fresh, real-time information (right level, right time). The model is not chosen because it is the easiest, but because it is the best.



Let us return to the city of Drachten. The "Shared Space" concept the city went for in 2003 was developed by the late Dutch traffic specialist Hans Monderman. In an interview with The New York Times in 2005, he explained: "To make communities safer and more appealing, you should first remove the traditional paraphernalia of their roads - the traffic lights and speed signs; the signs exhorting drivers to stop, slow down and merge; the centre lines separating lanes from one another; even the speed bumps, speed-limit signs, bicycle lanes and pedestrian crossings". In his view, it is only when the road is made more dangerous, when drivers stop looking at signs and start looking at other people, that driving becomes safer.

Monderman wanted to replace regulated, legislated traffic with space which, by the way it is designed and configured, makes it clear what sort of behaviour is anticipated and required. He did not argue for changing highway designs, his focus was on shared spaces where different players in traffic has to interact with each other in one way or another. He compared his philosophy to an ice rink. "Skaters work out things for themselves and it works wonderfully well. I am not an anarchist, but I don't like rules which are ineffective."

Back to business

At Statoil, we have worked hard to move our management model in a more dynamic and self-regulating direction. What we did, how we did it, what we struggle with and what we might do next can be found in another MIX story.

Let me close with a few reflections on an important dilemma we are facing on our journey towards becoming a more agile (and human) organization. Statoil is operating in a business with extreme risks at our many offshore platforms and onshore refining and processing plants. Compliance with safety and operating procedures are critical. There is little room for experiments and creativity for our operators standing in middle of our hot operations. A mistake can quickly become a question of life or death and environmental disasters, as our kind of business unfortunately has seen many examples of. At the same time, we want each and every one to think hard about how we can improve and do things differently. And there will be critical situations where the answer is not to follow the book but rather the intentions behind and do what is right there and then. But that doesn't remove compliance as the general "modus operandi" in these kinds of operations.

For other parts of the organization people's jobs and tasks are of a very different nature. Our R&D people are constantly chasing new and advanced technology. They live and breathe innovation and creativity and are paid for nothing else than to challenge accepted truth. Our geologists are continuously hunting for new angles and ideas to understand what lays thousands of meters below the seabed. Our engineers are thrilled when they can design new or improved technical solutions for our next platform. Our business development people are constantly thinking of new opportunities and new ways of creating value and win-win solutions on the next deal. Even those of us working with management processes are expected to think out of the box. "Ambition to Action" is hopefully an example of management innovation.

The dilemma is even expressed in our values. We are encouraged to trust each other and to "challenge accepted truth and enter unfamiliar territory", but we are also reminded about the need for precision, for loyalty to decisions and of the need for being hands on.

So how can creativity and compliance live in peace and harmony next door to each other?



I don't believe the answer to this dilemma lies in sacrificing one for the other. We simply need to have two thoughts in our head at the same time. We should probably not view this as a dilemma, but as intertwined aspects of running any organization. Innovation does not stop with creativity, it also takes deployment. What is invented and developed must also be operated, in a safe and consistent way.

Much of what you have read about here and will find in my other MIX story is inspired by the Beyond Budgeting principles. I recommend you to take a look at the Beyond Budgeting Institute's website "bbri.org". As a little teaser, here are the twelve Beyond Budgeting principles:

The Beyond Budgeting principles

CHANGE IN LEADERSHIP

Governance and Transparency

1. Values – Bind people to a common cause; not a central plan
2. Governance – Govern through shared values and sound judgement; not detailed rules and regulations
3. Transparency – Make information open and transparent; don't restrict and control it

Accountable Teams

4. Teams – Organise around a network of accountable teams; not centralised functions
5. Trust – Trust teams to regulate and improve their performance; don't micro-manage them
6. Accountability – Base accountability on holistic criteria and peer reviews; not on hierarchical relationships

CHANGE IN PROCESSES

Goals and Rewards

7. Goals – Set ambitious medium-term goals; not short-term negotiated targets
8. Rewards – Base rewards on relative performance; not fixed targets

Planning and Controls

9. Planning – Make planning a continuous and inclusive process; not a top-down annual event
10. Coordination – Coordinate interactions dynamically; not through annual budgets
11. Resources – Make resources available just-in-time; not just-in-case
12. Controls – Base controls on fast, frequent feedback; not on budget variances

Few have summarized more elegantly what this is all about than Dee Hock, founder and former CEO of Visa:

**“Simple, clear purpose and principles give rise to complex, intelligent behavior.
Complex rules and regulations give rise to simple, stupid behavior.”**

Wonderful!