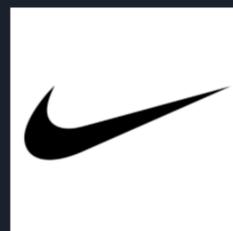


- Beyond budgeting
- Application of agility in finance
- Responding to change over following a plan across the organisation
- Applying your expertise in a new area

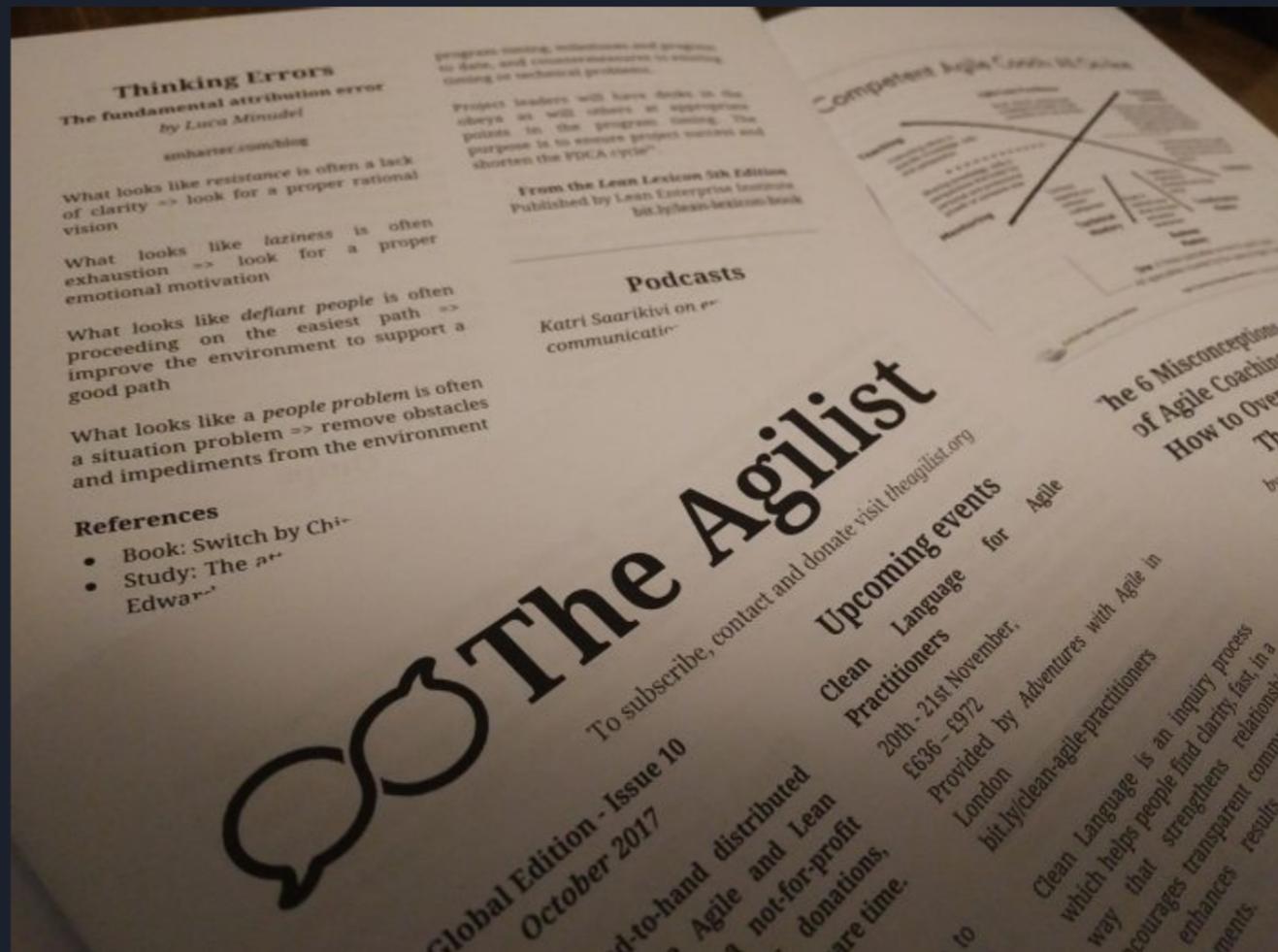
Increase Agile's credibility and influence by creating better outcome with finance

Dean Latchana

About Dean



Sainsbury's



Current situation with *Agility*

Much spoken about approaches

Delivering customer value in a complex environment:

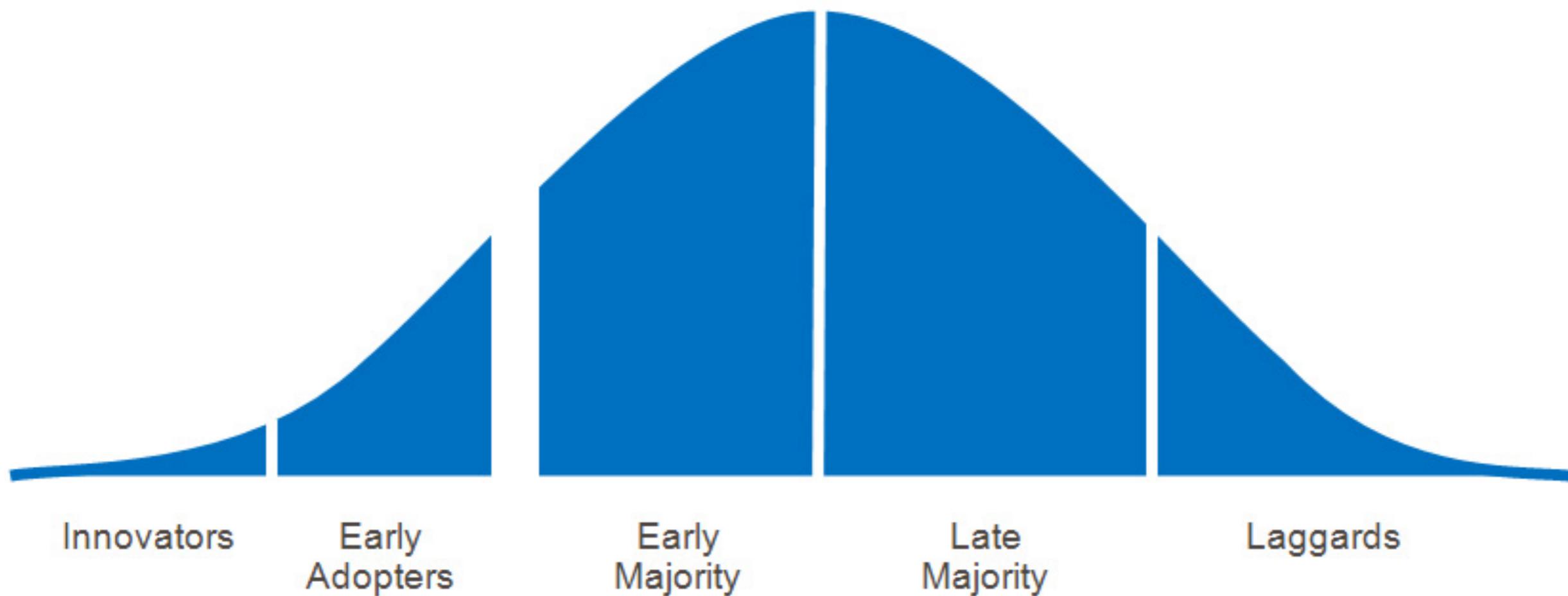
Scrum: *People & Interactions*

Lean: *Balance & Flow*

Lean Start-up: *Learn & Experiment*

“Business agility is the ability of a **business system** to rapidly respond to change”

