Why Lean Requires Moving Beyond Budgeting

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Lean Accounting Summit

Steve Player serves as the Program Director for the Beyond Budgeting Round Table North America (BBRTNA) working with companies to implement continuous planning processes.

Over 30 years experience improving performance management

Managing Director of Live Future Ready, a Business consulting firm, and founder of ABM SMART.

Co-author of Future Ready: How to Master Business Forecasting and Beyond Performance Management as well as five other books.

He interviews CFOs for the “CFOThoughtLeaders.com website discussing innovative finance and planning processes.

Steve Player
Session Agenda

- Identifying the 8 wastes that fill your budgeting process
- Using the change formula to build your case for change
- Using the 12 Beyond Budgeting principles to separate and improve
- Using successful implementations to overcome objectives

Ready to Stop Doing Dumb Stuff?

Are you ready
What is Live Future Ready?

“Live Future Ready expresses our ambition of helping organizations prepare and be ready for whatever comes. We cannot perfectly predict the future. But if you stop doing the "dumb stuff" required for traditional budgeting you create time to do forecasting and scenario plans that create contingency plans for whatever comes.”

Steve Player
Director, BBRTNA

Why do we do budgets?

“We do budgets because budgets are what we do!”
Budgetary control is urgently needed in administrative control for two purposes:

1. As a means of coordinating the activities of the various functional departments
2. As a basis for centralized executive controls.

Source: Budgetary Controls (Reprint), James O. McKinsey, 1922, pg. 12
Traditional budgets block your efforts to become lean

Move to Lean Planning

- The goal of Lean Enterprise
  - To better serve the customer by eliminating waste

- The goal of Lean Accounting
  - Eliminate waste in finance processes

- How does this apply to budgeting and planning?
Lean approach to improvement by identifying waste

Eight types of Muda (waste):
1. Defects
2. Overproduction (of items not needed)
3. Inventories (awaiting further processing)
4. Unnecessary processing
5. Unnecessary movement of people
6. Unnecessary transport of goods
7. Waiting (unbalanced work flows)
8. Design of outputs that do not meet users’ needs

Source: Taiichi Ohno, expanded by Womack & Jones

The Formula for Successful Change

\[ D \times V \times F > R \]

D = Dissatisfaction
V = Vision for change
F = Known first steps
R = Resistance to change
Dissatisfaction: Problems with Budgeting

1. Takes too long to prepare
2. Cost too much
3. Based on assumptions that turn out wrong

4. Causes gaming that erodes the ethical foundation of the company
5. Triggers unnecessary spending
6. Gives the illusion of control
7. “It brings out the most unproductive behaviors in an organization...”
   
   Jack Welch, “Winning”
Budget pain

Seven + Five Common Problems

1. Takes too long
2. Costs too much
3. Based on assumptions that are nearly always wrong.
4. Erodes the ethical foundation of the organization.
5. Causes unnecessary spending.
6. Gives the illusion of control
7. Budgeting sucks the big ideas out of the organization.
8. Limits flexibility
9. Creates sense of entitlement
10. Pulls the organization apart instead of pushing together
11. Can stretch beyond the breaking point

Axson’s Mythbuster Wisdom

1. Time consuming
2. Too much detail
3. Always sand bagged
4. Bogged down by allocations
5. Rewards the best “games” players (negotiated)
6. Tied to the calendar not the business
7. Run by the accountants
8. Solely focused on the financials
9. No sense of materiality
10. Ignores risk
11. Weak ownership
12. Poor accountability
13. Focused on the wrong stuff
14. More a negotiation than a plan
15. Bears little relation to the business strategy
16. Gives a false sense of accuracy
17. Too internally focused
18. Largely obsolete the day it was created
19. Difficult to update
20. Created using thousands of spreadsheets


Vision: 12 Beyond Budgeting Principles

Change in leadership

Governance & transparency

1. Values – Bind people to a common cause; not to 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 - Organize around a seamless network of accountable teams; not around centralized 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 & rewards

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

Planning & 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 and planning cycles
11. Resources - Make resources available as needed; not through annual budget allocations
12. Controls - Base controls on fast, frequent feedback; not on budget variances

Source: The Leader’s Dilemma, Hope, Bunce, and Röösli (2011, John Wiley & Sons)
Changing your business to manage in a volatile world

Clean sheet? or Cumulative Cost Structure Profile?

Becoming Future Ready

5 YEAR STRATEGIC VISION

What ship do we need?

What projects and initiatives are needed to transform?

