



**Beyond Budgeting**  
Enabling business agility

# Dynamisk Styrning – Beyond Budgeting

PMI

December 2020



<b>B</b>	<b>I</b>	<b>N</b>	<b>G</b>	<b>O</b>
"Låt oss vänta ett par minuter på de andra."	"Hörrni, jag måste ta ett annat samtal/möte."	"Jag hade problem med uppkopplingen."	"Kan alla vara snälla och stänga av mikrofonen?"	"Ursäkta, mitt förra möte drog ut på tiden."
(Hund eller barn som skäller i bakgrunden.)	(Ljud av någon som skriver på ett tangentbord)	"Hör du/ni mig?"	"Åh, när anslöt du?"	"Nästa bild, tack."
(Högljutt eko eller rundgång.)	(Småprat om corona tills andra ansluter.)	(Familjemedlem rör sig i bakgrunden.)	"Du delar din skärm fortfarande."	"Nej, den laddar fortfarande."
"Jag glömde avmjuta."	"Shh, jag är i ett möte."	"Är det en gammal hand?"	"Det hackar, gör det det för er andra också?"	"Hallå. Hallå?"
"Jag tror han/hon är mjutad."	"Är det jag som ekar?"	"Du har glömt att avmjuta din mic."	"Kan du mejla det till alla?"	"Nej, prata du." "Nej, du."

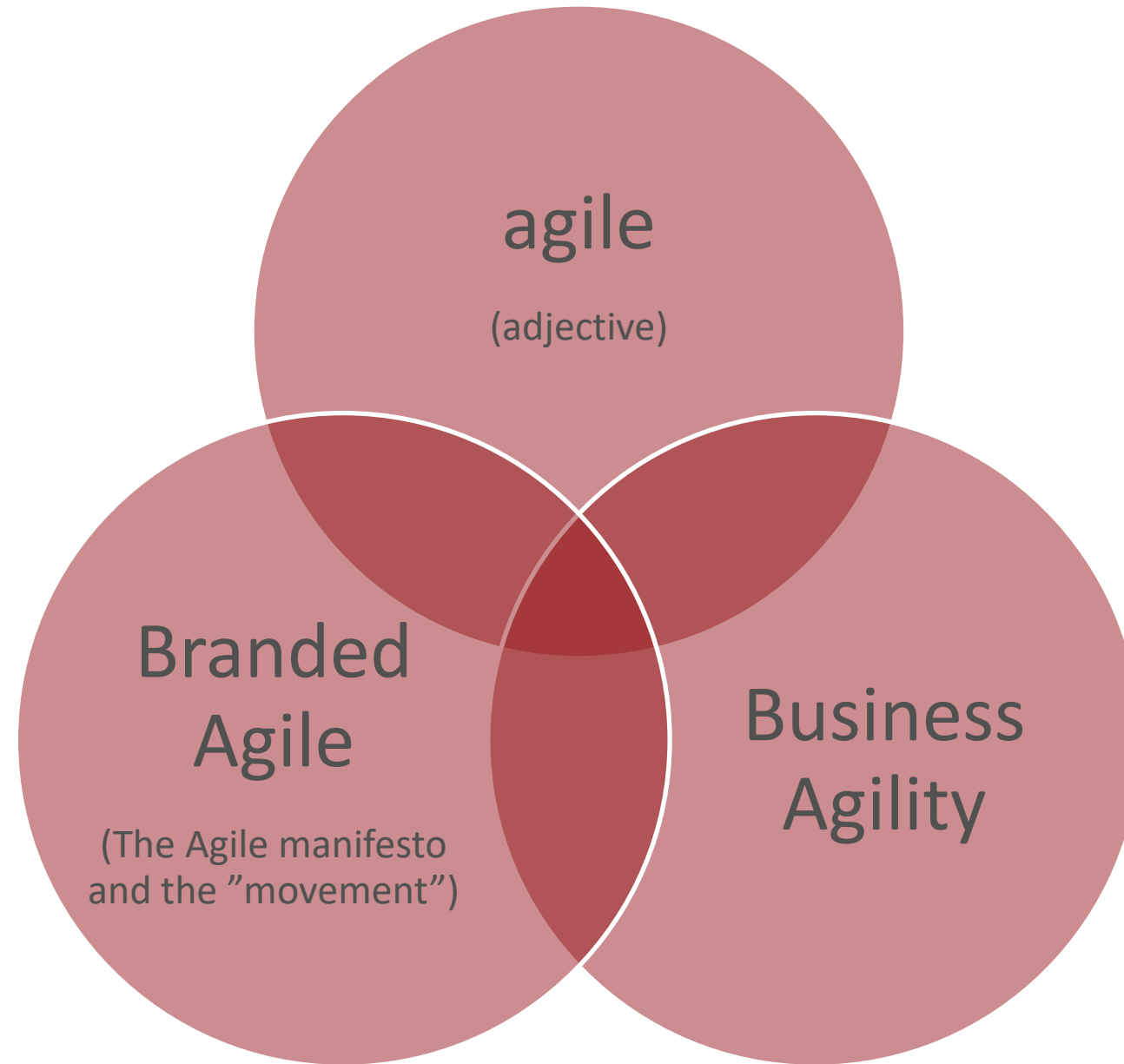


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Branded Agile, agile or Business agility?

# HOW DO WE DEFINE BUSINESS AGILITY?







# *agile* – the adjective

## The Cambridge Dictionary

- Agile adjective (PHYSICALLY)
  - Being able to **move** your body **quickly** and **easily**
- Agile adjective (MENTALLY)
  - Being able to **think quickly** and **clearly**
- "agile" (in BUSINESS ENGLISH)
  - Able to deal with **new situations** or **changes quickly** and **successfully**

Notera att söker man i SAOL/SAOB finns inte ordet agil med. Övriga sökningar ger ord som rörlig, vig, kvick, rapp...



# Branded Agile – a manifesto and a “movement” with methods and tools (and a business model with selling certifications)

<b>01</b> Our highest priority is to satisfy the customer through early and continuous delivery of valuable software.	<b>02</b> Welcome changing requirements, even late in development. Agile processes harness change for the customer's competitive advantage.	<b>03</b> Deliver working software frequently, from a couple of weeks to a couple of months, with a preference to the shorter timescale.
<b>04</b> Business people and developers must work together daily throughout the project.	<b>05</b> Build projects around motivated individuals. Give them the environment and support they need, and trust them to get the job done.	<b>06</b> Agile processes promote sustainable development. The sponsors, developers, and users should be able to maintain a constant pace indefinitely.
<b>07</b> Working software is the primary measure of progress.	<b>08</b> The most efficient and effective method of conveying information to and within a development team is face-to-face conversation.	<b>09</b> Continuous attention to technical excellence and good design enhances agility.
<b>10</b> Simplicity—the art of maximizing the amount of work not done—is essential.	<b>11</b> The best architectures, requirements, and designs emerge from self-organizing teams.	<b>12</b> At regular intervals, the team reflects on how to become more effective, then tunes and adjusts its behavior accordingly.





# Business Agility – the new management “buzz word”

In a **business** context, **agility** is the ability of an organization to **rapidly adapt to market and environmental changes** in **productive** and cost-effective ways

**Adaptability, flexibility and balance** are three qualities essential to long-term **business agility**.

*Business Agility Institute (2019)*

**Business Agility** is the ability of an organization to:

- **Adapt quickly** to market changes - **internally and externally**
- **Respond** rapidly and flexibly to **customer demands**
- **Adapt and lead change** in a **productive** and **cost-effective** way without compromising **quality**
- **Continuously** be at a competitive advantage

*Agile Business Consortium (2019)*



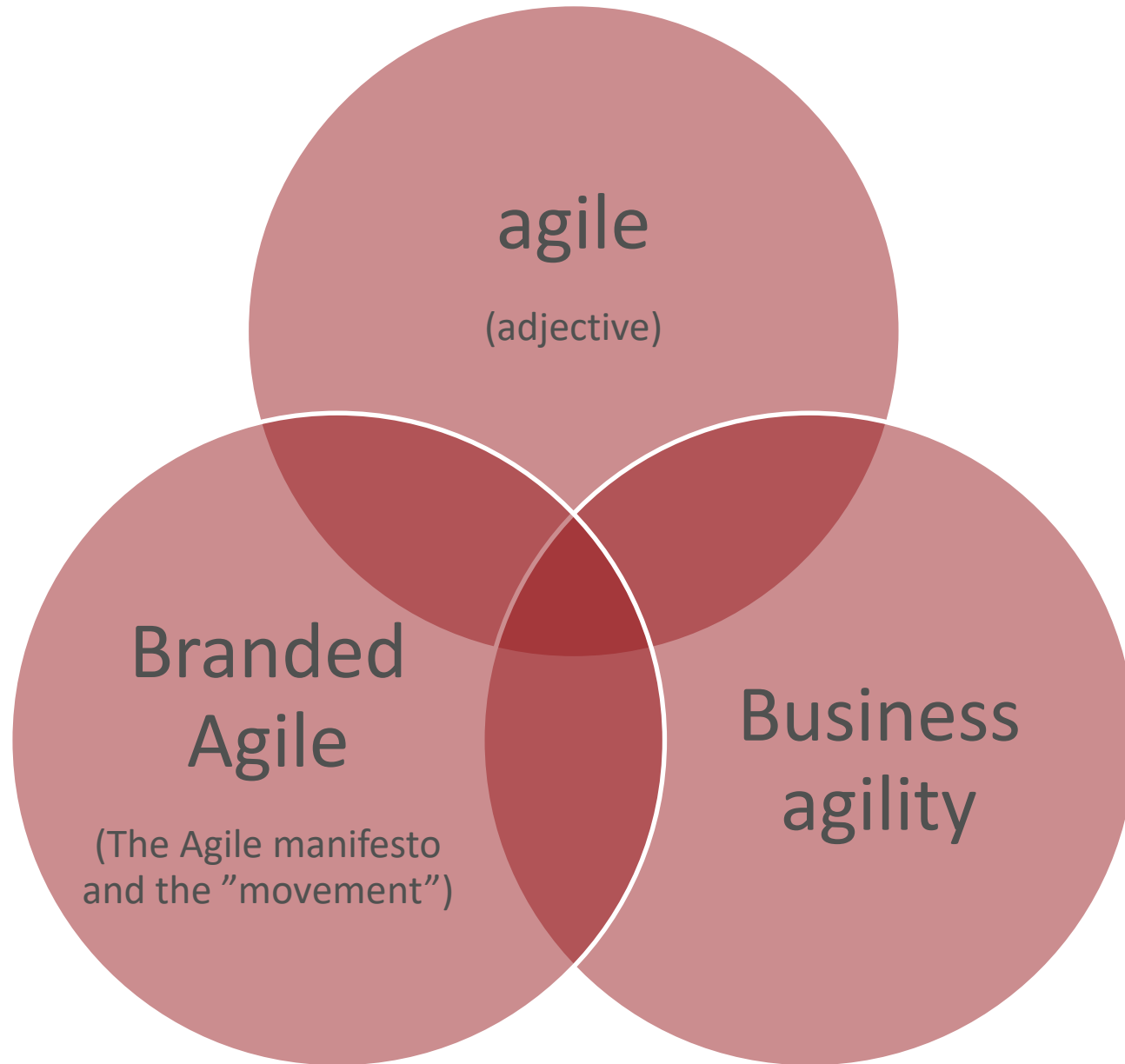


# My definition on *Business Agility*

## *Ashbys Law on Requisite Variety*

*In order to reliably achieve its purpose an **organisation** and its **management processes** needs to **match** at least the **volatility of the outside environment***





