

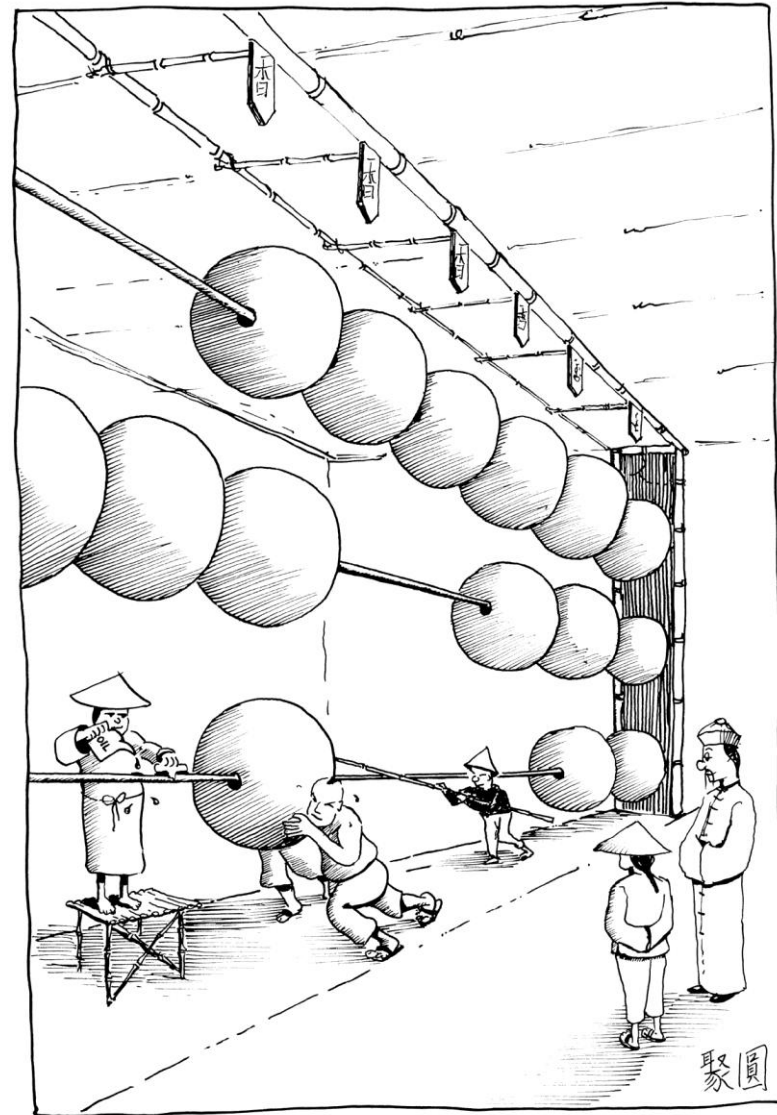


Eliminating Budgeting – Fictions In The Real World

- Fictions
- Factions
- Actions

- Objective:
 - eliminate budgeting in your firm
 - eliminate budgeting in FM

“Get a big picture grip on the details.”
Chao Kli Ning



- Special – mission is to be the foremost risk/reward management firm, “helping organisations to improve by making better decisions”
- Services – projects, systems, coaching/training, interim managers
- Sectors – technology, finance, NGOs, professional services, outsourcing
- Some Highlights – British Computer Society Award 2004/2005 for PropheZy and VizZy, DTI Smart Award 2003, DTI Foresight Challenge Award of £1.9M for The Financial Laboratory, Investment Banking CCC’s, ***IT for the Not-for-Profit Sector, Clean Business Cuisine***



“I use not only all the brains I have, but all I can borrow.”