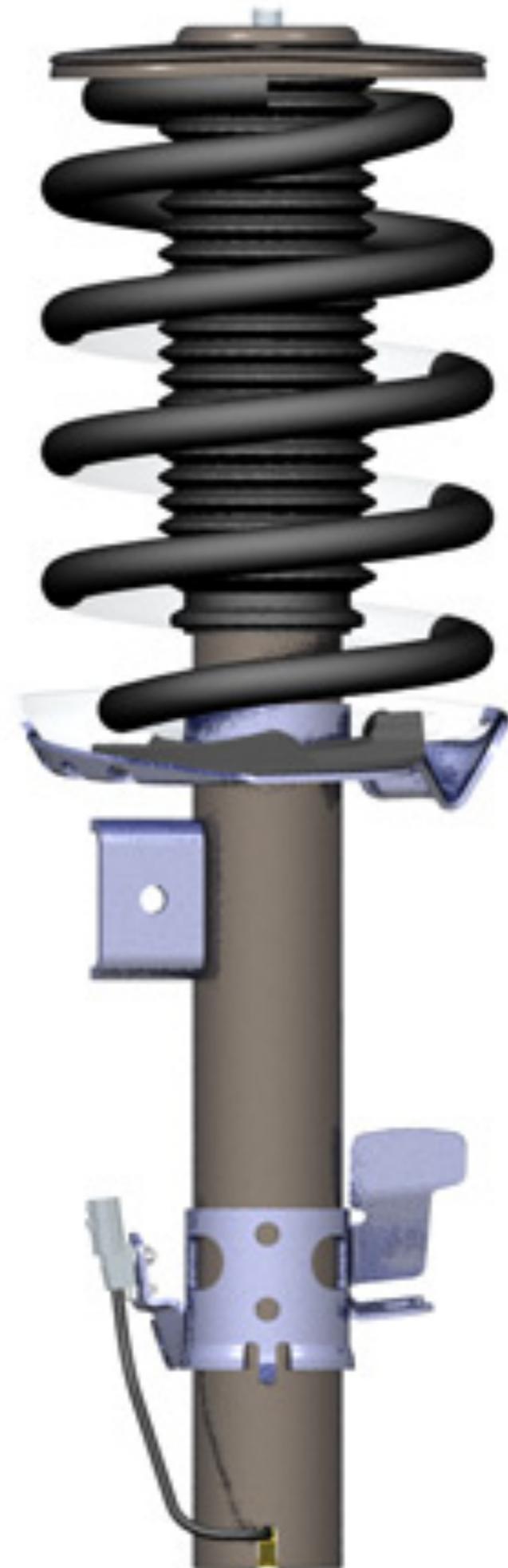
Evan Leybourn



Some Theory

Ashby Law of Requisite Variety

The variety of the **regulator** must be equal to, or greater than, the variety of the **environment**



Traditional Budgeting

Traditional Financial Budgeting

- ❖ A business plan is based on assumptions about the outside world - the interactions of customers, competition and the economy
- ❖ And planned actions (which consumes resources)
- ❖ That are combined to paint a picture of potential performance