# ***Lean and Agile can be seen as Apps that works better within the *Beyond Budgeting* Operating System***

## **Beyond Budgeting**

### **Lean**

**Continuous operations and process development**

Born in automotive production

### **Agile**

**Discontinuous operations and project & portfolio management**

Born in software development

**Continuous as well as discontinues operations – and hence both process development and portfolio & project management**

Born as an enterprise wide model to enable performance



# *The Lean and Agile Apps* shares similar values as the *Beyond Budgeting Operating System*

## Beyond Budgeting

### Lean

Identify value & map value streams  
Create flow  
Establish pull  
Seek perfection

### Agile

Customer focus  
Small, dedicated teams  
Respond to change  
Technical excellence

Purpose & Values, Transparency, Customers in focus, Planning rhythm  
Ambitious goals, Holistic performance evaluation





# Beyond Budgeting

Enabling business agility

24th January 2019

All Finance staff

All Finance staff,

It is my pleasure to inform you that we have now "locked-down" the 2019 Budgets in our systems. I would just like to congratulate you all for your hard work since we kick-started the process at our meeting in Berlin on the 25<sup>th</sup> June last year.

The central Finance team have over the last month corrected all minor differences between your numbers and the numbers agreed between the Board, Group Management team, Central Finance and the Division Management Teams.

As you know we "locked-down" all investment requests at the Investment Review Board meeting on the 27<sup>th</sup> October 2018, and hence we should proceed with all of them as planned. The Global IT Portfolio & Project Review Board meeting was postponed due to lack of details in most of the plans presented and the speed of changes in our current, already approved portfolio. Any new initiatives is therefore postponed until the next The Global IT Portfolio & Project Review Board meeting in April this year. We do forsee work to be done by Finance to support the more detailed view needed. Any proposals not in line with expected details would be moved for decision to the 2019 Budget Process.

We would also like to inform that the current changes in the regulatory processes regarding our business in Europe is not included in our budget numbers as the change is deemed so substantial that we would need to discuss more how to handle. Expect that the process will be ready by end of the summer, and hopefully this could be included in our 2019 Budget process.

The major M&A activities in our Branded products Division is not yet included in our Budget numbers, as our Global Finance Planning team have not, due to lack of IT budget and that our



Global IT Portfolio & Project Review Board meeting was postponed (see above), been able to set up all cost- and revenue centres, accounts, projects and activities in the Budget Tool. We currently estimate that this will be fixed during the 2019 (Or 2020) Budget Process (pending a "go" decision on a budget from the Global IT Portfolio & Project Review Board)

As per our current process your "locked-down" numbers should be seen as your Divisions commitment.

You will during the end of this week receive our "2019 Forecast & Scenario Process Document" outlining the upcoming Q1 forecasting process. Initial thoughts indicate that the process will start 1<sup>st</sup> February 09.00 and end 4<sup>th</sup> April 17.00. Please set up meetings accordingly with your business leaders to get their input on the 2019 financial outcome and do expect the commitment forecast numbers to be delivered to you at end of March.

As an appendix you will find an example of our updated P/L format for the year

Regards

Rikard Olsson

Chief Financial Officer



Income Statement Variance									
Total Location/Total Department									
For the Ten Months Ending October 31, 2008 in USD									
As of 05/15/2009 15:55:02									
	October				October YTD				
	Actual	Budget	Variance	Variance %	Actual	Budget	Variance	Variance %	
Non-professional Charges	1,039,217	894,811	244,427	27.32%	8,521,587	8,940,105	(418,518)	-4.77%	
Legal Fees Income	16,826,000	49,020,363	7,605,656	15.52%	451,812,495	458,940,670	(7,128,175)	-1.54%	
Collection	67,765,246	49,915,163	7,850,082	15.73%	469,534,043	466,996,775	(2,537,268)	-0.60%	
Revenues	67,765,246	49,915,163	7,850,082	15.73%	469,534,043	466,996,775	(2,537,268)	-0.60%	
NEED-02 Other Income/Expense	723	(11,946)	(12,669)	106.06%	(5,836,341)	(5,19,467)	3,715,884	-3110.66%	
NEED-01 Charitable contributions	104,906	156,559	51,654	32.99%	1,319,518	1,308,247	(11,271)	-0.89%	
NEED-00 Interest Expense	107,530	159,402	51,871	32.58%	1,547,715	1,739,846	192,131	39.78%	
Non-operating Expenses	213,159	304,095	90,936	29.90%	(5,467,709)	2,508,636	4,396,344	150.12%	
Depreciation/Amortization	884,913	1,133,900	248,987	21.96%	7,684,990	11,019,238	3,334,248	30.26%	
Insurance	6,533,424	9,505,399	2,971,975	31.27%	7,680,414	11,060,971	3,380,557	30.56%	
Business Taxes	(1,307)	6,832	8,139	119.57%	4,441,896	3,961,342	(480,554)	-12.13%	
Outside Paralegals	23,015	82,603	59,588	72.14%	191,042	626,029	434,986	76.87%	
Office Operating/Other Costs	1,215,627	972,686	(242,940)	-24.98%	10,791,264	9,888,161	(903,103)	-9.13%	
Professional Services	369,413	330,713	(38,700)	-11.70%	2,094,033	2,480,867	386,834	15.59%	
Information Systems	282,083	161,872	(120,212)	-74.21%	2,836,372	2,648,191	(188,181)	-7.07%	
Non-Partner Non-US office cost	539,560	431,086	(108,474)	-25.16%	4,832,695	4,116,627	(716,068)	-17.39%	
Business Development	186,907	144,263	(42,644)	-29.54%	1,593,631	1,771,961	178,330	10.06%	
Professional Activities	(379,975)	77,520	457,495	590.17%	516,441	1,019,821	503,380	49.31%	
Legal meeting/Training	980,759	601,517	(379,242)	-38.38%	5,904,417	5,433,126	(471,291)	-8.07%	
Library	1,051,331	556,582	(494,749)	-48.89%	5,965,742	5,646,193	(319,549)	-5.46%	
Communication	274,437	324,786	50,349	15.90%	3,445,621	3,265,639	(179,982)	-5.44%	
Occupancy	3,270,236	3,198,167	(72,069)	-2.25%	37,412,763	37,311,023	(101,740)	-0.27%	
Fringe Benefits	1,972,246	1,454,688	(517,558)	-26.58%	16,484,604	16,564,734	80,130	0.49%	
Salaries	12,867,839	11,968,536	(899,303)	-7.51%	125,133,541	124,339,600	(793,941)	-0.64%	
Client Disbursement Write-Offs	(70,788)	41,301	112,089	271.39%	(1,349,774)	678,220	1,927,994	333.44%	
Operating Expenses	29,817,561	30,852,862	1,035,301	4.13%	235,698,711	242,310,636	6,611,925	2.75%	
Expenses	29,817,561	30,852,862	1,035,301	4.13%	235,698,711	242,310,636	6,611,925	2.75%	
Net Income	67,765,246	81,112,121	6,463,845	7.99%	603,725,046	712,236,047	108,511,001	2.80%	





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Management Innovation

# **BEYOND BUDGETING AND MANAGEMENT INNOVATION**





# The innovation paradox

## Technology Innovation

- a very crowded place

*Great!*

Leading Edge!

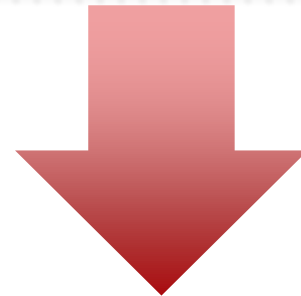
Unique!

Forefront!

## Management Innovation

- not yet a crowded place

*Scary!*



**Same purpose: Better performance!**





An inherent  
conflict  
Power balance



The fiscal year  
Administrative task



Cost control &  
variance analysis  
Co-ordination

# Budgetary Control



JAMES OSCAR HARRIS FRSB FRCR



**“...two out of three** finance executives expect their 2009 budgets to be **obsolete within the first 6 months** of the year, while **28 percent** of finance executives reported that their budgets were **obsolete even before 2009 began.**”

*Källa: Business Finance May/June 2009*



# Beyond Budgeting

- creating business agility and enable good performance

Leadership principles	Management processes
<b>1. Purpose</b> - Engage and inspire people around bold and noble causes; <b>not</b> around short-term financial targets	<b>7. Rhythm</b> - Organise management processes dynamically around business rhythms and events; <b>not</b> around the calendar year only
<b>2. Values</b> - Govern through shared values and sound judgement; <b>not</b> through detailed rules and regulations	<b>8. Targets</b> - Set directional, ambitious and relative goals; <b>avoid</b> fixed and cascaded targets
<b>3. Transparency</b> - Make information open for self-regulation, innovation, learning and control; <b>don't</b> restrict it	<b>9. Plans and forecasts</b> - Make planning and forecasting lean and unbiased processes; <b>not</b> rigid and political exercises
<b>4. Organisation</b> - Cultivate a strong sense of belonging and organise around accountable teams; <b>avoid</b> hierarchical control and bureaucracy	<b>10. Resource allocation</b> - Foster a cost conscious mind-set and make resources available as needed; <b>not</b> through detailed annual budget allocations
<b>5. Autonomy</b> - Trust people with freedom to act; <b>don't</b> punish everyone if someone should abuse it	<b>11. Performance evaluation</b> - Evaluate performance holistically and with peer feedback for learning and development; <b>not</b> based on measurement only and <b>not</b> for rewards only
<b>6. Customers</b> - Connect everyone's work with customer needs; <b>avoid</b> conflicts of interest	<b>12. Rewards</b> - Reward shared success against competition; <b>not</b> against fixed performance contracts