Woodrow Wilson

- Negotiating annual targets and budgets takes far too much management time
- Fixed targets encourage gaming behaviour, especially near the year end
- People feel powerless when targets set a year earlier cannot be met because conditions have changed
- Working towards a goal of relative superiority over the competition encourages people to consider a wider range of future scenarios and make more flexible and effective plans
- Budgets are purely financial - we should be monitoring a range of KPIs aligned with our strategy
- Re-planning just once a year is far too slow; quarterly is better; monthly is better still
- It makes more sense to give people resources when they have something useful to do with them than give people resources as an entitlement in the hope they'll think of something worthwhile later

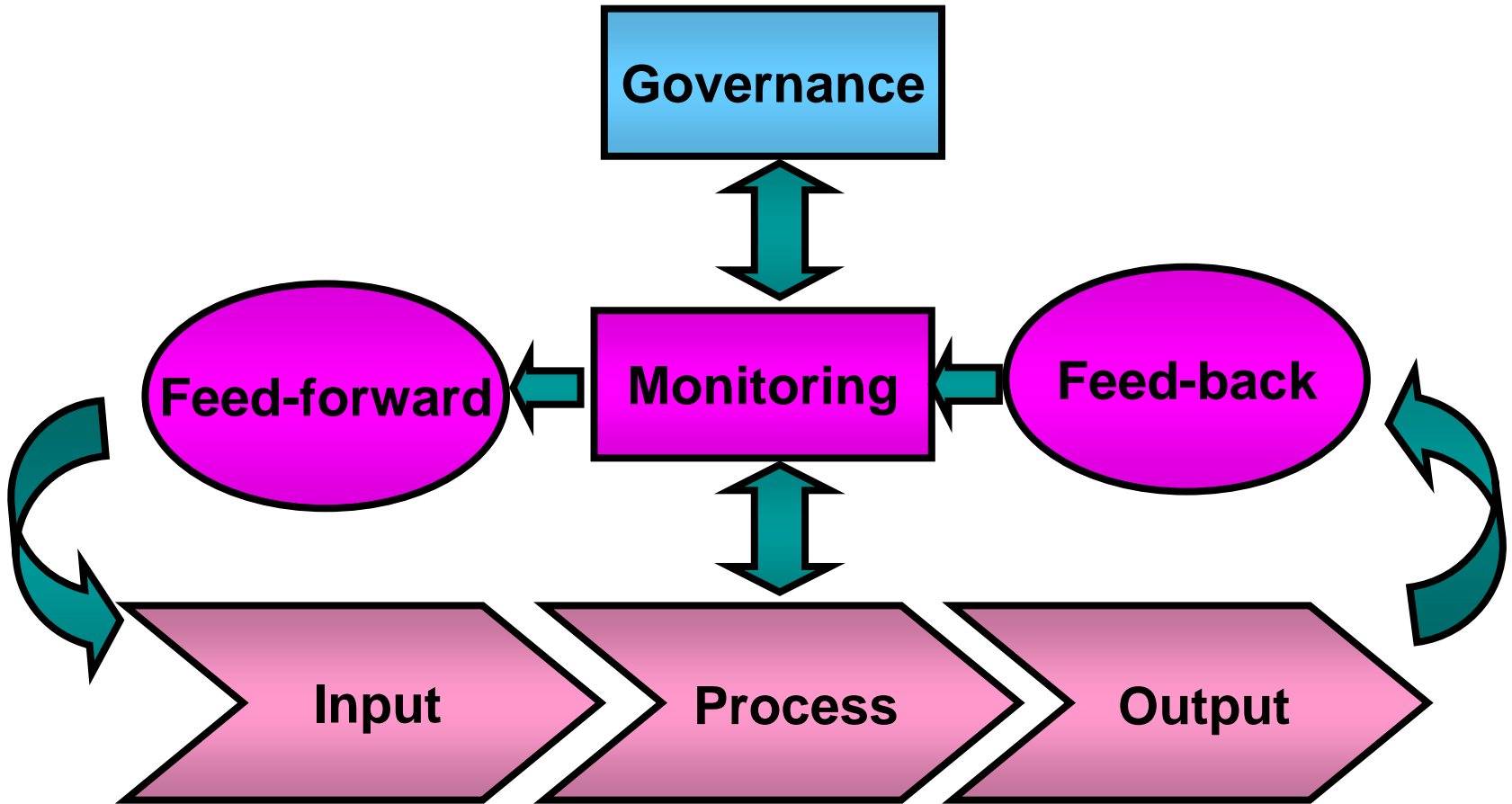
[Source: Matthew Leitch survey of 40 organisations]

Fictions - Budgets, Targets, Goals?

