White Paper -Update of Beyond Budgeting Principles

White Paper

UPDATE OF THE BEYOND BUDGETING PRINCIPLES

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Acknowledgements

Since the latest version of the 12 Beyond Budgeting Principles was articulated in 2011, the Beyond Budgeting Core Team members have met with thousands of people. At these occasions, we have explored how traditional budgeting practices work against each other, how the Beyond Budgeting principles enable organisations to overcome these limitations, and how they empower organisations to higher performance. This has included numerous events with BBRT members where practical learning has been shared between companies that are on the Beyond Budgeting journey. We wish to thank all who have contributed along the way.

These experiences have provided us with new learning and insights that we continuously evaluate and apply to get the Beyond Budgeting messages across even stronger. This is the background for the current update of the principles which has been performed during 2015 and early 2016 by the Beyond Budgeting Core Team (Bjarte Bogsnes, Dag Larsson, Anders Olesen, Steve Player and Franz Röösli).

Today's Beyond Budgeting network owes a lot of gratitude for the visionary insights and dedicated work of the BBRT founders: Jeremy Hope, Robin Fraser and Peter Bunce. It is the aspiration of the Core Team to continuously develop the Beyond Budgeting network and principles in line with the evolving environment, while remaining true to the vision and aspirations of the BBRT founders.

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. Organisations that follow this approach can transform their manage-ment model to become more agile and empowered organisations.

Our ideas are spread through the Beyond Budgeting Round Table (BBRT); a shared learning network of member organi-sations with a common interest in transforming their performance management models to enable sustained, superior performance. BBRT helps organisations learn from worldwide best practice studies and encourages them to share infor-mation, past successes and implementation experiences to move beyond command and control.

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Budgeting Institute.

Introduction

The Core Team's purpose in publishing this paper is to explain the background for the current update of the 12 Beyond Budgeting principles and provide an overview of how the principles have developed over time. The principles are there to inspire and guide organisations as they strive to implement Beyond Budgeting; they do not constitute a management recipe.

It has been five years since the 12 Principles have been updated. The previous version is expressed in 'The Leader's Dilemma', which continues to do an excellent job of providing greater detail on showing how organisations have put these principles into action. In working with both our own organisations, with Beyond Budgeting members, and with other companies trying to understand and apply these principles, we believe we have found better ways to articulate them.

When we find a significant number of these changes, we follow the example set by the BBRT founders. In this regard, they often updated the principles to better express their understanding.

This white paper is the first time we bring many of the previous versions of the principles together and provide commentary on what changed and why. Our hope, as a Core Team, is that this transparency helps you and your organisation to more fully understand the principles and apply them more effectively.

This paper includes three sections:

- Presentation of the updated Beyond Budgeting Principles
- Review of the latest changes
- Chronological review of how the principles have developed

1. The Beyond Budgeting Principles (2016 update)

The Beyond Budgeting principles include the most important leadership and process principles to be addressed in order to achieve the full benefits of the Beyond Budgeting

management philosophy. Here is the updated version of the 12 principles:

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 selfregulation, 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

1. Rhythm – Organise management processes dynamically around business rhythms and events; not around the calendar year only
2. Targets – Set directional, ambitious and relative goals; avoid fixed and cascaded targets
3. Plans and forecasts – Make planning and forecasting lean and unbiased processes; not rigid and political exercises
4. Resource allocation – Foster a cost conscious mind-set and make resources available as needed; not through detailed annual budget allocations
5. Performance evaluation – Evaluate performance holistically and with peer feedback for learning and development; not based on measurement only and not for rewards only
6. Rewards – Reward shared success against competition; not against fixed performance contracts

Beyond Budgeting represents a management philosophy, not a management recipe. Accordingly, the principles do not represent a checklist.

The principles are based on our observations of what works (and what doesn't work) in practice. As you can see from this paper, significant research, and debate since our network started in 1998, makes a solid foundation for these principles.

The purpose of the principles is to inspire and guide organisations as they strive to implement Beyond Budgeting; we refer to this as being on a Beyond Budgeting journey.

We hope that the 12 Beyond Budgeting Principles will help your organisation on its journey.

2. Review of the Latest Update

The previous official version of the principles is published in the book: "The Leader's Dilemma: How to Build an Empowered and Adaptive Organization Without Losing Control" (Jossey-Bass, 2011). This book was co-authored by Jeremy Hope, Peter Bunce and Franz Röösli. In the following, we will compare the new version of the principles with this version, and we will explain the background for the changes made. The full previous version can be seen at the end of this paper.