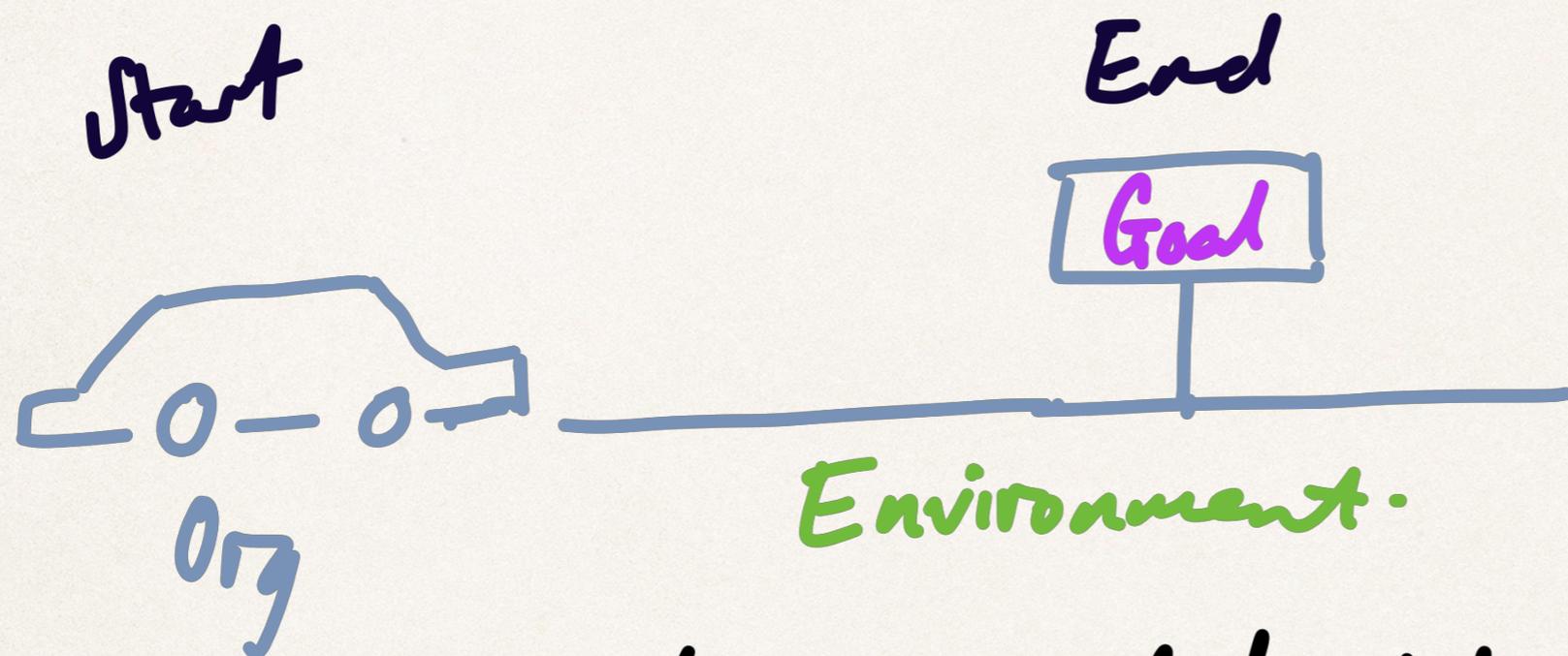
Elements of a Traditional Budget

- ❖ **Targets:** fixed for the year
- ❖ **Incentives:** tied to financial incentives
- ❖ **Planning:** created from detailed annual planning
- ❖ **Resource allocation:** fixed at the start of the year
- ❖ **Measurement:** performance judged against original plan
- ❖ **Coordination:** adherence to the original plan

Traditional Financial Budgeting

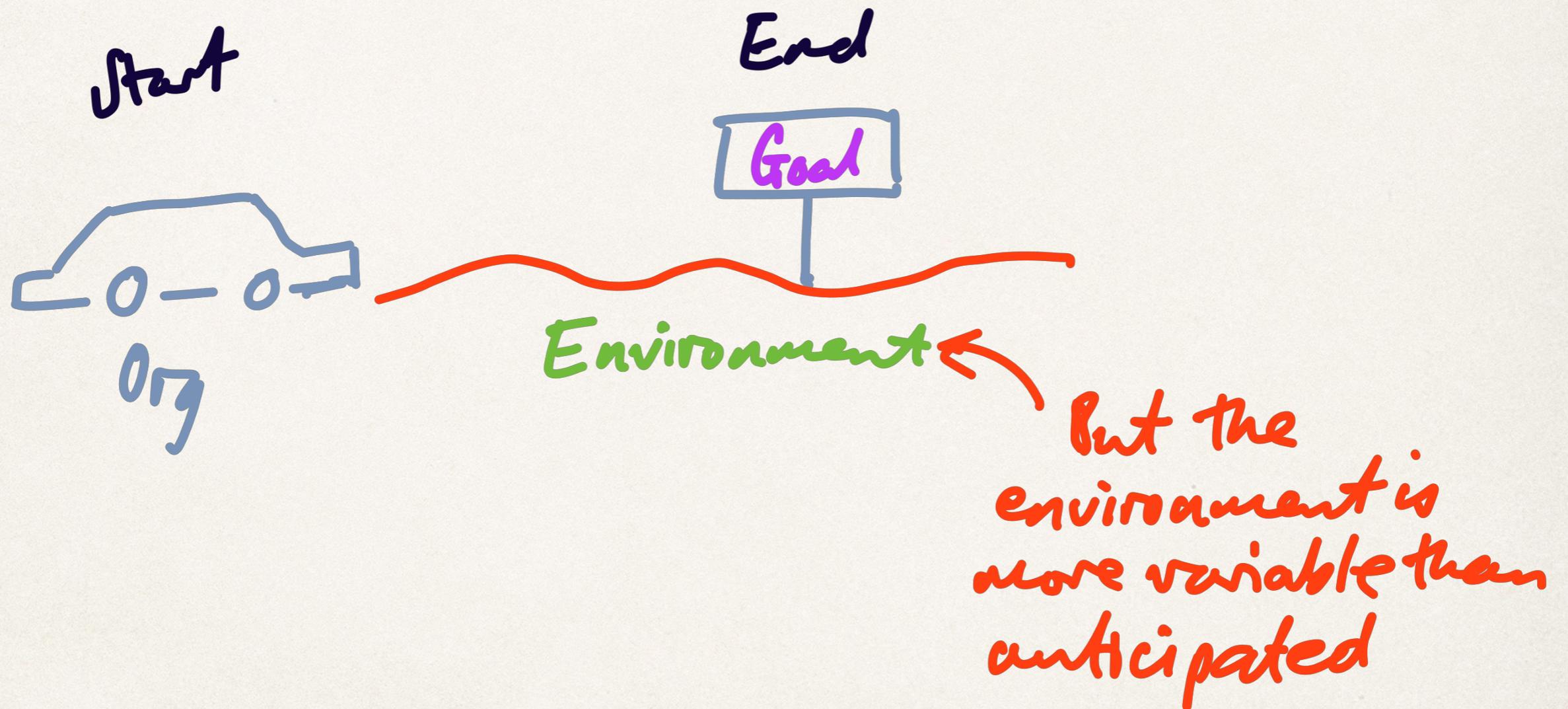
- ❖ Once a year a chosen version of the business plan is locked down to create the budget
- ❖ BUT...