- Always ask for more resources than you need, they'll be cut anyway
- Always negotiate the lowest targets
- Always make the bonus
- Always meet, never beat, the numbers
- Always spend what's in the budget
- Always have an excuse for adverse variances
- Never put customer care above sales targets
- Never share knowledge or resources with other teams
- Never provide accurate forecasts
- Never take risks

“Budgeting is an unnecessary evil.”

Dr Jan Wallander, Honorary President, Svenska Handelsbanken

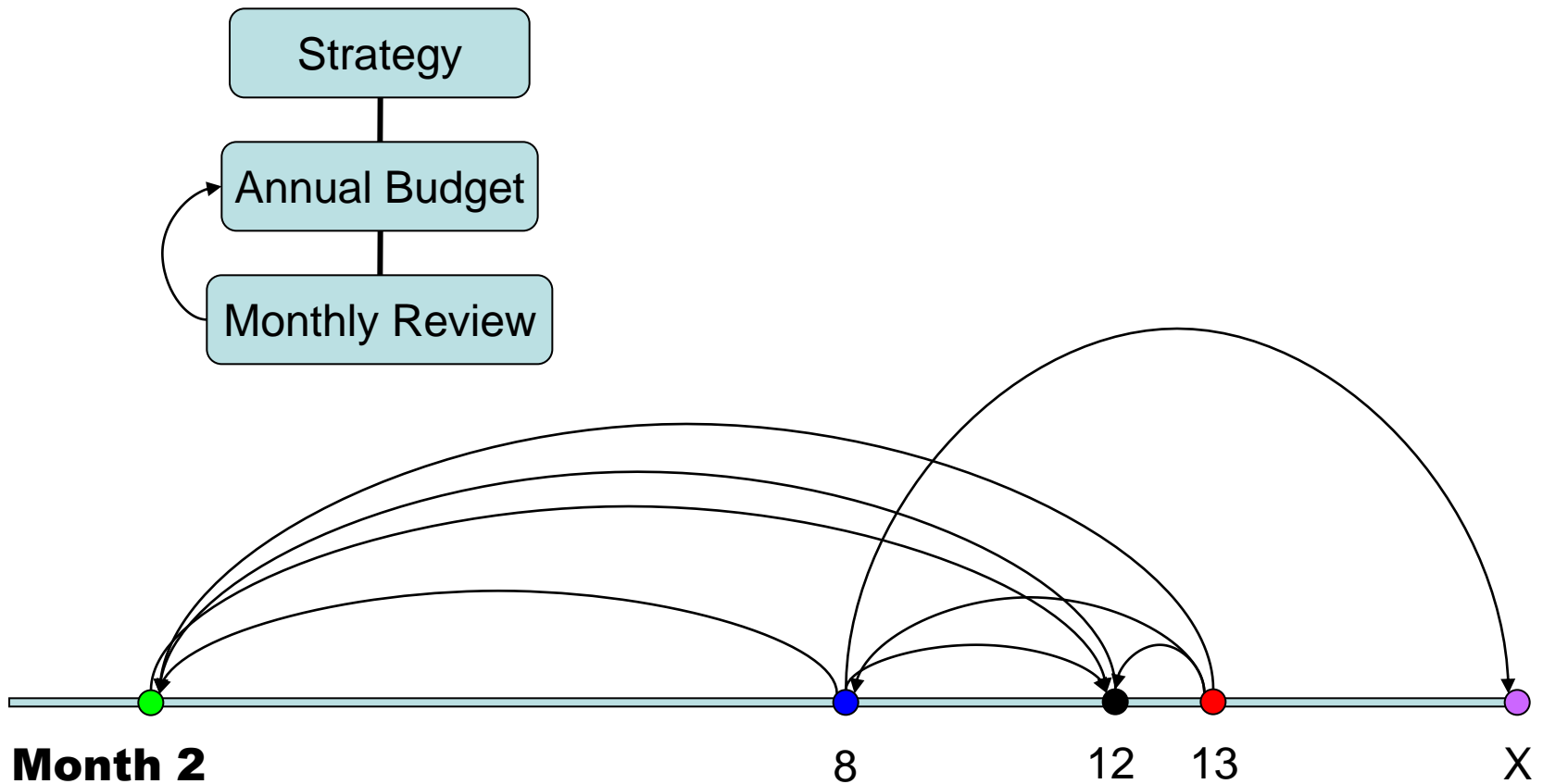


“When a measure becomes a target, it ceases to be a good measure.”