What has not changed?

First of all – and most importantly – we hope to have maintained the key messages. The update is an adjustment to ensure that the messages are understood even better; it is in no way a departure from the intentions of any previous version.

We have kept the dual focus on leadership principles on the one hand, and processes principles on the other. Alignment between leadership principles and management processes is a key element of Beyond Budgeting; without such cohesion, organisations risk having serious disconnects between what is said and what is done, which is poison to any organisation.

We have also maintained the number of principles, the structure of how they are presented as well as the element of do and don't. By maintaining these there is a strong resemblance to the previous versions and (hopefully) an element of positive recognition.

General changes

The purpose of the Beyond Budgeting Principles – as well as the fundamental views on management that are the foundation hereof – remain unchanged.

However, as time passes, we experience and we learn through interaction with BBRT member organisations and the many other people in and around our network. This interaction began at the first days of the Round Table research and has been one of the

primary ways we have learned. It continues in nearly all our work. As we learn more, we often find ways of expressing what we see and experience that have greater resonance with those with whom we are working. As the founders have shown by their example, we occasionally need to make adjustments to how the Beyond Budgeting principles are articulated. This white paper presents such an update.

In addition to explaining the current changes (which are covered in the next session), this paper also provides a brief history of the past changes. This is included to assist you when researching past cases or reading other related materials.

In this current update, we find that the use of vocabulary such as the following has proved to be increasingly useful when explaining our cause: purpose, autonomy, directional goals, learning, holistic performance evaluations, business rhythm, event driven, cost consciousness, unbiased forecasting, self-regulation, belonging, customer focus, rewarding shared success. However, these are absent in the existing principles.

The purpose of the current update is to emphasise the importance of employee engagement. High-performing organisations focus on the work done by employees and they create conditions for people to thrive in; this combination demonstrably leads to higher sustainable performance. This is also very much in line with the Self-Determination Theory, which stresses the importance of competence, autonomy and relatedness. Accordingly, the new principles are specific in their recommendation of learning, autonomy, purpose and belonging as means to maximise employee engagement.

Another purpose of this update is to emphasize the importance of having business processes that are designed to support the specific business reality. This is essential to maximize both the effectiveness of the processes, and the flexibility and adaptability of the whole organization. Far too often – almost by default – organisations use the calendar year as the basis for many of its key management processes and measurements. Further, there is a flawed assumption that we want to address: With the best of intentions, and with the purpose of being aligned and coordinated, many organisations combine their forward-looking processes in one annual budget process.

This typically results in fixed targets, an agreed plan, pre-allocated resources, incentives / rewards, and comes with a reporting schedule for follow-up and control. This methodology is sometimes also referred to as a "fixed performance contract". This, however, does not lead to better results on the contrary. These forward-looking processes serve different

purposes, so in order to meet each of these, there must be a specific and separate process for each of the purposes. The above is now more clearly expressed in the new principles 7-12.

Review of specific changes

1 – Purpose

Engage and inspire people around bold and noble causes; not around short-term financial targets

The previous version started with an important statement about binding people to a common cause through values. This remains very important and is maintained in principle. 2. However, we find the use of the word Purpose to be even stronger. We also find that this is a better principle to start with as it is connected to why organisations exist, and why people want to work for them.

We have included the word 'bold' and 'noble' to emphasise that people – when treated fairly – are indeed eager to work hard to achieve ambitious goals, especially when the organisation serves a greater purpose. This has shown to increase employee engagement dramatically; which is good for performance.

2 -Values

Govern through shared values and sound judgement; not through detailed rules and regulations

Principle 2 is a combination of principle 1 and 2 in the previous version with the two headings Vision and Governance. We believe that the new version (in combination with the new principle 1) better expresses the role and importance of purpose and values.

3 – Transparency

Make information open for self-regulation, innovation, learning and control; don't restrict it

The heading is unchanged, but we have now included wording that describes the benefits and purposes of transparency. This principle now also emphasises the importance of self-regulation, which was only indirectly covered by principle 5 in the previous version.

4 – Organisation

Cultivate a strong sense of belonging and organise around accountable teams; avoid hierarchical control and bureaucracy

This header is new and it reflects our wish to make a statement about how to organise in a Beyond Budgeting world. We have kept it somewhat open ended as there are many alternative structures that support empower and adapt. Our network consists of both companies with formal hierarchical organisational charts, and there are those without any at all. It is worthwhile to remember that one thing is what the organisational chart looks like on paper; this may be very different from how it works in reality. This said, the recommendation to organise around accountable teams is unchanged from principle 4 in the previous version.