# Budget

ONE NUMBER WITH THREE  
DIFFERENT PURPOSES

## MANAGEMENT INNOVATION SEPERATE AND OPTIMIZE PROCESSES

Systems och Information

Objectives, Targets & Goals

Forecasts & scenarios

Decision-making & Resource Allocation

Organization and People



# Budget

ONE NUMBER WITH THREE  
DIFFERENT PURPOSES

## MANAGEMENT INNOVATION SEPERATE AND OPTIMIZE PROCESSES

Systems och Information

**Want** to happen

**Think** will happen

Resource to **support** objectives

Organization and People





## Handelsbanken





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Enabling business agility

Enabling Performance

# SETTING OBJECTIVES, TARGETS & GOALS



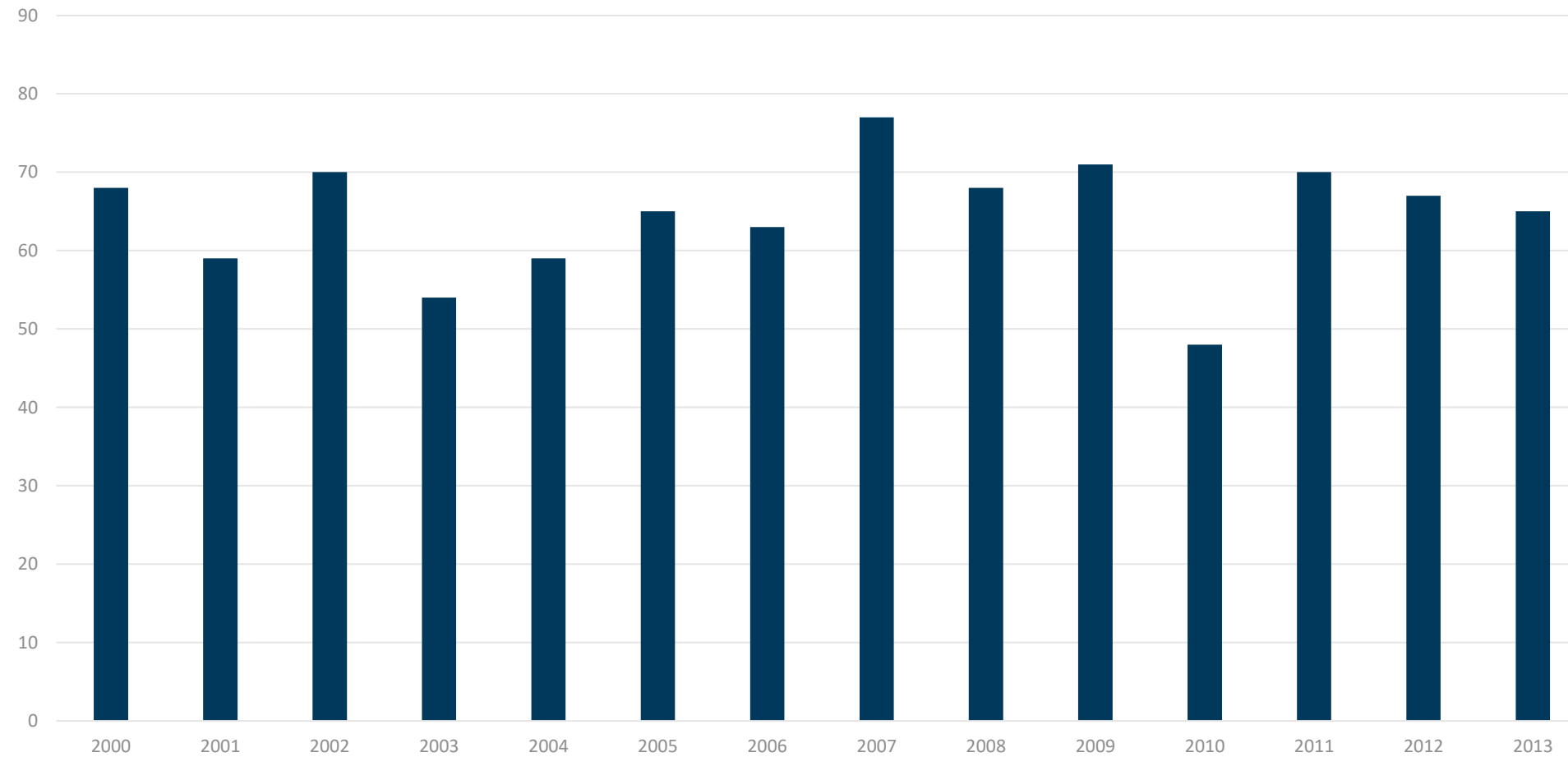
# Results vs Performance

- We set Targets & Budgets (\*) to drive performance
  - Our *Performance Management* Process