Professor Marilyn Strathern FBA



Moving Targets Meet Unmovable System



Pressed For An Answer

- Press Release A – our losses will be £Q, a specific amount



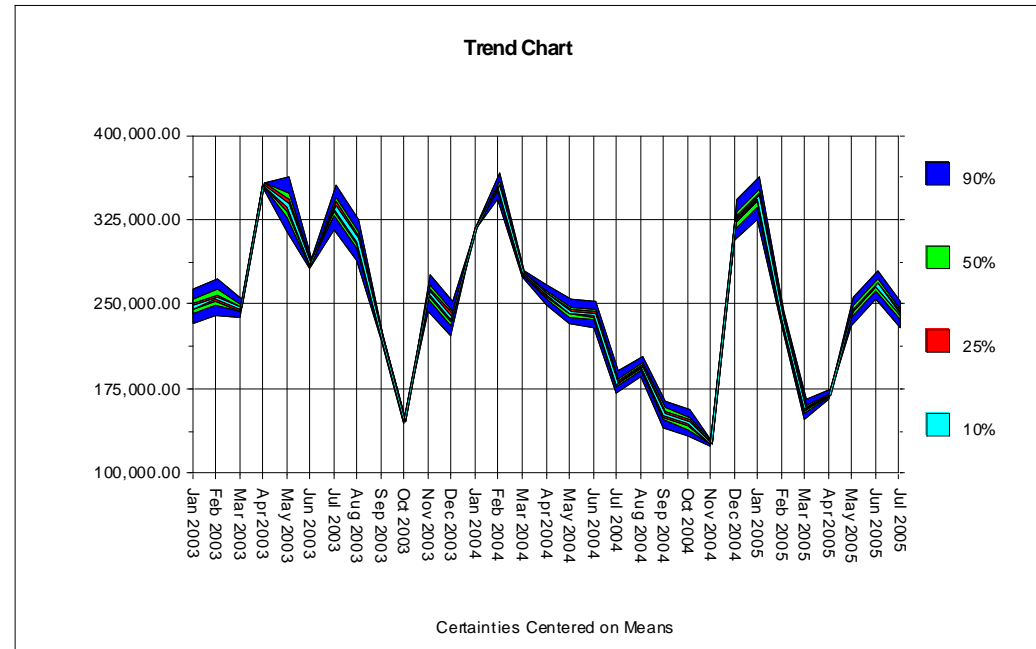
- Press Release B – at this point in time our losses are estimated to be between £X and £Y at a probability of Z%