The words about cultivating a sense of belonging are new here. Research shows that relatedness and belonging are very important for engagement and performance, so we have added this aspect to this principle about organisation.

5 – Autonomy

Trust people with freedom to act; don't punish everyone if someone should abuse it

This is also a new header. We have included this as autonomy too is fundamental for employee engagement, which again is fundamental to any high-performing organisation. This principle includes the trust-part of principle 5 in the previous version.

The latter part of the principle refers to a typical, but wrong management reaction when (and not if) trust is abused. To ensure agility and avoid bureaucracy, managers must handle breaches of trust as the exceptions they usually are; and refrain from adding more rules and procedures.

6 – Customers

Connect everyone's work with customer needs; avoid conflict of interest

We have decided to include a principle related to customers. This was not specifically called out in the previous version, but has been part of the 12 principles in earlier versions. Successful companies focus on serving the needs of their customers; this has always been the case. Some high-performing organisations, however, place even higher emphasis on ensuring employees are happy and engaged. To reflect this important point, this principle is here included after those that lead to high employee engagement.

The wording Connect everyone's work with customer needs is also meant to emphasise the importance of only doing what serves the customer... if a process is not (directly and indirectly) serving the customer, it should ideally be stopped. This mentality is a prerequisite for high-performing and effective organisations.

The last point is about avoiding processes that in any way can result in conflicts of interest with the customer. The obvious example is individual bonuses related to sales.

The previous version of principle 6 is partly replaced by principle 4 (accountability and hierarchical relationships) and principle 11 (holistic performance evaluation).

7 – Rhythm

Organise management processes dynamically around business rhythms and events; not around the calendar year only

This principle is new and is meant as a general one relevant to all business processes. To ensure agility, relevance, effectiveness as well as efficiency, these processes must be based on the rhythm and dynamics of the business. Far too often, organisations by default link their management process to the calendar (or fiscal) year.

Management processes should be agile and thus able to sense and respond to unexpected events. This principle partly replaces no. 10 in the previous version (the part about avoiding annual budgets).

8 – Targets

Set directional, ambitious and relative goals; avoid fixed and cascaded targets

This principle replaces the previous no. 7, but it is much broader than that. We find that many organisations set too many targets; and reflect too little over the need and consequence of this practice. In several great organisations, targets are almost totally absent, so we advise caution here.

Meaningful targets are the ones that provide direction, rather than precision. We also encourage organisations to link targets (and KPI's) to its overall purpose; this too improves the relevance and value of this practice.

When setting targets, make sure that they are relative and not fixed. In a world with high uncertainty, fixed targets inevitably lead to poorer performance.

If you want employee engagement, let teams set their own targets.

Be cautious with cascading targets from the top, as this usually reduces employee engagement. Cascading should be the exception, not the rule.

9 – Plans and forecasts

Make planning and forecasting lean and unbiased processes; not rigid and political exercises

Planning and forecasting are very different from target setting, and they deserve their own principle. All too often, organisations prepare annual budgets that include both targets and detailed plans for the coming year, as well as projections of income, cash flow, etc. However, these activities serve very different purposes: targets should be ambitious; whereas plans and forecasts should be realistic (best guess, given the circumstances and assumptions). This is one of the reasons why annual budgeting should be replaced with separate processes for each of the budget purposes.

In order to add value through higher quality decision making, forecasts should represent the most likely outcome. Therefore, the process of preparing forecasts in an often volatile environment must be both lean and unbiased.
This principle replaces no. 9 and 10 in the previous version of the principles.

10 – Resource allocation

Foster a cost conscious mind-set and make resources available as needed; not through detailed annual budget allocations

Common misunderstandings about Beyond Budgeting are that costs are not important, and that you can spend as much as you like. This is not the case. Costs are very important; far too important to be managed through a detailed annual pre-allocation as seen in traditional budgeting.

Costs can be managed much more effectively. We have developed a range of alternatives that can be applied depending on the specific situation, industry, etc. These alternatives lead to more autonomy and flexibility.
It all starts with a mind-set of cost consciousness; but also strong values and clear direction is required to ensure the optimal use of scarce resources.

The purpose is not necessarily to keep costs at a minimum at all times; it is the bad costs – the ones that don't create value – that must be avoided. And very often, the people at the frontline of the organisation are the ones who know where to find these, and how to avoid

them.

This principle replaces no. 11 in the previous version.

