Beyond Budgeting at Equinor

BBRT Meeting March 13

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Equinor
Chairman-Beyond Budgeting Roundtable
Outline

• Words of wisdom
• A reflection on «control»
• From Statoil to Equinor
• «Ambition to Action» – Beyond Budgeting at Equinor
• Recent Equinor HR developments
• About targets and holistic performance evaluation
• Finance – HR collaboration
“Most corporate planning is like a ritual rain dance. It has no effect on the weather, but those who engage in it think it does. Much of the advice and instruction is directed at improving the dancing, not the weather” - Russel L. Ackoff
The illusion of control

The definition

“The power to influence or direct people's behaviour or the course of events”

The grand illusion

- People can and must be managed
- The future is predictable and manageable

In business terms

- Controlling people
- Controlling the future
Equinor in brief

- Turnover approx. 80 bn. USD
- 20,000 employees in 33 countries
- World’s largest operator in waters deeper than 100 metres
- Second largest gas exporter to Europe
- Large offshore wind player
- Listed in New York and Oslo
Shaping the future of energy

Competitive at all times  |  Transforming the oil and gas industry  |  Providing energy for a low carbon future
Equinor leadership principles

SHAPE THE FUTURE
Look for opportunities to improve our operations and business, and act on them

EMPOWER PEOPLE
Set and communicate a clear direction, trust your people to deliver and engage across boundaries

DELIVER RESULTS
Demonstrate commercial instinct, add value and make a difference for Equinor
Getting started - solving the budget conflict

The budget purposes

- Target
- Forecast
- Resource allocation

1. Separate

- Target
  What we want to happen

- Forecast
  What we think will happen

- Resource allocation
  What it takes to make it happen

Same number - conflicting purposes

Different numbers

2. Improve

- Inspiring & stretching
- VUCA robust

- Unbiased - expected outcome
- Limited detail

- Dynamic - no detailed allocation
- KPI targets, mandates, decision gates and decision criteria
- Trend monitoring

Event driven - not calendar driven
Ambition to Action - purpose and process

- Translating strategy and managing risk
- Securing agility - room to act and perform
- Activating values and leadership principles

Where are we going – what does success look like?
- Most important strategic change areas
- Medium term horizon

What are the risks?
- Identify
- Analyse
- Evaluate

How do we get there?
- Concrete actions and expected outcome (forecast)
- Clear deadlines and accountabilities

How do we measure progress?
- Indicative measure of strategic delivery
- 5-10 KPIs, shorter/longer term targets where relevant

What is my or our contribution?
- My/our Performance Goals
  - Delivery
  - Behaviour
<table>
<thead>
<tr>
<th>STRATEGIC OBJECTIVES</th>
<th>RISKS</th>
<th>ACTIONS</th>
<th>INDICATORS</th>
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</thead>
<tbody>
<tr>
<td>Safety, security and sustainability</td>
<td>Major accident</td>
<td>Enhance safety initiatives to accommodate a step change in safety</td>
<td>Serious incidents frequency (SIF) Serious HSE Incidents</td>
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<td></td>
<td>Injury to personnel</td>
<td>Continue to implement 2020 security roadmap with focus on compliance and competence development</td>
<td>Total recordable injury frequency (TRIF)</td>
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<td>Cyber-attack</td>
<td>Strengthen information security measures to safeguard Statoil's information systems and assets</td>
<td>CO2 intensity for the upstream portfolio</td>
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<td>Regulatory framework related to climate</td>
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<td>Oil/Gas leakage</td>
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<td>People and organisation</td>
<td>Workforce capabilities</td>
<td>Strengthen people development through learning and deployment</td>
<td>Employee Engagement</td>
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<td>A values-based and high-performing organisation</td>
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<td>People Development</td>
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<td>Operations</td>
<td>Production</td>
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<td>A driver of energy industry transformation</td>
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<td>Project execution</td>
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<td>Digitalization and efficiency</td>
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<td>Market</td>
<td>Resource replenishment</td>
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<td>A flexible and resilient energy portfolio</td>
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<td>Energy transition</td>
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<td>Oil price</td>
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<td>Natural gas price</td>
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<td>Finance</td>
<td>Robustness and Financial Flexibility</td>
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<td>A cash-generating, profitable and competitive company</td>
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<td>Competitive cost level</td>
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<td>Unstable regulatory and fiscal framework</td>
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<td>Ensure sufficient financial capacity</td>
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<td>Secure trust, support and a strong reputation among key stakeholders (continued)</td>
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<td>DPU USA 90-50</td>
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More than 600 Ambitions to Actions across the company