(\*) I will use the term Targets – could also be Objectives or Goals

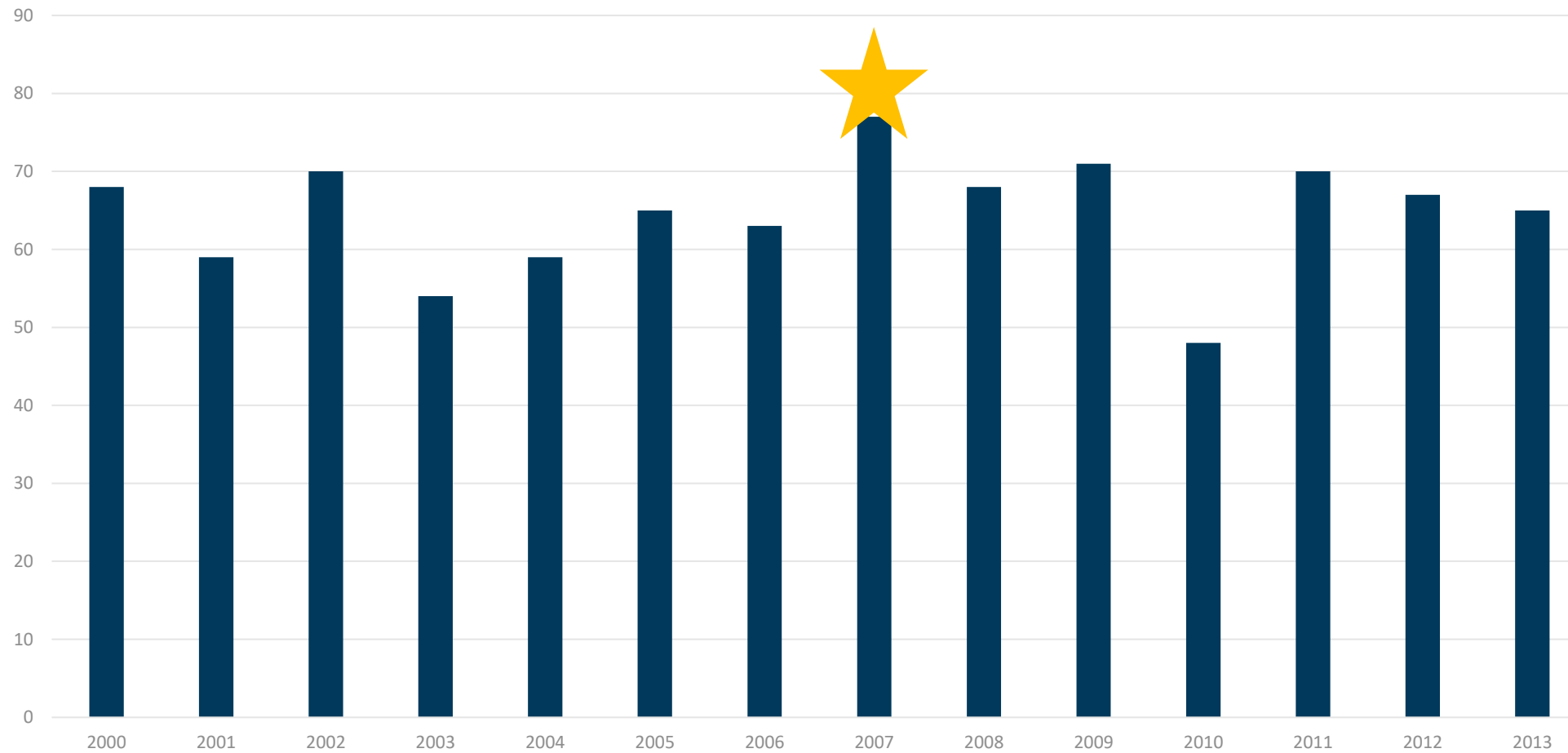


# What is a good *Performance*?



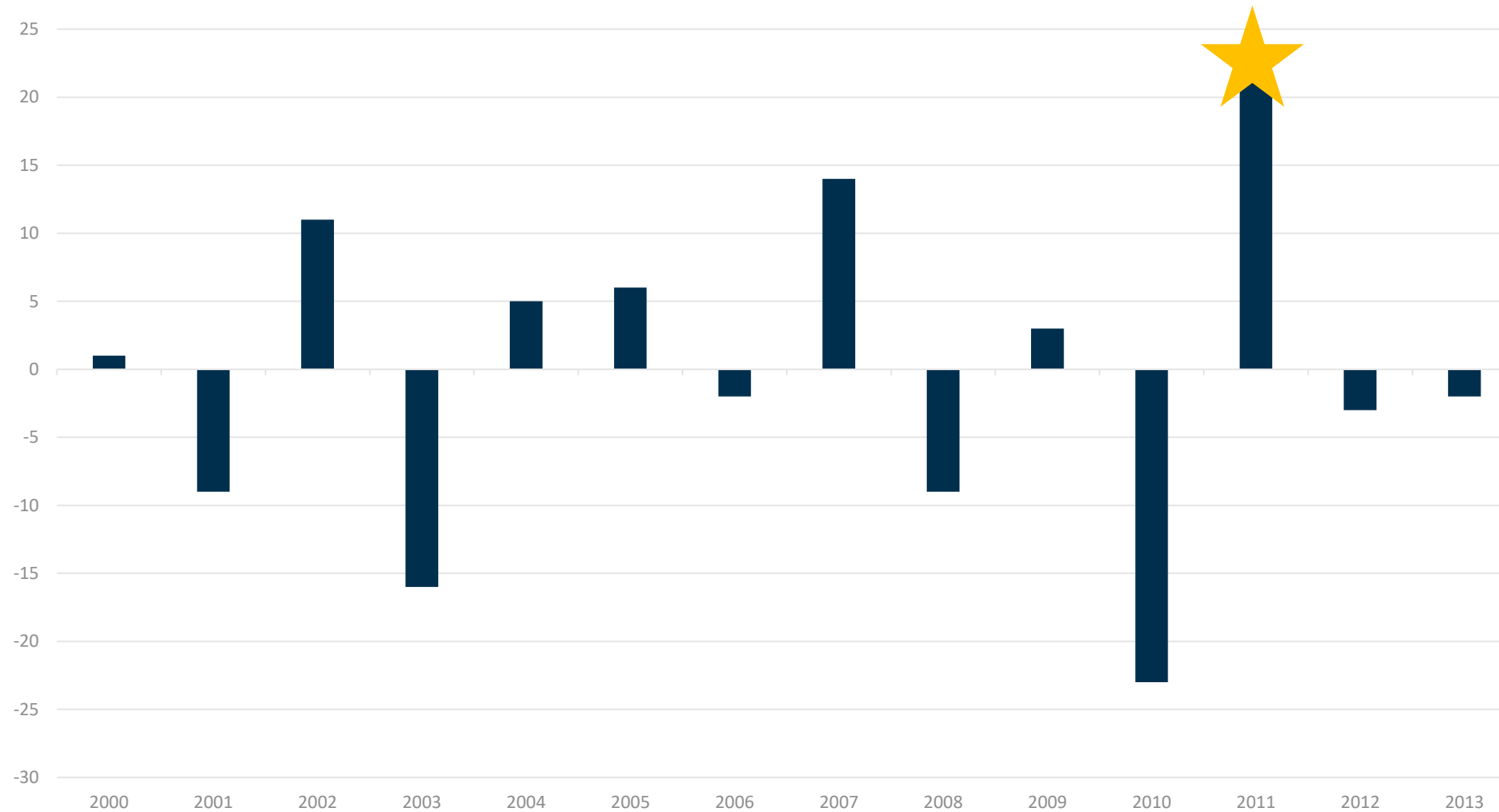
# What is a good *Performance*?

Absolute numbers



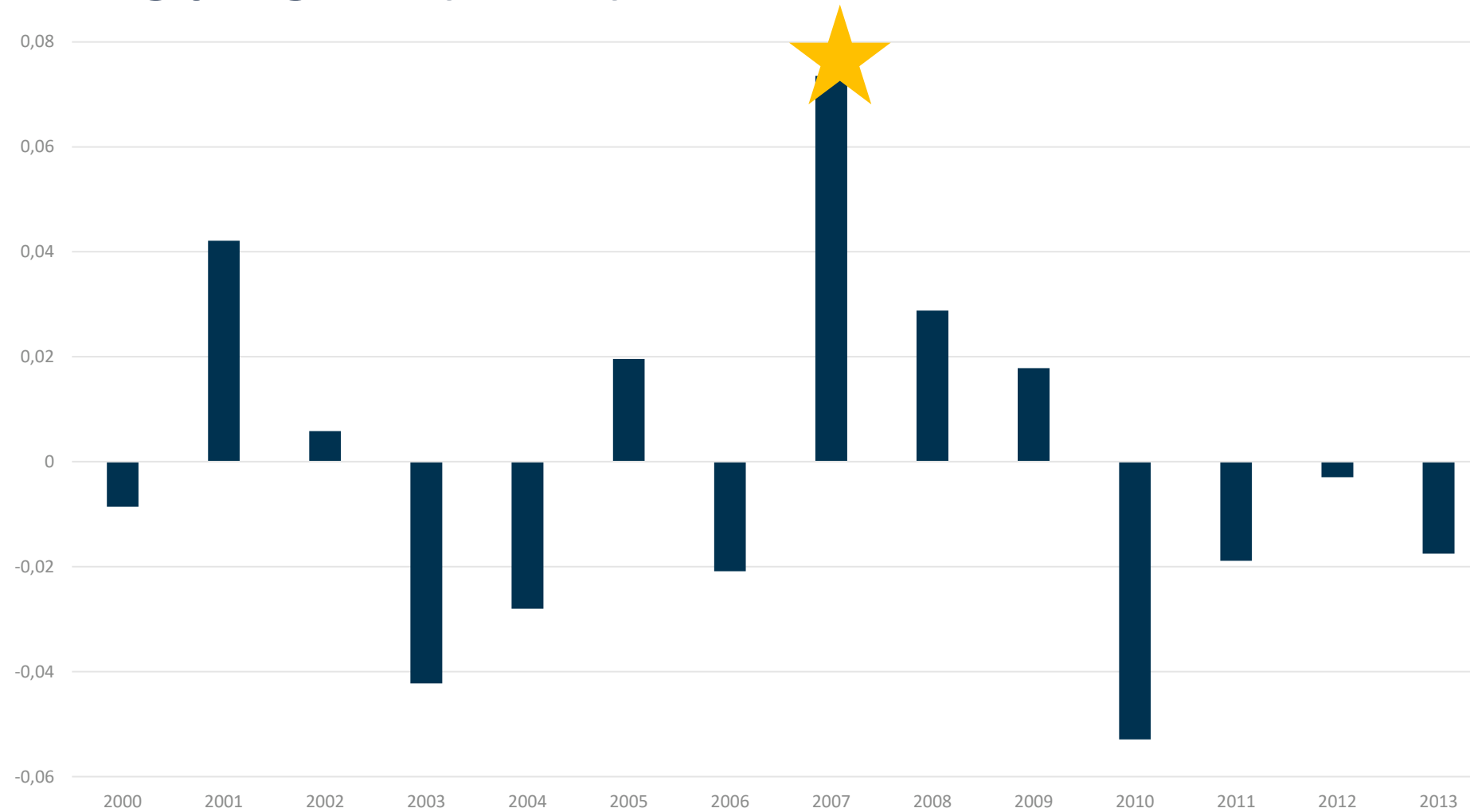
# What is a good *Performance*?

## Versus last year



# What is a good *Performance*?

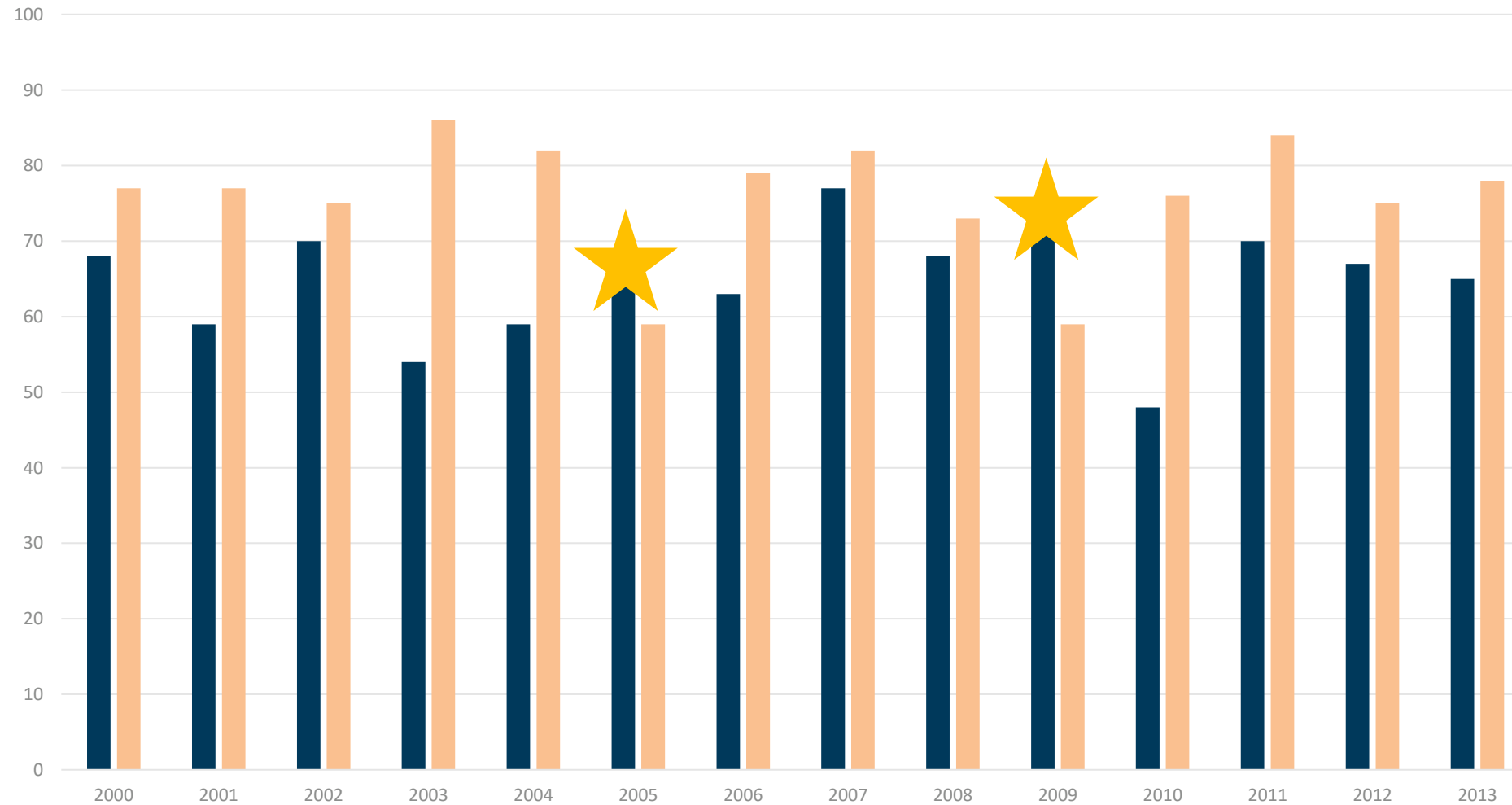
Five-year rolling progress (CAGR)