Problems With Budgeting

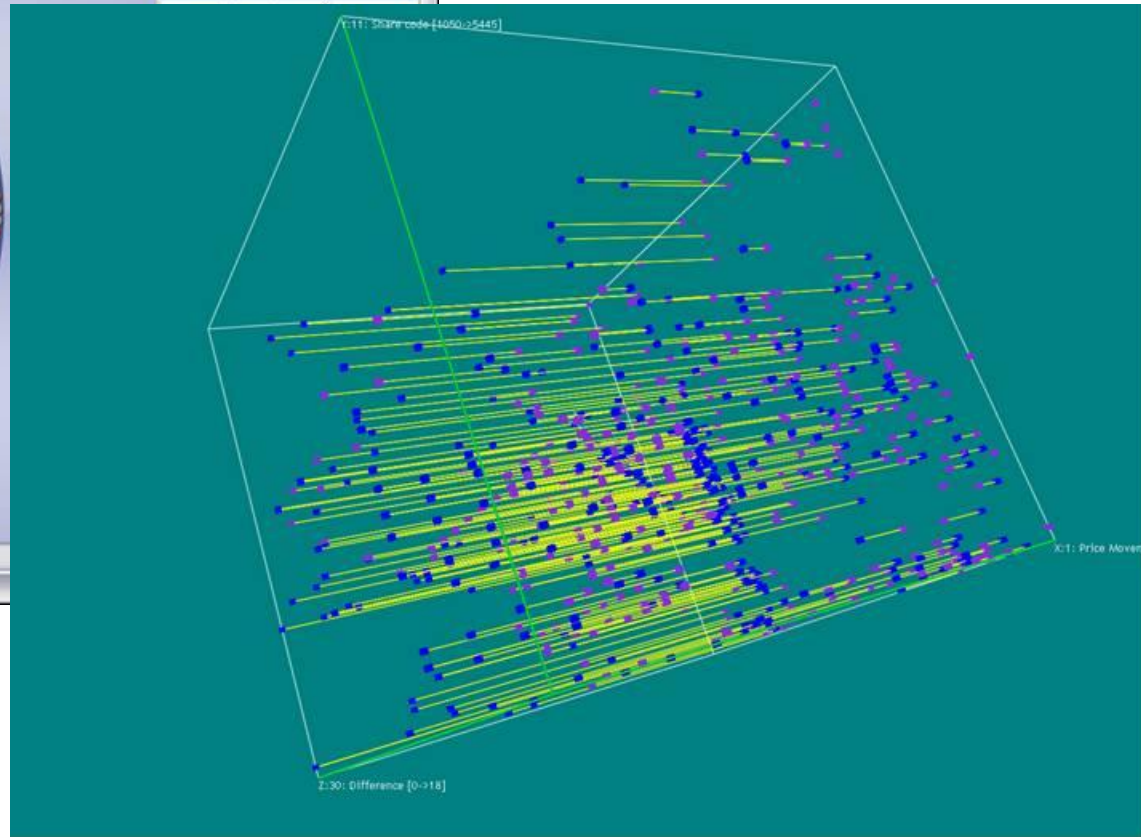
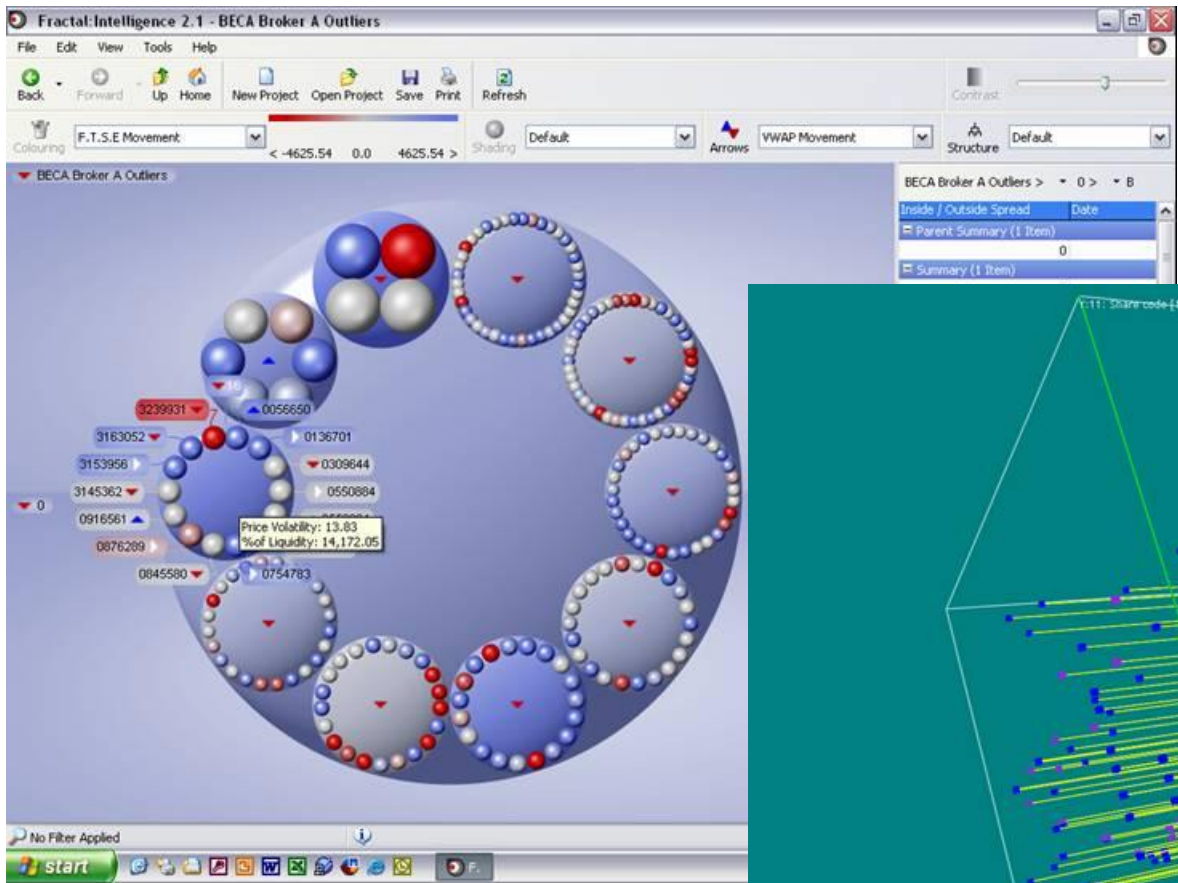
- Single goal assumption
- Feed-forward (positive feedback) of people messes things up
- Stability overweighted – system not adaptive - annual cycle doesn't apply in today's world
- Resources consumed in sub-systems:
 - planning
 - budgeting
 - reporting
 - reconciling
 - re-planning, re-budgeting, re-reporting, re-reconciling
- Even then ... only works with successful purchase ordering system and forecasting ... and lots of effort!