11 – Performance evaluation

Evaluate performance holistically and with peer feedback for learning and development; not based on measurement only and not for rewards only

Performance evaluation has briefly and indirectly been mentioned in previous versions of the principles. Today, we find that this process is so widespread and important that it deserves a principle of its own.
Like with the annual budget, performance evaluation also has different purposes that need to be addressed separately in order to serve each of the purposes best.

The most important purpose is to provide learning, and thus the possibility for each individual to grow and flourish. This requires fast and frequent feedback (which was partly covered in the previous principle no. 12). When evaluating performance, measurements are often involved. To enable an honest and fair evaluation, it is necessary to take off the "measurement-glasses" when performance is assessed; especially when comparing it against targets. Conditions and assumptions will have changed, for example. It is also important to include those important elements of performance that are not measured (or even measurable). Such a process creates the required comfort about setting ambitious targets.

Another important purpose of performance evaluation relates to rewards. This element is very different from the learning and development perspective, and should be handled in a separate process. If not, the feedback and learning dialogues will be hampered by the salary negotiation element; see also the new principle no. 12 below.

12 – Rewards

Reward shared success against competition; not against fixed performance contracts This principle replaces no. 8 in the previous version.

Although rewards can come in many forms (recognition, salary adjustment, bonus, promotion, etc.), this principle mainly addresses the element of variable pay and bonuses.

When establishing salary and incentive schemes, it is important to remember that

performance is ultimately about beating the competition. Fixed targets are not meaningful in a dynamic world. This is also important to remember when setting targets (ref. 8 above), and when evaluating performance (ref. 11 above). Accordingly, to the extent possible, measurements and targets should reflect this.

We have added the word shared because shared or common bonus schemes lead to better performance than individual bonuses. The latter works well when tasks are simple, when output is easily measured, and when quantity is more important than quality. This, however, is a poor description of the tasks in most organisations today, where cooperation and teamwork are crucial elements for success. For this reason, we recommend establishing shared or common incentive schemes, and avoiding individual bonuses. This has been documented by scientific and academic research performed over the last 30-40 years.

The previous principle no. 12 was about control. The essence of this remains important and is now part of the following new principles: no. 3, 4 and 11. Traditional management models based on annual budgeting provide management with a feeling of being in control. This, however, is merely an illusion of control.
By applying these 12 Beyond Budgeting Principles in a coherent way not only leads to stronger performance, it also provides much better control throughout the organisation.

3. Development of the 12 Beyond Budgeting Principles

This section includes a chronological review of how the 12 Beyond Budgeting principles have evolved since they were first articulated. This begins with the first publicly available version published in a June 2002 white paper that was later used for the book "Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap" by Jeremy Hope and Robin Fraser (Harvard Business School Press, 2003).
In the following, we refer to several BBRT White Papers. All of these documents are available to BBRT members via the members' knowledge base.

2002: White Paper – Key Questions

The pioneering work of the Beyond Budgeting Round Table (BBRT) commenced in 1998. Based on the research performed during those first years, the founders – Jeremy Hope, Robin Fraser and Peter Bunce – articulated the first set of Beyond Principles in a BBRT white paper from June 2002. The introduction of the white paper reads as follows:

"The Beyond Budgeting Round Table (BBRT) was set up in response to growing dissatisfaction, indeed frustration, with traditional budgeting. Since its inception in January 1998, 60 (mostly large) organizations have participated in the BBRT. Though its origins are in the UK, it now has members from many countries including the Belgium, France, Germany, Holland, Norway, South Africa, Sweden, Switzerland, the UK, and the USA. There are also sister BBRTs in North America and Australasia.

All member companies joined because they recognized that the budgeting process was too long, too expensive, added little value, and was increasingly out of kilter with their competitive environment. In fact, research suggests that between 80 to 90 percent of companies are dissatisfied with their planning and budgeting processes. This process takes, on average, between four and five months to complete. It also involves many people and absorbs up to 20 to 30 percent of senior executives' and financial managers' time. In a recent survey, financial directors ranked budgetary reform as their top priority.

Despite these concerns, however, few were convinced at the outset that there was a viable alternative. Our task was to provide this alternative. We did this by first identifying those companies that had abandoned the annual budgeting process, visiting them, and then (through case reports and presentations) reporting back to BBRT members. By extracting best practices, we gradually pieced together a coherent set of processes that can effectively replace the functions of budgeting without the undesirable side effects.