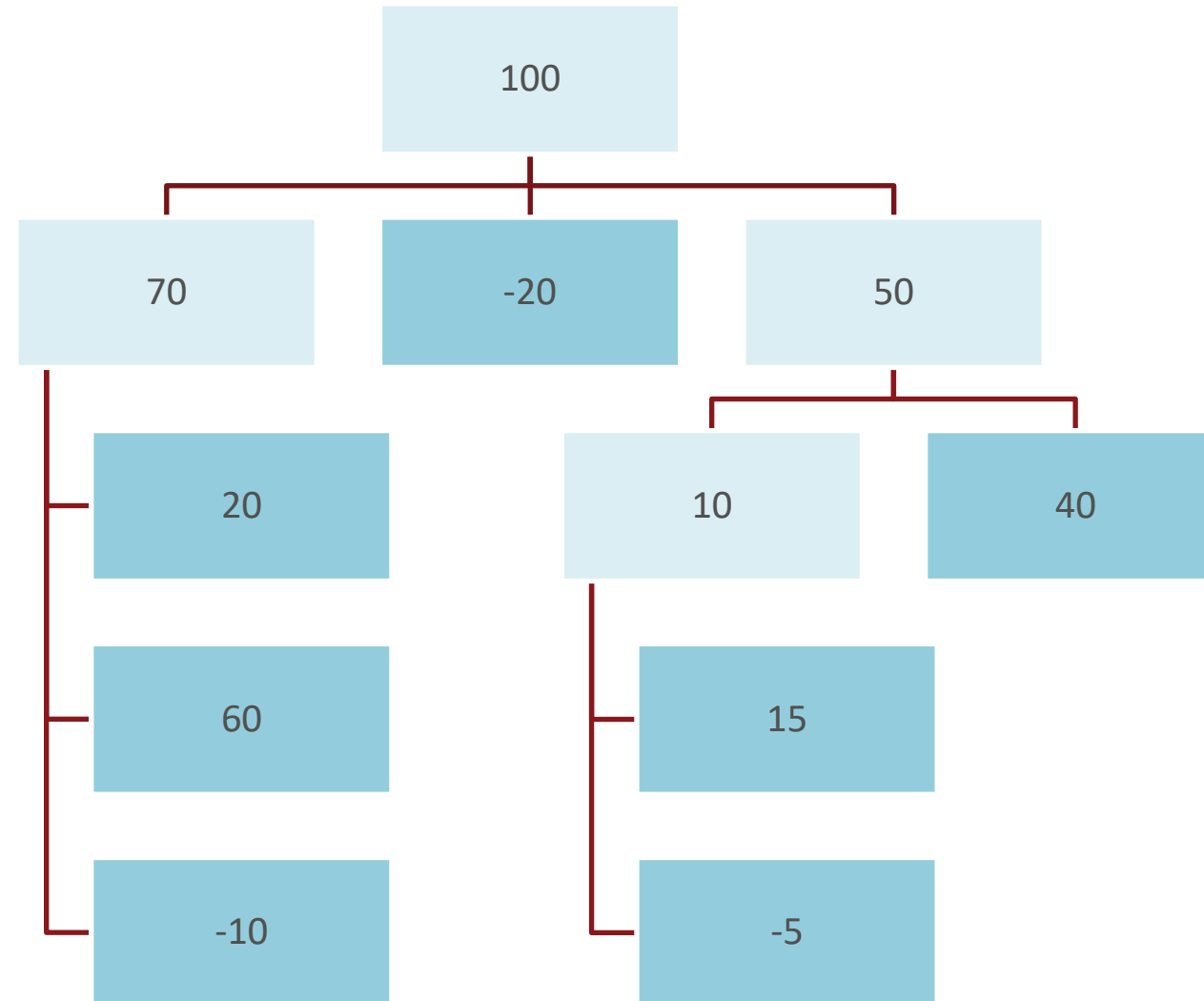


# What is a good *Performance*?

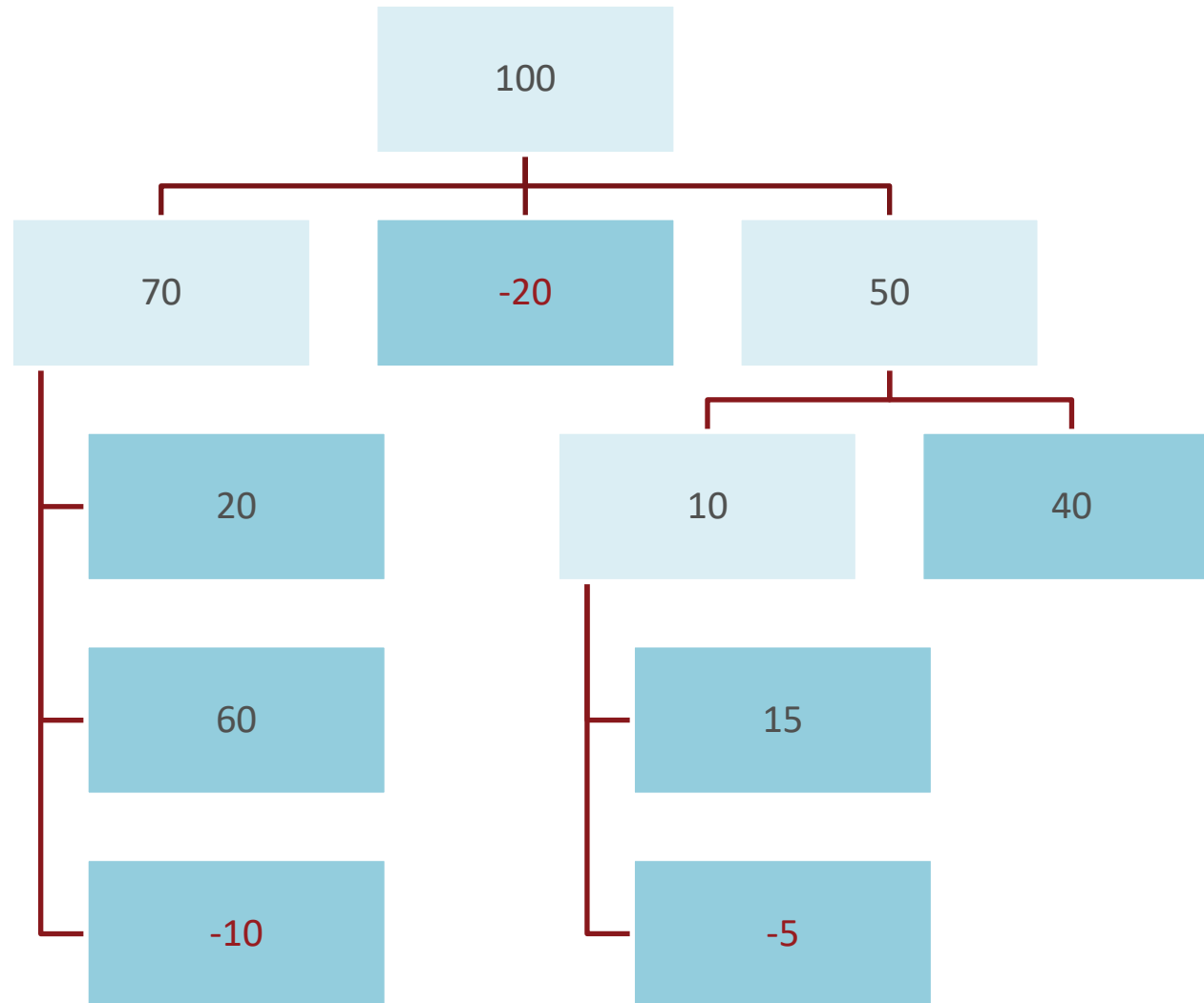
## Versus competition



# Cascading – or translating?



# Cascading – or translating of targets?



In reality – is the system 100 times *more complex*?

How much time is spent to just getting the *numbers to align vs value added knowledge*?

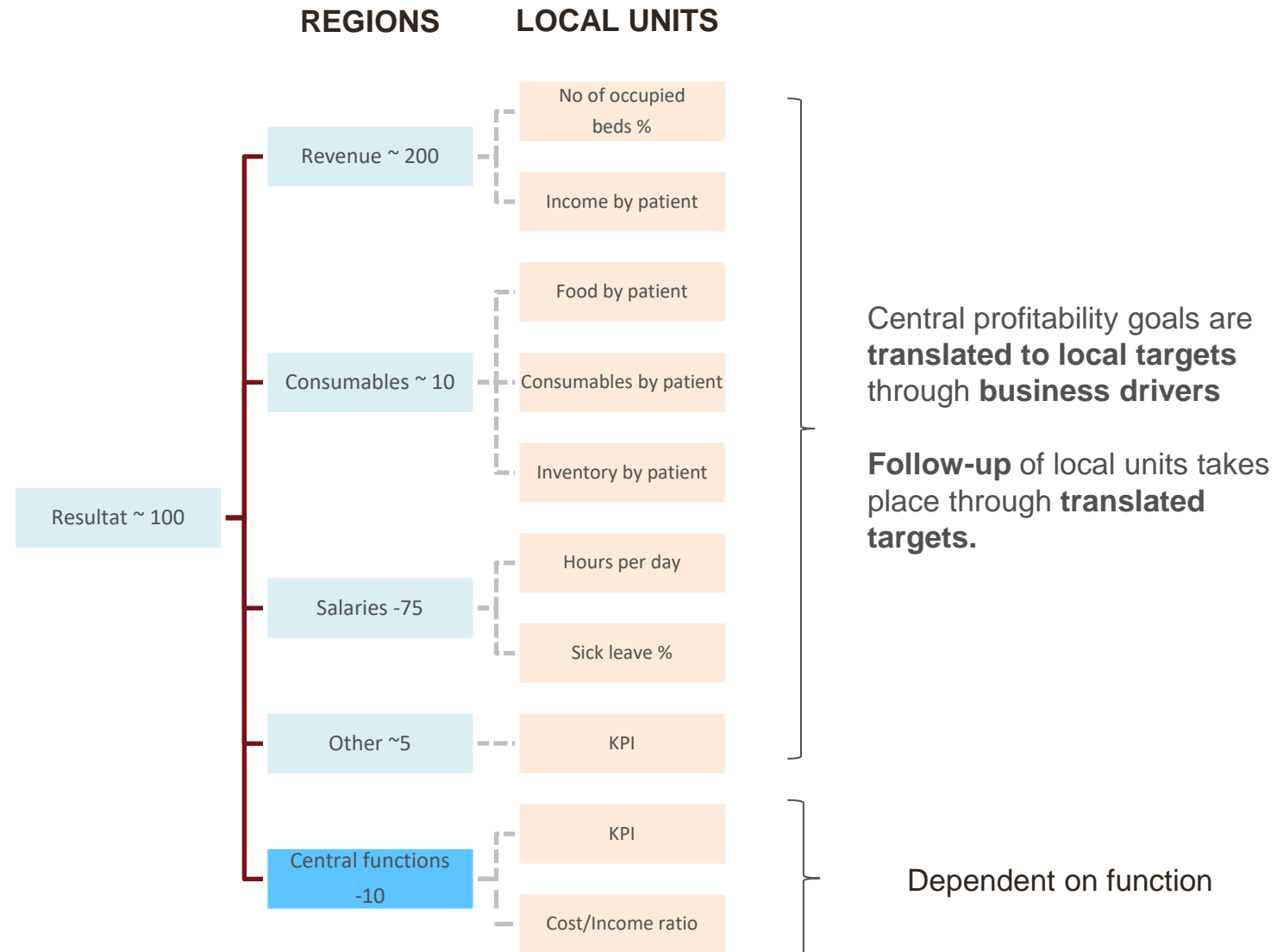
Is the number, or KPI on top (in this case 100) *relevant for first line management*?