A Personal Path

- Z/Yen and sales
- Z/Yen and budgets – stochastic evaluation and confidence accounting
- Z/Yen and a new finance director
- Z/Yen and clients – dashboards - PKRI ↔ LI (predictive key risk indicators for losses & incidents)



PKRI ↔ LI Dashboards



Man Is The Measure

	Standard-Based	Comparative	Predictive
Set Direction	What's the norm?	How are others doing?	Are we doing the right things?
Gain Commitment	Do we agree on the basic measures?	How do others motivate?	What's our vision?
Keep Control	What are our constraints?	Are our limits the same as others?	How do we re-define limits?
Resolve Uncertainty	What are the basic priorities?	Do we share others' priorities?	Have we got the right priorities?

Fixed versus Relative

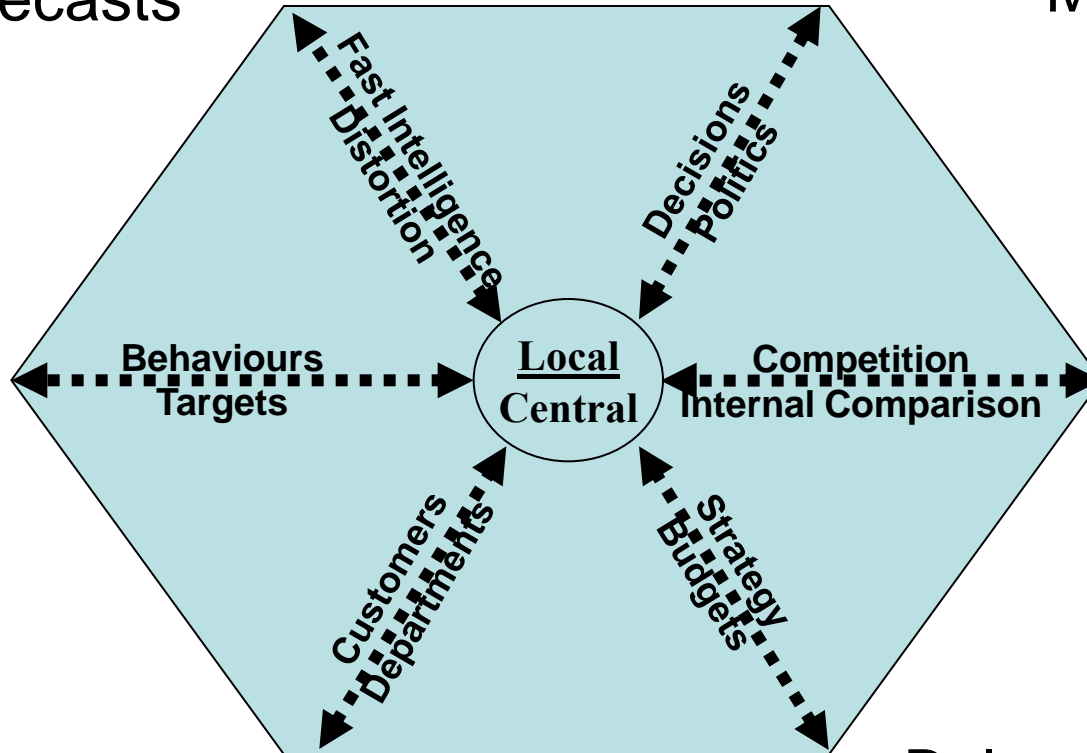
	Fixed	Relative
Targets	set	maximize
Rewards	%	based on trust
Plans	set actions	within frameworks
Resources	agreed	provide and take
Coordination	central	network
Controls	monitoring budgets	provide forecasts