How do we continue performing while we change?
Statoil’s Approach: A serious problem – and a solution

Traditional budget / plan

Budget / plan =
• Target
• Forecast
• Resource allocation

“Same number – conflicting purposes”

Step 1
Separate

Step 2
Improve

Target

• Ambitious
• Relative where possible

Forecast

• Unbiased - expected outcome
• Event driven not calendar driven
• Limited detail

Resource allocation

• Dynamic - avoid annual pre-allocation
• Operations - relative KPIs etc.
• Projects - decision gates & criteria
• Monitoring - intervention if needed only

“Different numbers”

Command & Control vs. Adaptive

SOURCE: Adapted from Implementing Beyond Budgeting, Bognes, (2016, Wiley)
First Steps: Knowing Where to Start

Revolutionary Approach to Implementation

- Changing all at once
- Seen in more early BBRT research
- Most early European cases; growing number of US examples
- Heavily influenced by visionary leadership

Case Examples
- Handelsbanken
- Guardian Industries
- SlimFast

- Holt CAT
- Thedacare
- Stanford Health
Evolutionary Approach to Implementation

- Changing in a phased approach
- Seen in newer BBRT research
- Mostly North American; heavily leverages rolling forecasts
  
Adopts the Beyond Budgeting principles on a more gradual approach while still utilizing some form of traditional budgeting (until the budget goes away)

- Case Examples
  - American Express
  - Southwest Airlines
  - Unilever
  - Ossur
  - Park Nicollet Health Services
  - BayCare

The “check-plan-act” Business Review Process

- Fast KPIs & trends
- Nature & Frequency of Demand
- Rolling Forecasts
- Peer Comparisons

“Fund activities, not budgets”
Forecast vs. target

Target 10% Improvement
Projection
Actual Trend = 4% growth

Qtr. 1 Qtr. 2 Qtr. 3 Qtr. 4

What is your plan?

RESISTANCE TO CHANGE
Needed: Leaders to Transform Finance

Summary of Key Takeaways

1. Finance organizations often impede efforts to become a lean organization by using anti-lean techniques such as “push” budgets. To start your efforts, “Stop Doing Dumb Stuff.”

2. Organizations can plan and control more effectively by moving Beyond Budgets to Live Future Ready

3. Use the Change formula (D*V*F>R) to build a case for change

4. Guide your development ssUse the 12 Beyond Budgeting principles provide the vision to guide your development.

5. You can take an evolutionary or revolutionary path to advanced planning practices including
   - rolling forecasts,
   - predictive logic diagrams, and
   - scenario planning.
Questions?

To learn more...

- Attend our longer training classes on Implementing Beyond Budgeting and Mastering Rolling Forecast.
- Join the Beyond Budgeting Round Table North America
- Read *Future Ready: How to Master Business Forecasting* (Wiley)
- Attend the 16th Annual Beyond Budgeting Conference in Chicago, IL in June 2017
- For additional information call Steve Player at 214-239-0155 or send an email to steve@theplayergroup.com

Are you ready to Live Future Ready?

Live Future Ready™ is a shared-learning member network focused on implementing advanced planning processes, improving management models to become more adaptable, and empowering their organizations to enable sustained, superior performance. Live Future Ready™ members are also granted membership in the Beyond Budgeting Round Table North America (BBRTNA).

**Faster Response**
Adaptive organizations operate with speed and agility. Agility comes from reducing complexity in the management process which is achieved by empowering front-line staff to act immediately and decisively. These actions are governed by clear principles, values and strategic boundaries. Underlying all these approaches is the shredding of bureaucracy that still hinders progress in most organizations.

**Lower Costs**
Survival against global competition requires you to continually lower costs. Yet, the traditional tools like annual budgeting are built on 1920s designs. They slow response to change and often send the wrong signals. Our network identifies the dumb stuff you should stop doing to create time for more effective approaches. Network members are showing how to adopt a culture of continuous cost improvements.

**Innovative Strategies**
Organizations that Live Future Ready™ work within an open and self-managed environment. Clear governance principles and transparent information set the right climate and build the trust needed to share knowledge and adopt best practices. This is enabled by moving away from incentives based on negotiated, fixed. Incentives are based on relative measures that reward outstanding performance.

**More Loyal Customers**
Leading organizations place customer needs and value at the center of their strategy. Their processes are adapted to satisfy and even delight customers. Empowered front-line teams with the authority to act enable quick decisions and fast innovation. Responsiveness to your customers differentiates your organization from its competitors.

**Other Important Features**
- Shared learning and peer networking within special interest or industry groups accelerates your progress.
- Collaboration with leading organizations on a similar journey helps steer your path.
- Participation in Live Future Ready™ conferences, meetings, and related events expands your knowledge.
- Access to on-line library of research, case studies, white papers, and presentations deepens your team.
- Advisory services / access to senior staff to answer your questions, provide training, or speak at your events.
- Discounts on additional training, assessment, implementation, and consulting services.

For further information, please e-mail us at info@livefutureready.com or give us a call today at 214-239-0155.