What is the *time lag* between the first *bottom-up estimate* and the *final consolidation*?



# Translating – rather than cascading?

## Forecasting using business drivers



# Objectives, Targets & Goals

- To drive – or enable *Performance*?
- Ambitious?
- Selfregulated<sup>2</sup>
- Holistic - to manage complexity
- Rolling target setting
- Translation - not cascading
- Possible to improve



Bjarte Bogsnes, Chairman BBRT





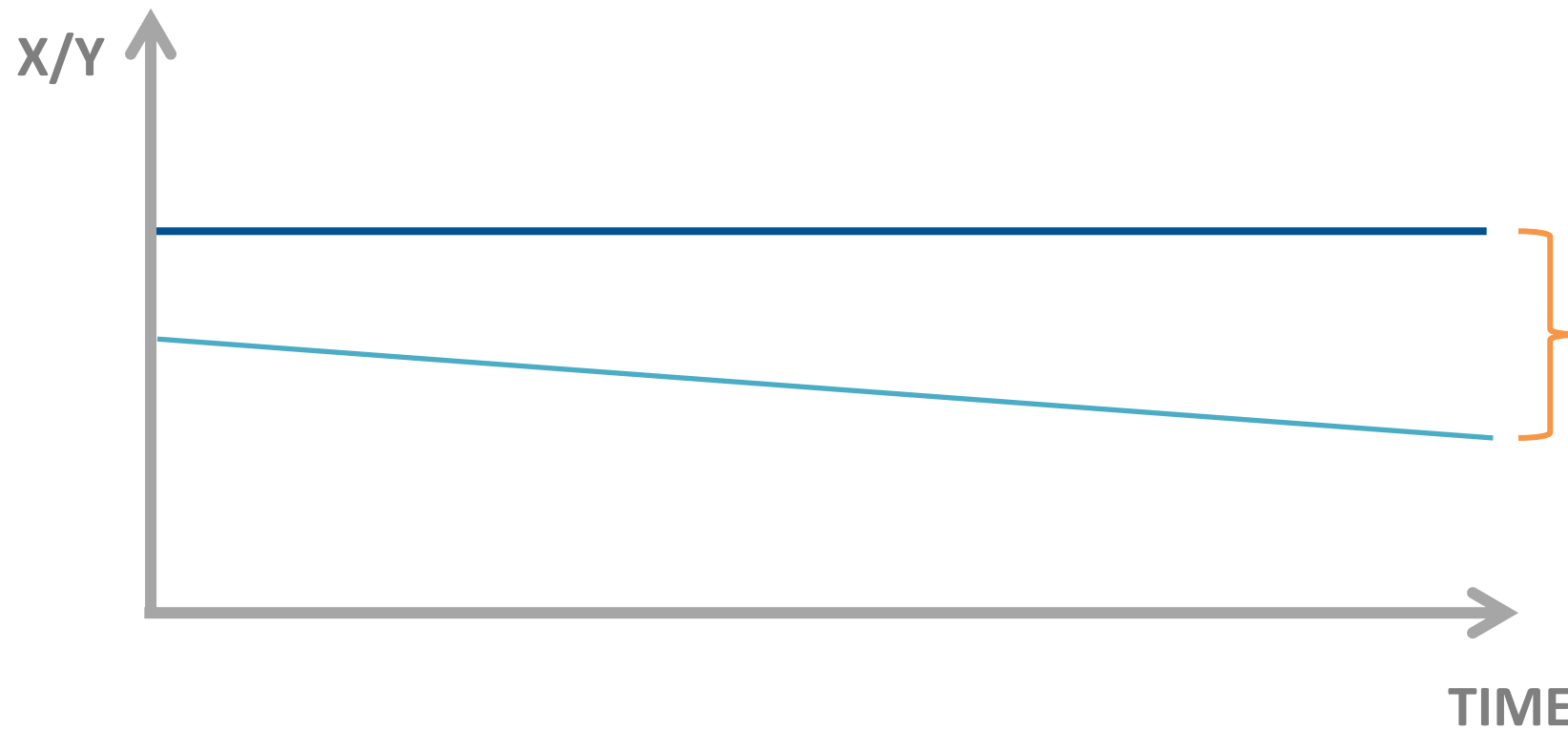
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# FORECAST AND SCENARIOS



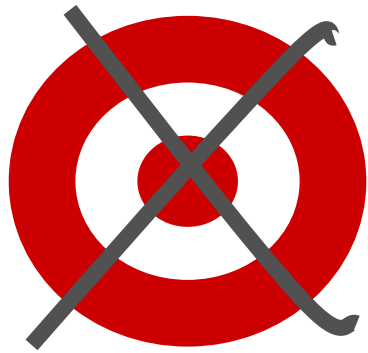
# Seperate Targets and Forecasts





# A forecast - what we think will happen and a call for action

- whether we like what we see or not!



not a **promise**,  
not an **application for resources**  
and can not be **stretched** or **include ambition**



# Should these all have the same radar screen?



**We need a forecasting process which reflects the variation in business rhythms and lead times.**

**Does not mean *more* forecasting – but better; done at the right time with the right time horizon.**



	Critical (Economic weight)	Variation	Time to manage	Update frequency	Time horizon forecast
<b>Revenue</b>	High	High	Short	Daily	Quarter
<b>Direct salary</b>	High	Low	Medium	Every two weeks	Six month
<b>Direct material</b>	High	High	Medium	Weekly	Quarter
<b>R&amp;D</b>	Medium	Medium	Medium	Monthly	Six month
<b>Sales cost</b>	Medium	Medium	Short	Monthly	Six month
<b>Admin. cost (IT)</b>	Medium	Low	Medium	Monthly	Yearly
<b>Facilities</b>	Medium	Low	Long	Quarterly	Six month
<b>Misc costs</b>	Medium	Medium	Medium	Every two weeks	Quarter





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# **DECISION MAKING & RESOURCE ALLOCATION**



# Strategic decision structure



## SIBUR DEVELOPED A COMPREHENSIVE SET OF PLANNING TOOLS

Horizon	Type of planning	Document	Updates frequency
10-15 years	Strategic	<ul style="list-style-type: none"> <li>• Corporate Strategy</li> <li>• BU strategies</li> <li>• Long term financial outlook and three forms forecast</li> </ul>	<ul style="list-style-type: none"> <li>• Once in 5 years</li> <li>• Once a year (or on demand)</li> </ul>
1-5 years	Business	<ul style="list-style-type: none"> <li>• Strategic 5-year business plans (consolidated and BUs)</li> <li>• Annual business-plans (consolidated, BUs, plants)</li> <li>• Functional contracts (corporate functions)</li> </ul>	<ul style="list-style-type: none"> <li>• Every 2 years</li> <li>• Annually</li> <li>• Annually</li> </ul>
1 week to 12 months	Operational	<ul style="list-style-type: none"> <li>• Material balance and EBITDA forecast</li> <li>• Liquidity forecast</li> <li>• Payments schedule</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly</li> <li>• Every fortnight</li> <li>• Weekly</li> </ul>



# SIBUR DEVELOPED A COMPREHENSIVE SET OF PLANNING TOOLS

Horizon	Type of planning	Document	Updates frequency
<div>Strategic decisions</div> <div>Crossroads &amp; investments</div>	<div>WHO?</div>	<div>HOW?</div> <ul style="list-style-type: none"> <li>• Corporate Strategy</li> <li>• Business plan</li> <li>• Long-term and three forms forecast</li> </ul>	<div>WHEN?</div> <ul style="list-style-type: none"> <li>• Once in 5 years</li> <li>• Demand</li> </ul>
<div>Response handling</div> <div>Proactive and/or reactive</div>	<div>Business</div>	<ul style="list-style-type: none"> <li>• Strategic 5-year business plans (consolidated and BUs)</li> <li>• Annual business-plans (consolidated, BUs, plants)</li> <li>• Functional contracts (corporate functions)</li> </ul>	<ul style="list-style-type: none"> <li>• Every 2 years</li> <li>• Annually</li> <li>• Annually</li> </ul>
<div>Non Decisions</div> <div>"Business as usual"</div>	<div>Operational</div>	<ul style="list-style-type: none"> <li>• Material balance and EBITDA forecast</li> <li>• Liquidity forecast</li> <li>• Payments schedule</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly</li> <li>• Every fortnight</li> <li>• Weekly</li> </ul>



# AstraZeneca - Changing the *Resource Allocation* and Follow-up process to reflect strategy

**Achieve scientific leadership**

*We are focusing our science on our main therapy areas and accelerating our pipeline. We are also transforming our way of working.*

Account	Function 1	Function 2
Salaries	5	20
Material	10	20
Travel	10	10
Telephone	10	15
IT	5	5
Total	40	60