Beyond Budgeting - Dashboards

Enterprisewide IS & Rolling Forecasts

Shareholder Value Models

CRM



Benchmarking

Activity-Based Management

Balanced Scorecard

- Aim to beat the competition
- Never let the team down
- Care for customers
- Share knowledge and resources
- Only acquire the resources you need
- Aim to challenge costs
- Find root causes
- 'Tell it like it is' - never fudge the numbers
- Challenge conventional wisdom

“The budget is the bane of corporate America.”

Jack Welch, ex-CEO, General Electric

- Not – throwing away financial systems and controls
- Not – throwing away planning
- Not – throwing away forecasts

- Finance
- Management
- Directors
- FM sales
- FM account/client managers

- Clients won't like it?
 - risk/reward
 - trust
 - variable/flex contracts

- Good company
 - Svenska Handelsbanken (banking, sales \$8 billion)
 - Crown (packaging, sales \$7 billion)
 - Rhodia (chemicals, sales \$5 billion)
 - Borealis (plastics, sales \$5 billion)
 - Ahlsell (building supplies, sales \$1 billion)

ABB – ACCO Europe – ACNielsen – Accenture – Ahlsell – Alstom – American Express – Anheuser Busch – ALG Software – Andersen – Archstone Consulting – Ascom – Barclays Bank – Borealis – BT Group – Burmah Castrol – BG Transco – Boots The Chemists – Cadbury Schweppes – Canadian Imperial Bank of Commerce – CIMA – CITB–ConstructionSkills – Charles Schwab – Clariant International – Cognos – Coors Brewers – CorVu plc – CSIRO Livestock Industries – Discover Financial Services – DFW Airport – Diageo – De Beers – Deutsche Bank – DHL – eNiklas – Ernst & Young – EBRD – Halifax – Hammond Suddards – HON Industries – Housing Associations – HP Bulmer – IBM Business Consulting Services – Hyperion – Interbrew UK – International Finance Corp – INEUMconsulting – Japan Tobacco – Johnsonville Sausage LLC – Kingfisher – KPMG Consulting – Mars Confectionery – Port of Tyne Authority – MasterCard – Mencap – Maxager – Millipore Corp. – National Power – Navigator Systems – Navigant Consulting – Novartis – Omgeo LLC – Oxleas NHS Trust – Painted Word – Parker Hannifin – Pentland Group – Priority Health – Royal Mail – Rugby Group – Sainsbury's Supermarkets – SAS Performance Management – Schneider Electric – Scottish Enterprise – Siemens – Sightsavers International – SKF – Southco – Standard Life – Statoil – gruppoSTI – Stratature – Svenska Handelsbanken – Target Corporation – Telecom New Zealand – Texas Instruments – Thames Water – The World Bank – ThinkFast Consulting – T-Online International – TPG – UBS AG – United Engineering Forgings – Valmet Corporation – Unilever – US Analytics – Vaisala Oy – West Bromwich Building Society – Wachovia Corporation – Welsh Development Agency – Wright Williams & Kelly

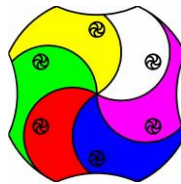
- [**www.bbirt.org**](http://www.bbirt.org)

- Adaptive
- Decentralised

- Eliminate what stands in your way!

- Eliminate
- Simplify
- Automate
- Integrate

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“Get a detailed grip on the big picture.”
Chao Kli Ning