Our research also reminded us that budgets (or any planning and measurement frameworks for that matter) don't exist in a vacuum. They determine how people behave in any given situation. "If you can't measure it, you can't manage it" is one of the favourite aphorisms of management academics and practitioners alike. It is this link between measurement and behaviour that has loomed much larger in our project than we anticipated. We can recall some particularly animated meetings when a number of people (all senior managers) admitted to engaging in dubious practices as they were put under pressure to meet year-end targets. It is these revelations, together with a torrent of media criticism about how many firms have been "managing the numbers" (especially following the Enron debacle), that have caused us to place much more emphasis on the link between the fixed target element of the annual budgeting process and undesirable management practices.

Many organizations have recognized these problems and attempted to improve the budgeting process. But little difference has resulted. This paper is about other organizations that have gone beyond tinkering with the existing budgeting process. They have abandoned it altogether. Some

have seen the problems of budgeting in terms of an ineffective process that is too long, too costly, and that fails to provide its users with sufficient value. They have seen the opportunity to build more responsive and value-adding processes, to make them less political and to have fewer behavioural 'side effects'. Others have seen the problem more in terms of how budgets reinforce bureaucracy and are barriers to cultural change (especially how they block decentralization initiatives). They have seen the opportunity to release the pent up energy and imagination of thousands of front line people and to open the way to (permanently) lower costs and more sustainable profitability. But the one common thread is that these organizations do not manage with an annual budget. And they have used the same principles to replace it."

These principles were formulated as questions that were subsequently answered in the document. The questions were presented like this in the document:

The first 'beyond budgeting' opportunity: enabling a more adaptive performance management process

1. How have these organizations set targets without a budgeting process?
2. How have these organizations rewarded people without a budgeting process?
3. How have these organizations managed action planning without a budgeting process?
4. How have these organizations managed resources without a budgeting process?
5. How have these organizations coordinated actions without a budgeting process?
6. How have these organizations measured and controlled performance without a budgeting process?

The second 'beyond budgeting' opportunity: enabling radical decentralization

1. How have leaders created a high performance climate?
2. How have leaders built a clear governance framework?
3. How have leaders empowered people to make decisions?
4. How have leaders given people the capability to act?
5. How have leaders focused people on customer outcomes?
6. How have leaders supported open and ethical information systems?

2003: First Book providing position statements

The year after, two of the BBRT founders, Jeremy Hope and Robin Fraser, published the book: "Beyond Budgeting – How Managers Can Break Free from the Annual Performance Trap" (Harvard Business School Press, 2003). In this book, the 12 principles were for the first time made public outside the members' community. In the book, the principles were

mentioned as statements; i.e. unlike in the above mentioned document, where they were listed as 12 questions. However, the meaning and the order was unchanged.

This is how the principles were described in the Beyond Budgeting book:

"Abandoning the annual budgeting process opens up two opportunities. One is to enable a more adaptive set of management processes, and the other is to enable a radically decentralized organization. The first can be achieved without fully embracing the second, but the second cannot be realized without fully embracing the first.

Like the first opportunity (adaptive processes), the second opportunity (decentralization) can only be fully grasped if all the pieces come together in a coherent way. The result of fusing both opportunities together is the emergence of a new coherent performance management model."

The principles were expressed as follows:

Principles of adaptive processes

1. Set stretch goals aimed at relative improvement
2. Base evaluation and rewards on relative improvement contracts with hindsight
3. Make action planning a continuous and inclusive process
4. Make resources available as required
5. Coordinate cross-company actions according to prevailing customer demand
6. Base controls on effective governance and on a range of relative performance indicators

Principles of radical decentralization

1. Provide a governance framework based on clear principles and boundaries
2. Create a high-performance climate based on relative success
3. Give people freedom to make local decisions that are consistent with governance principles and the organization's goals
4. Place the responsibility for value creating decisions on front-line teams
5. Make people accountable for customer outcomes
6. Support open and ethical information systems that provide "one truth" throughout the organization

2004: White Paper – Action statements with what to do and not to do

In November 2004, the BBRT founders published another white paper titled: "The Principles of Beyond Budgeting". The 12 principles were basically unchanged compared to the above version. However, the wording was slightly sharpened and now each principle started with a short title. In addition, to each principle was added: "not xxx" where the x's included a reference to elements of traditional management that should be discarded; for example: fixed targets.

The introduction of this paper reads as follows:

"The BBRT is at the centre of a new movement that is searching for ways to build lean and adaptive organizations that can sustain superior competitive performance. Our aim is to develop and spread the idea through a vibrant growing community.

What is the idea?