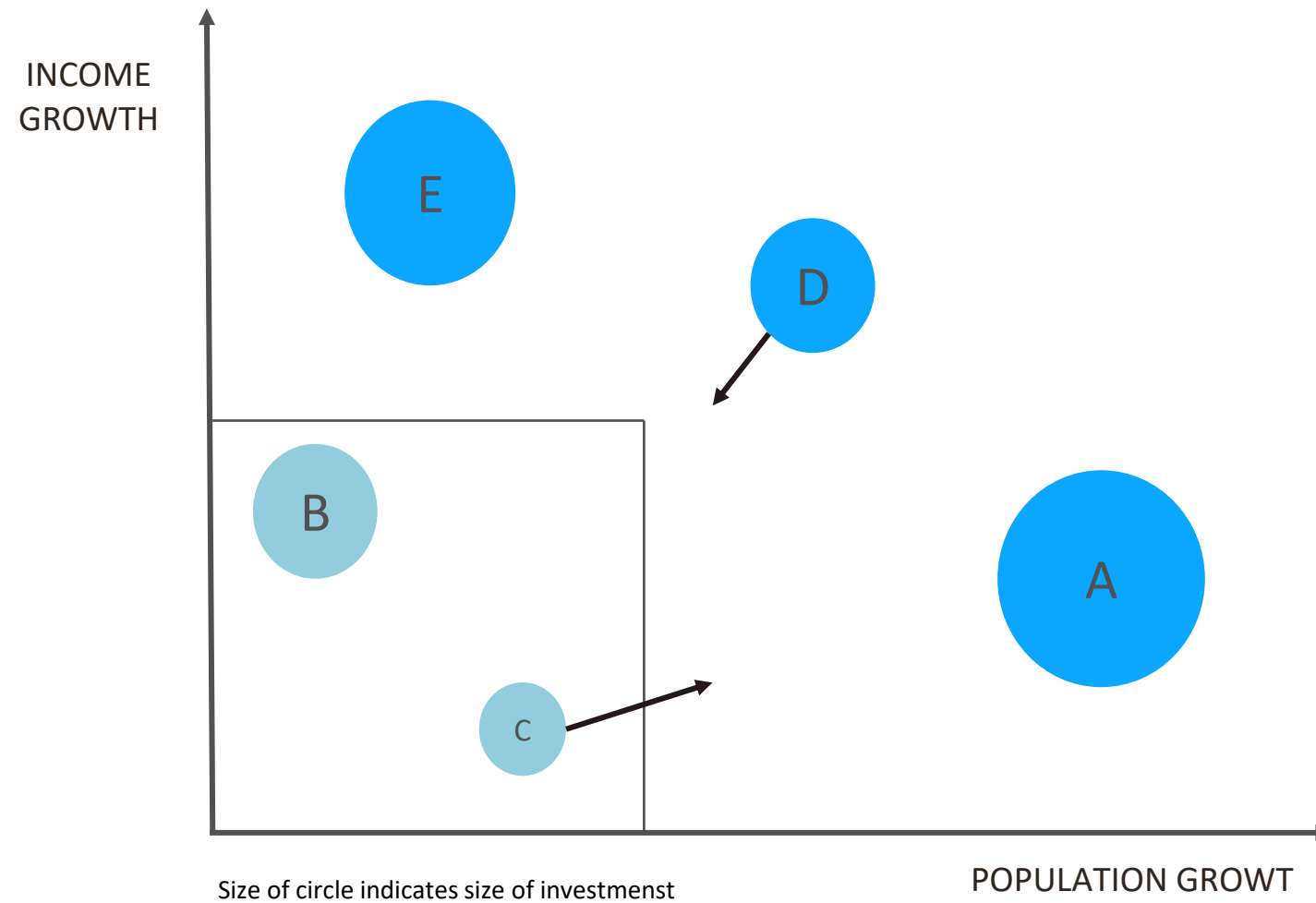


Phase	Area A	Area B
Phase I	5	20
Phase II	5	20
Phase III	10	5
LtO	15	10
Administration	5	5
Total	40	60





# Castellum - Where do we choose to invest?





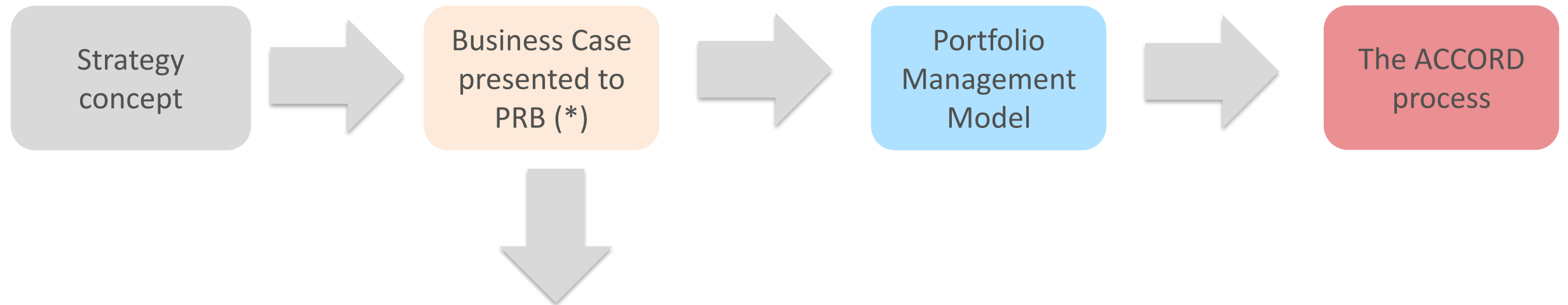
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An holistic approach to Portfolio Management

# **THE ASTRAZENECA PROJECT PORTFOLIO MODEL**



# The AstraZeneca R&D Portfolio model



(\*) PRB Office always open. A go decision would lead to freedom – within ranges – for project to go-ahead until next milestone



# AstraZeneca - Strategy concept for *decision making*

## Criteria

*Prevalence:* Population afflicted with disease (or subset, as appropriate)

*Future willingness to pay:* Based on level of unmet need, competitive intensity (e.g., order to market, generics), pricing, and anticipated market access

*Developability:* Level of risk associated with trial design, number of patients, and regulatory environment

*Discoverability:* Risks associated with target identification and scientific capabilities

## Attractiveness rating

High attractiveness  
Increased or sustained  
high investment

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Medium attractiveness  
Maintain investment to hit  
decision points, then increase or  
decrease as appropriate

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Low attractiveness  
Decrease Discovery investment or  
exit completely; finish  
development of current pipeline as  
appropriate



# Business Case Model

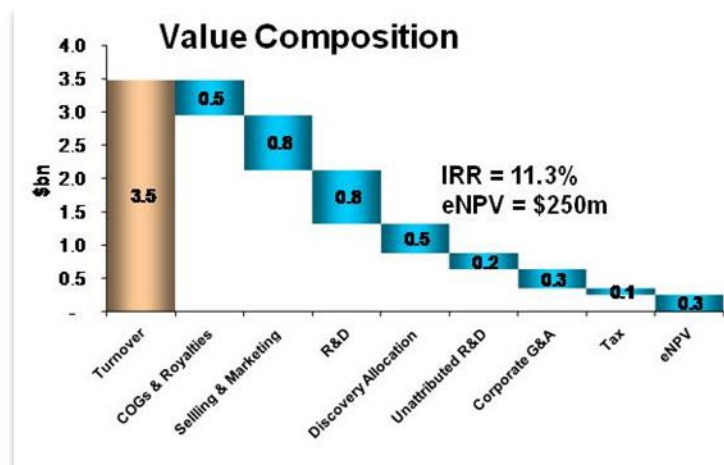
## 1. Summary of asset type key assumptions

	With Overheads						
	Summary Assumption & Outputs						
	PC	PhI	PhIIa	PhIIb	PhIII	Reg	Total
Cycle Time (months)	11	15	21	25	35	18	125
Prob. Of Transition	60%	65%	50%	55%	80%	85%	7.3%
Investment (\$m)	15	15	32	91	214	79	446
PYS							\$1.9bn
COGs							15%
S&M %							19%
R&D (Inc Failures)							\$1.9bn
eNPV							\$250m
eIRR/ROI							11.3%

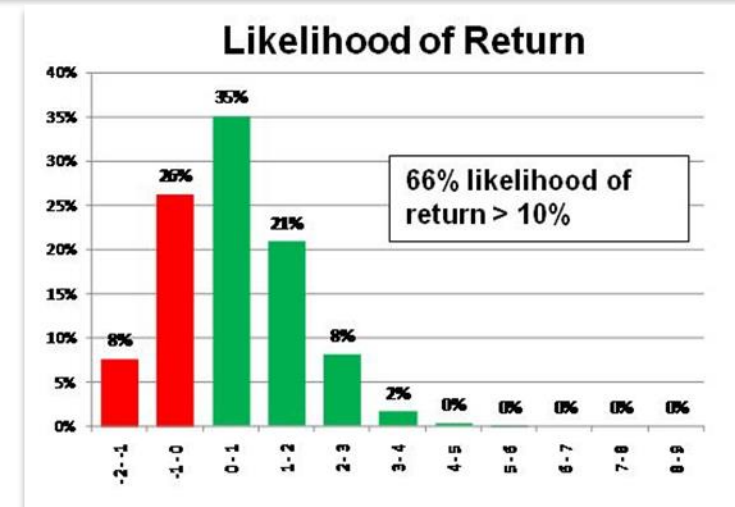
## 2. Sensitivity analysis on single drivers

Sensitivity Analysis		
ROI = 11.3%	To 10%	To 14%
Sales	-13% to PYS of \$1.7bn	+34% to PYS of \$2.6bn
PoL	From 7.3% to 5.5%	From 7.3% to 12.6%
- PhIII	From 80% to 65%	N/A
Development Cost	+40% from \$450m to \$630m	N/A
Time	2.5 yr delay to ~13yr cycle time	4 yr accel to ~6yr cycle time

## 3. eNPV unwind



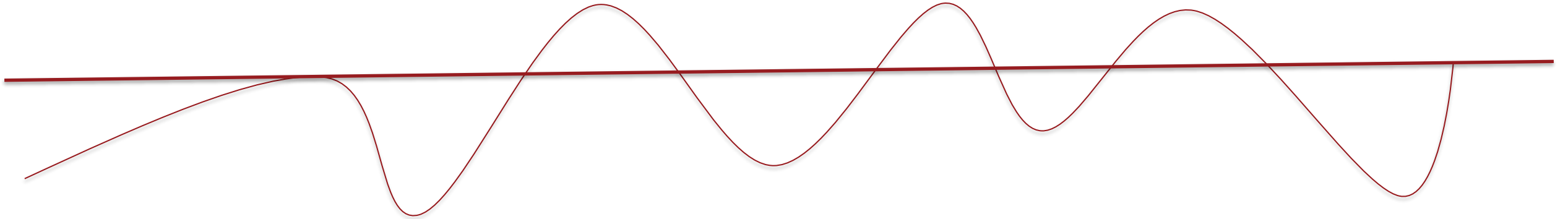
## 4. Monte Carlo for individual asset type