• **Alignment:** Through translation, not cascading

• **Rhythm:** More business and event-driven than calendar-driven
OKRs
Objectives and Key Results

Establish the 8086 as the highest-performance 16-bit microprocessor family, as measured by:

<table>
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<tr>
<th>KEY RESULTS (Q2 1980)</th>
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<tr>
<td>1. Develop and publish five benchmarks showing superior 8086 family performance [0.6].</td>
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<td>2. Repackage the entire 8086 family of products [1.0].</td>
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<td>3. Get the 8MHz part into production [0].</td>
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<tr>
<td>4. Sample the arithmetic coprocessor no later than June 15 [0.9].</td>
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- Translated
- Dynamic
- Transparent
Behaviour goals

Based on
Safety and security
Our values
Leadership profile
Continuous improvement
Diversity and inclusion

Delivery goals

Based on
Our strategy
Ambition to Action
Ambition to Action
Values
Leadership profile
I am safety

Goals
High level description of delivery and behaviour goals in the goal form in People@Equinor. Link goals to Ambition to Action to ensure alignment.

Activities
Optional, more detailed description of goals, held in the continuous feedback module, focusing on personal deliveries and milestones.

Achievements
Automatically created when Activities are completed in the tool. Form the basis for a feedback request to anyone relevant. Can also be created without Activities.

Feedback
It is everyone’s responsibility to give and request feedback to learn and develop.

End of year summary form
Contains Goals, Achievements, and feedback on Achievements.

SET AND UPDATE WHEN NEEDED

Goals module
Continuous Feedback module
Request feedback in the People@Equinor tool

There are three ways to request feedback using the People@Equinor tool:

1. You can ask for feedback on your activities, or

2. You can ask for feedback on your achievements, or

3. You can ask for feedback via the feedback view. Here you can link feedback to activities and/or achievements. The received feedback can be made visible to your leader.
Give unsolicited feedback

- All employees can give unsolicited feedback to other colleagues via the feedback view in the continuous feedback module.
How are we doing?

Return on capital employed 2018

ConocoPhillips
Equinor
Total
BP
Shell
Total
ConocoPhillips
Equinor (in NOK)
Total
BP
Shell
ExxonMobil
Chevron
Eni
Repsol
Anadarko
Marathon Oil
OMV

Shareholder return 2018

ConocoPhillips
Equinor (in NOK)
Marathon
Equinor
Eni
BP
Total
Anadarko
Shell
Chevron
Repsol
OMV
Exxon Mobil
OMV
Goodhart’s law

When a measure becomes a target, it ceases to be a good measure.
A target is not the target

The target is the best possible performance - given the circumstances

Target setting is just one way of achieving this (and not always the best)
# Why a holistic performance evaluation?

| Fixed targets struggle in a dynamic world | Create comfort around ambitious targets | KPIs are *indicators*, does not always tell the full story | Always wiser in hindsight, always more information |

> Not everything that counts can be counted, and not everything that can be counted counts

*(Albert Einstein)*
Results is not the same as performance
A broader performance evaluation - from narrow measurement to a holistic assessment

Ambition to Action

“Pressure testing” KPI results:

- Deliver towards the strategic objectives?
- How ambitious KPI targets?
- Changed assumptions, with positive or negative effect?
- Which risks were taken?
- Delivered results sustainable?

50/50

Development
Rewards

Living the values
- Day-to-day observations
- Global People Survey
Too holistic, too subjective? No!
Performance evaluation can never be 100% objective!

Uncertainty

KPI TARGET
UNCERTAINTY
What is the right number?

KPI DEFINITION
UNCERTAINTY
Right KPI? Indicator only!

Target - what does good performance look like in 12 months?
Forced to be subjective (must make assumptions)

Why not subjective also here? (assumption uncertainty is gone)

Measurement  Evaluation
A growing HR/Finance interface

**Yesterday**
- Transactions
- Administration
  - People & leadership

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**Today**
- People & leadership
- Performance management
- Performance Management
- Business management
- Transactions
- Administration

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**Tomorrow?**
- Performance - people, leadership and business
- Transactions Administration
Enabling Business Agility through Finance and HR – 1 Day Training

Bjarte Bogsnes
Pia-Maria Thorén

Next course
April 11
Stockholm
Want to hear more?

1. The problems with traditional management
2. The Beyond Budgeting model
   Cases: Handelsbanken, Miles, Reitangruppen
3. The Borealis case
4. The Statoil case
5. Beyond Budgeting and Agile
6. Implementation advice

Wiley (US). Translated to Chinese, Japanese and Russian