Many organizations are now moving to what we call a beyond budgeting model. This model, derived from the 'best of best practices' of leadingedge organizations, consists of two sets of six principles that redefine performance management. The first six "process" principles support a more adaptive set of performance management systems that enable front line teams to be more responsive to the competitive environment and to customer needs. The second six "leadership" principles provide a framework for the devolution of responsibility to front line teams thus enabling them to respond quickly to emerging events and making them accountable for continuously improving (internal and external) customer outcomes and relative performance.

Beyond Budgeting Process Principles

1. *Targets –* **Set aspirational goals based on continuous relative improvement** *not fixed targets*
2. *Rewards –* **Base rewards on relative performance with hindsight** *not on meeting fixed targets*
3. *Planning –* **Make planning an inclusive and continuous process** *not an annual event*
4. *Resources –* **Make resources available on demand** *not through annual budget allocations*
5. *Coordination –* **Coordinate cross company actions dynamically** *not through annual plans and budgets*

6. Controls – **Base controls on KPIs, trends and relative indicators** not variances against plan

Beyond Budgeting Leadership Principles

1. Governance – **Base governance on clear values and boundaries** not on detailed rules and budgets
2. Performance – **Build a high performance culture based on relative success** not on meeting targets
3. Freedom to act – **Devolve decision making authority to frontline teams** don't micro-manage them
4. Accountability – **Create a network of small units accountable for results** not centralized hierarchies
5. Customer focus – **Focus everyone on improving customer outcomes** not on meeting internal targets
6. Information – **Promote open and shared information** don't restrict it to those who 'need to know'

These principles represent a holistic model (not a menu of options) but different organizations will place different emphases on different elements at different times.

What problems does the idea address?

Many organizations today recognize that they are too rigid, unresponsive, bureaucratic and complex. Our belief is that this is caused by performance management systems that are fixed, annual and based on negotiation resulting in multiple fixed performance contracts at every level of the organization that constrain actions and stifle initiative.

Why should organizations adopt the idea?

1. To make the organization more agile and adaptive to change
2. To eliminate a process that is too protracted, expensive and adds too little value
3. To focus everyone on maximizing value for customers and shareholders
4. To effect a permanent (and significant) reduction in bureaucracy and costs
5. To eliminate gaming and other dysfunctional behaviour leading to better governance
6. To release the energy and enterprise of all your people

Why NOW?
The performance management process determines how people think and behave. Changing this behaviour from managing numbers to responding to change and improving customer and shareholder value will potentially have a greater impact on the bottom line (both short- and long-term) than almost any other improvement initiative."

For each of the 12 principles above, the paper includes examples of what these mean in practice: What did the companies do before they made the change? And what do they do now?

This white paper includes many practical examples, mainly from the following companies: Toyota, Handelsbanken, Southwest Airlines and Borealis.

2006: White Paper – Switching to 12 principles starting with Leadership followed by Process

Based on their continued research, the BBRT founders together with Franz Röösli authored yet another white paper with an updated set of principles in 2006. This paper was titled: "Beyond Budgeting – The Coherent Model that reunites leadership thinking, management processes and information systems for sustained success in a changing world."

This paper includes "a compelling logic of the need to move to the coherent (Beyond Budgeting) model." This logic starts with the external challenges facing organisations and considering how these are best addressed in post-industrial knowledge-based organisations. This leads to a set of updated competitive success factors. Once these are established, one can determine the kind of leadership that is needed to address the success factors. Hereafter, one can define what processes (and systems) that are relevant to support the above.

Because of this sequential logic, the order of the principles' presentation was reversed and now the Leadership Principles are mentioned before the Process Principles.

In this paper, several references to other lines of thought were included and reflected in the principles. Abstract from this paper:

"The Barriers to change
While most senior executives want their organisations to be more adaptive (and thus more devolved), few know how to turn management rhetoric into operating reality. While they talk

about fast response, empowerment, innovation, operational excellence, customer focus, and shareholder value, their management processes (for example, targets, plans, measures, and rewards) all too often remain stuck in the past. Fixed strategies prevent fast responses; rigid organisational structures turn off managers who seek challenge and development; bureaucracies stifle innovation; entrenched functions undermine cross-functional processes; an emphasis on product targets works against customer loyalty programmes, and short-term performance contracts fail to support long-term value creation. Nor do the millions spent every year on re-engineering, team-building, enterprise-wide systems, customer relationship management, value-based management, and balanced scorecards seem to overcome these problems. In fact, the vast majority of these initiatives fail for exactly the same reason – they support the rhetoric flounder when they collide with the immovable forces of centralized decision making, 'fixed performance contracts' and the immune system of the annual budget.