# Portfolio Management Model

- Based on the assumption that we do not have the ability – nor the will to assign individual project financial constraints due to **risk**, **attrition** and/or **slippage**. This is to be done on a portfolio basis, and expressed as a percentage (%) deduction of the add-up of all individual project plans.
  - As the year progresses the percentage (%) deduction will decrease
  - **Risk** – based on Therapeutic Area, FIC vs BIC and Phase (Ph I – IV)
  - **Slippage** – based on historic values connected to Therapeutic Area, FIC vs BIC and Phase (Ph I – IV)
  - **Attrition** – based on historic values connected to Therapeutic Area, FIC vs BIC and Phase (Ph I – IV)
  - Total Project add-up minus Portfolio Management Model % = Projected costs for the year
    - Note that the model also was used for longer term projections

# Accept variance versus the available funding



# A true driver based forecasting – and accruals model

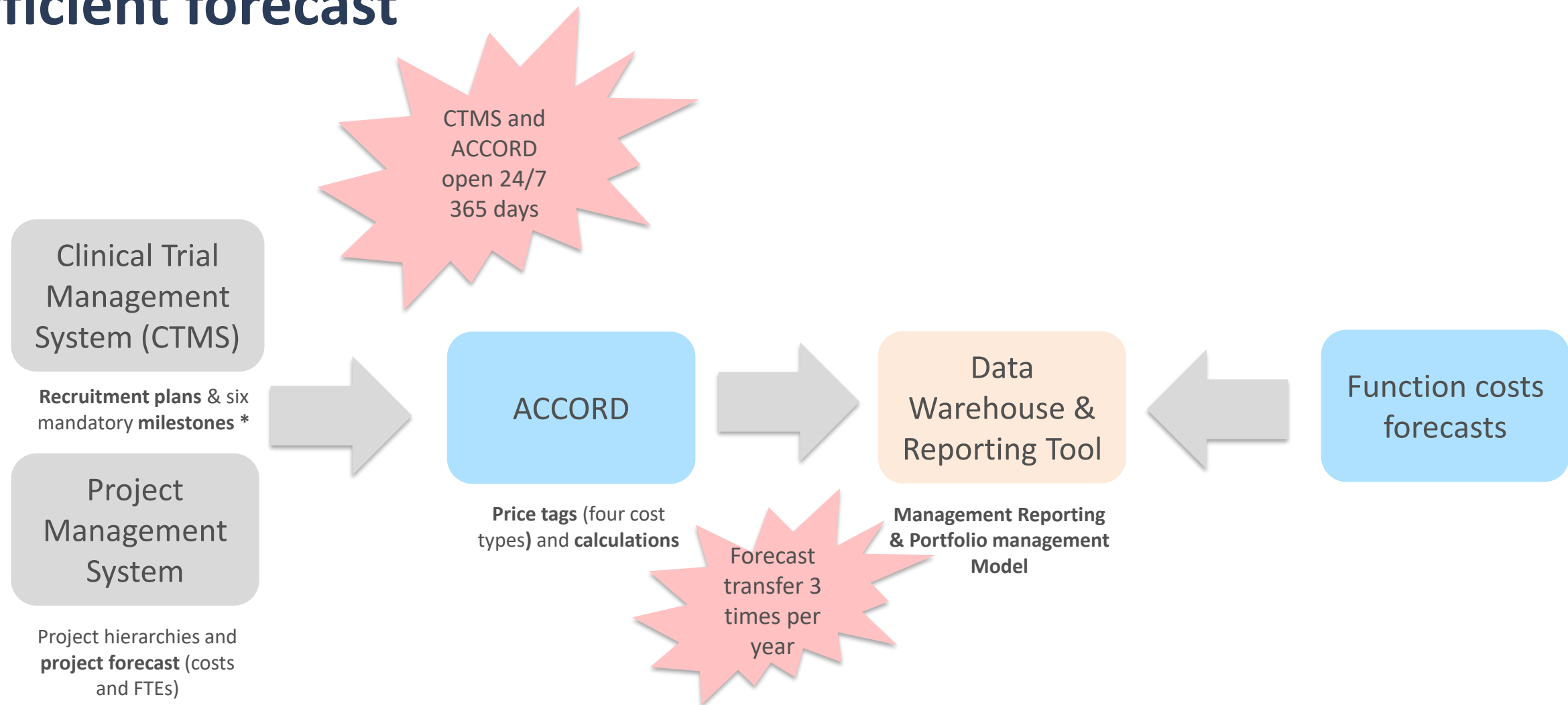
## The ACCORD Process

- Background
  - Clinical trial cost represent ~25% of R&D cost base (4,5bh USD)
  - Volatile – but important cost base
  - History of poor forecasting quality, leading to short term decisions – creating frustration in organisation and lack of coherence with long term strategy
  - Cumbersome process to receive invoices from multiple layers (internal & external), and hence inefficient and non-coherent accruals process
- High level development process
  - Workshops to understand drivers
  - Can we find driver information in any business systems?
  - Describe connections, and build calculations
  - Build IT tool that fully supports new process (**custom made**)



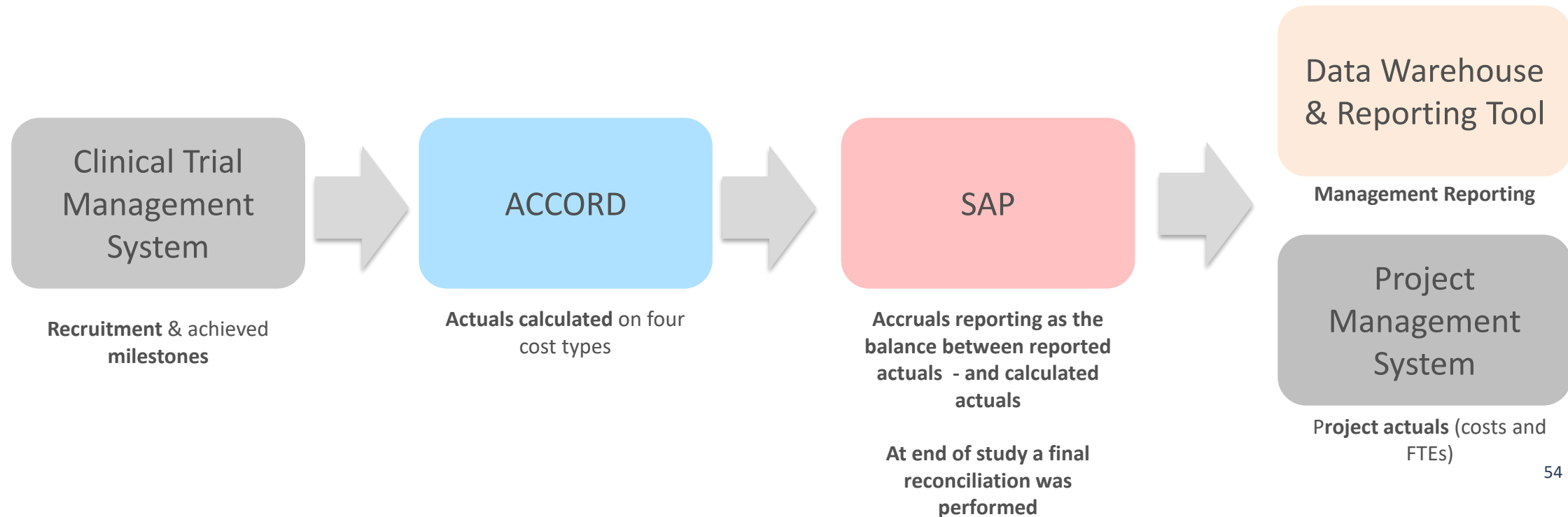


# Re-use business information to build a transparent and efficient forecast



- Examples FPI (First Patient in), FPDF (First Patient First Dose), LPI (Last Patient In) etc
- **ACCORD** is the clinical study financial tool used by 8 R&D sites and circa 40 Marketing Companies for central cost reporting purposes.

# Re-use business information to build a transparent and efficient accruals (actuals) process





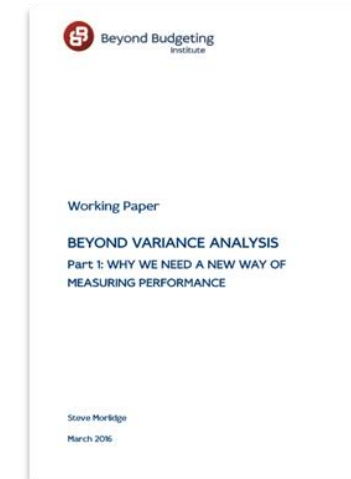
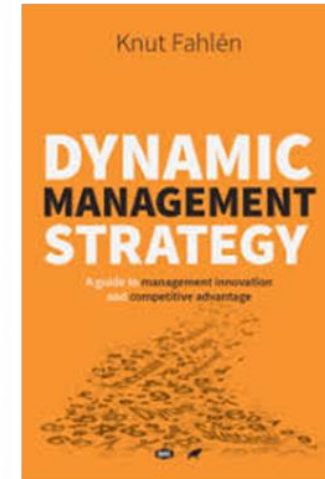
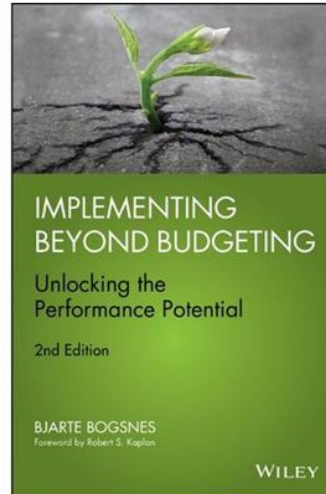
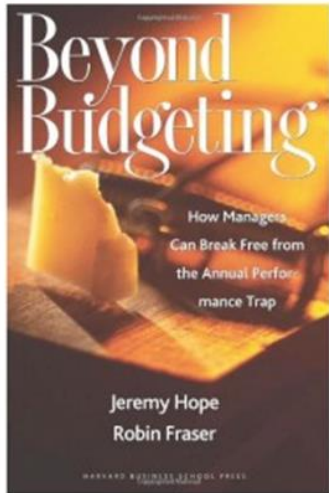
**Beyond Budgeting**  
Enabling business agility

Management Innovation

# RECOMMENDED READING



# Recommended reading



7  
Accessible for BBRT members



..and a four paper series on  
*Dynamic Resource Allocation* –  
send e-mail to [info@bbri.org](mailto:info@bbri.org) to  
get access



Beyond Budgeting  
Institute

White Paper 1

Beyond Budgeting  
and Dynamic Resource  
Allocation

Steve Morlidge  
Beyond Budgeting Institute

April 2020



# Beyond Budgeting

Enabling business agility