The Beyond Budgeting or Coherent Model

The Beyond Budgeting or Coherent Model is designed to overcome these barriers and create a flexible and adaptive organisation. Unlike the Command and Control model, the Coherent model works with, not against the best side of human nature (McGregor's Theory Y); it is suitable for post-industrial knowledge-based organisations; it supports the success factors that must be met in highly competitive business conditions; and it is also consistent with cybernetics and systems theory – the most relevant management science. Twelve principles provide managers with a robust, albeit empirical framework for evaluating where their organisations stand today, and guide them towards an alternative management model."

Here is how the principles were articulated and presented:

Principles of the Coherent Model Leadership Principles

1. **Customers** – *Focus everyone on improving customer outcomes, not on hierarchical relationships*
2. **Organisation** – *Organize as a network of lean, accountable teams, not around centralized functions*
3. **Responsibility** – *Enable everyone to think and act like a leader, not merely follow 'the plan'*
4. **Autonomy** – *Give teams the freedom and capability to act; don't micro-manage them*
5. **Values** – *Govern through a few clear values, goals and boundaries, not detailed rules and budgets*
6. **Transparency** – *Promote open information for self-management; don't restrict it hierarchically*

Process Principles

1. **Goals** – *Set relative goals for continuous improvement; don't negotiate fixed performance contracts*
2. **Rewards** – *Reward shared success based on relative performance, not on meeting fixed targets*
3. **Planning** – *Make planning a continuous and inclusive process, not a top-down annual event*
4. **Controls** – *Base controls on relative indicators and trends, not variances against plan*
5. **Resources** – *Make resources available as needed, not through annual budget allocations*
6. **Coordination** – *Coordinate interactions dynamically, not through annual planning cycles*

When taken together these principles provide a holistic model that reunites competitive success factors, leadership thinking, management processes and information systems in a way that enables leaders to create coherent organisations. It is not a 'pick-and-mix' mode; all the pieces must fit together for it to be effective (though they will no doubt be adapted to fit different organisations)."

2009: Implementing Beyond Budgeting book

This year, BBRT Chairman Bjarte Bogsnes published his book: "Implementing Beyond Budgeting: Unlocking the Performance Potential" (Wiley, 2009).

Based on Bjarte's personal experiences, this book focuses on the practical aspects of developing new management models and implementing them in two large traditionally managed companies: Borealis and Statoil.

The book includes references to the 12 principles as they were phrased in the above-mentioned paper from 2006.

2010: Future Ready book

In 2010, the book: "Future Ready: How to master business forecasting" (Wiley, 2010) was published. Steve Morlidge (former Chairman of BBRT Europe) and Steve Player (Program Director of BBRT in North America) co-authored this book.

As indicated by the title, the focus of this book was on forecasting. Fully in line with the Beyond Budgeting mindset, the book provided great examples of how to master forecasting

in dynamic environments. As such, this was an important contribution and supplement to the literature on Beyond Budgeting.

The next to last chapter is called: "Beyond Budgeting: A new management model?"

"We are nearing the end of our journey. Let us take a few moments to recap.
We started off by observing that forecasting is fast becoming one of the 'hottest topics' in management practice. The world is becoming more turbulent and to survive we need to become better at anticipating and responding to change. Our existing processes are 'broken' – they are incapable of providing us with the degree of foresight and flexibility we need.... The prevailing management model, which has conventional budgeting at its heart, carries a lot of unhelpful baggage. As a result, in order to forecast effectively you need to significantly modify traditional budgeting practices and the mindset associated with them if you are to avoid the disappointments suffered by many who have tried to improve forecasting processes without considering the wider context.

... We believe that the Beyond Budgeting model is a strong candidate for such a twenty-first century organisational model. Its strength is that it is holistic; recognizing the complementary role of process and organizational structure and culture. But it has also proven to work in practice. The Beyond Budgeting principles were distilled from scores of case studies of businesses with a proven track record of success. The Beyond Budgeting model also provides a platform for the practice of forecasting advocated in this book.

... this is not the place to delve into the detail of the model... we will content ourselves with a simple, personal interpretation of the 12 Beyond Budgeting (BB) principles, which we hope will give the reader a good sense of what BB entails."

This was followed by a more 'personal interpretation' of the principles:

Process Principles

1. *Target Setting: 'from ceiling to threshold'*
2. *Rewards System: 'from meet to beat'*
3. *Planning and Forecasting: 'from predict and control to project and act'*
4. *Measurement and Control: 'from comply to plan to signals from noise'*
5. *Investment Management: 'from entitlement to earn'*
6. *Coordination: 'from push to pull*

Organizational Principles

1. *Performance Climate: 'from fulfilling to winning'*
2. *Governance: 'from compliance to freedom within boundaries'*
3. *Empowerment: 'decentralization to devolution'*
4. *Capability: 'from command and control to lead and coach' or: 'from instruct to inspire'*
5. *Focus: 'from predict and sell to sense and respond'*
6. *Information: 'from need to know to share and learn'*

Although the above was never an official version of the Beyond Budgeting Principles, it has been included here to provide an additional aspect on the principles.

2011: The Leader's Dilemma book

In 2011, BBRT founders Jeremy Hope and Peter Bunce together with Franz Röösli co-authored: "The Leader's Dilemma: How to build an empowered and adaptive organization without losing control" (Jossey-Bass, 2011).

This book, more than any other, focuses on and describes each of the 12 Beyond Budgeting Principles in depth. For each of the principles, the book includes a chapter describing the reason for the principle, what traditional management practice it was trying to replace and with what; how it should be interpreted, as well as numerous examples.

Below is the book's preface which contributes to understanding the principles, their background and development:

"One summer Albert Einstein's students complained that the questions on this year's exam paper were no different from those on the previous one. "Well, yes," said Einstein, "the questions were indeed the same. What the students needed to understand, however, was that the answers had changed!" If the question on today's management exam paper is "How does the way we manage need to change to meet today's challenges?" then the answers are indeed different from those most leaders would have given a few years ago.

The traditional "command and control" management model was never perfect. In an industrial age when suppliers could sell all their output to eager customers, business leaders could "plan and control" their way to the future. Annual plans and budgets were negotiated with the corporate centre; all divisional and line managers had to do was to follow the plan and meet the numbers. This model was already in trouble in the 1990s as customer loyalty collapsed in the wake of globalization, privatization and the Internet revolution, but in the credit crunch of 2007–

9 it turned into a liability as organizations failed to anticipate and respond to the economic eruptions that engulfed world markets. The trouble is that increasing levels of uncertainty and turbulence are here to stay.

Another crucial change is that the next generation of managers weaned on Facebook and YouTube are used to sharing just about everything with their families and friends. But when they enter the workplace, they are faced with antiquated systems and closed mind-sets that make transparency and sharing so difficult. There is little doubt that to attract and keep the best people in the future, leaders will need to make their organizations more engaging, transparent and fulfilling places to work.

This book is about rethinking how we manage organizations in a post-industrial, post-credit crunch world where, according to strategy guru Gary Hamel, innovative management models represent the only remaining source of sustainable competitive advantage. It is also about releasing people from the burdens of stifling bureaucracy and suffocating control systems, trusting them with information and giving them time to think, reflect, share, learn and improve.

It is an outcome of the work we have been engaged in for over 10 years in the "beyond budgeting" movement (we use "budgeting" as another term for "command and control" management). In our 2003 book, Beyond Budgeting, Jeremy Hope and Robin Fraser set out 12 principles that represented the "best of best practices" at that time. These have stood the test of time. This book provides more depth and case examples based on these principles. We have also integrated these principles with "systems thinking" and illustrated how they enable organizations to become more empowered and adaptive.

This book is aimed at leaders who want to change their management cultures and build organizations that will adapt, improve and endure for generations to come."

Since 2011, the 12 principles have been worded and presented like this:

Change in leadership

Governance & transparency

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

Accountable teams

4. Teams – <u>Organize around a seamless network of accountable teams;</u> not around centralized functions

5. Trust – <u>Trust teams to regulate and improve their performance;</u> don't micro-manage them

6. Accountability – <u>Base accountability on holistic criteria and peer reviews;</u> not on hierarchical relationships

Change in processes

Goals & rewards

7. Goals – <u>Set ambitious medium-term goals;</u> not short- term fixed targets

8. Rewards – <u>Base rewards on relative performance;</u> not on meeting fixed targets

Planning & Controls

9. Planning – <u>Make planning a continuous and inclusive process;</u> not a top-down annual event

10. Coordination – <u>Coordinate interactions dynamically;</u> not through annual budgets and planning cycles

11. Resources – <u>Make resources available as needed;</u> not through annual budget allocations

12. Controls – <u>Base controls on fast, frequent feedback;</u> not on budget variances