Lens: Ashby's Law of Requisite

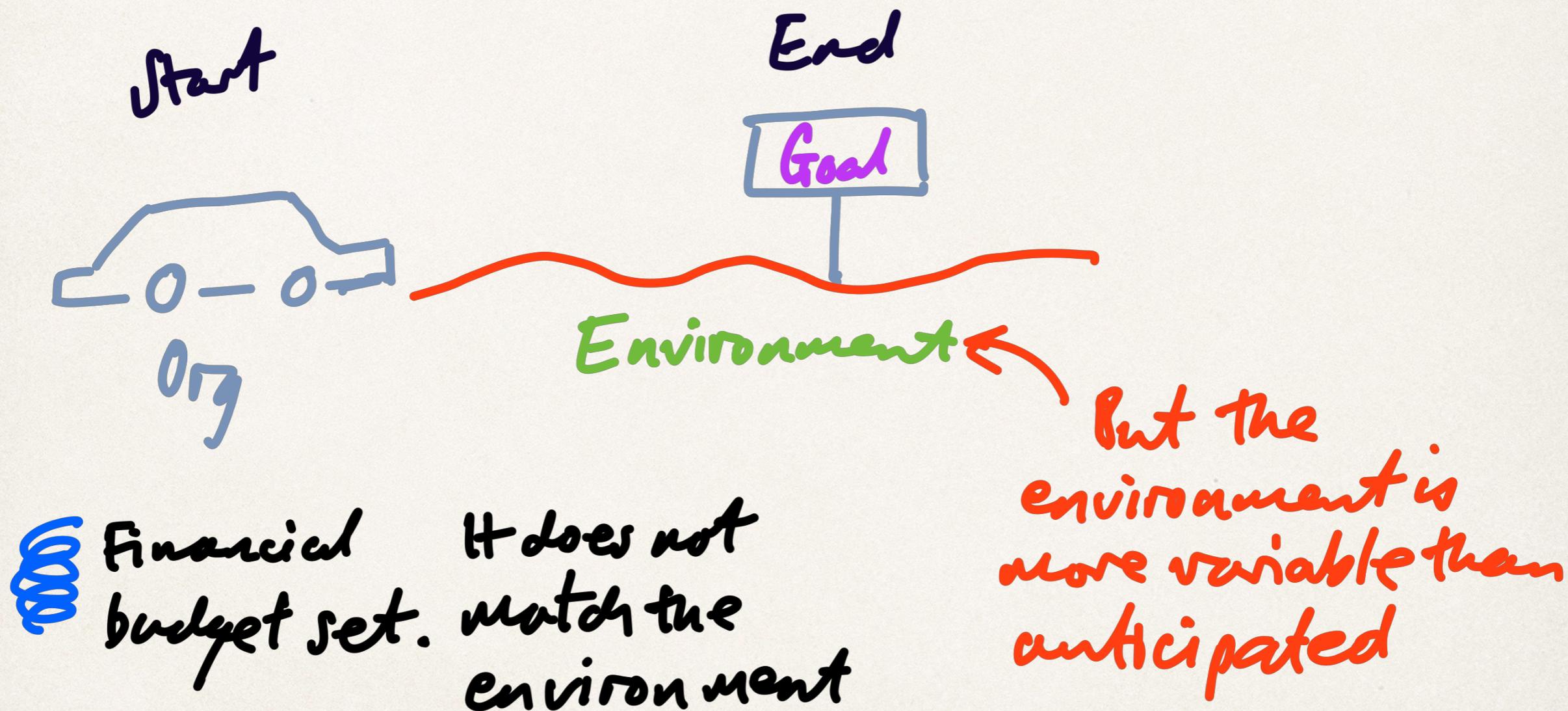


Budget optimised for ideal.
Where our plans are optimised
for a certain future.

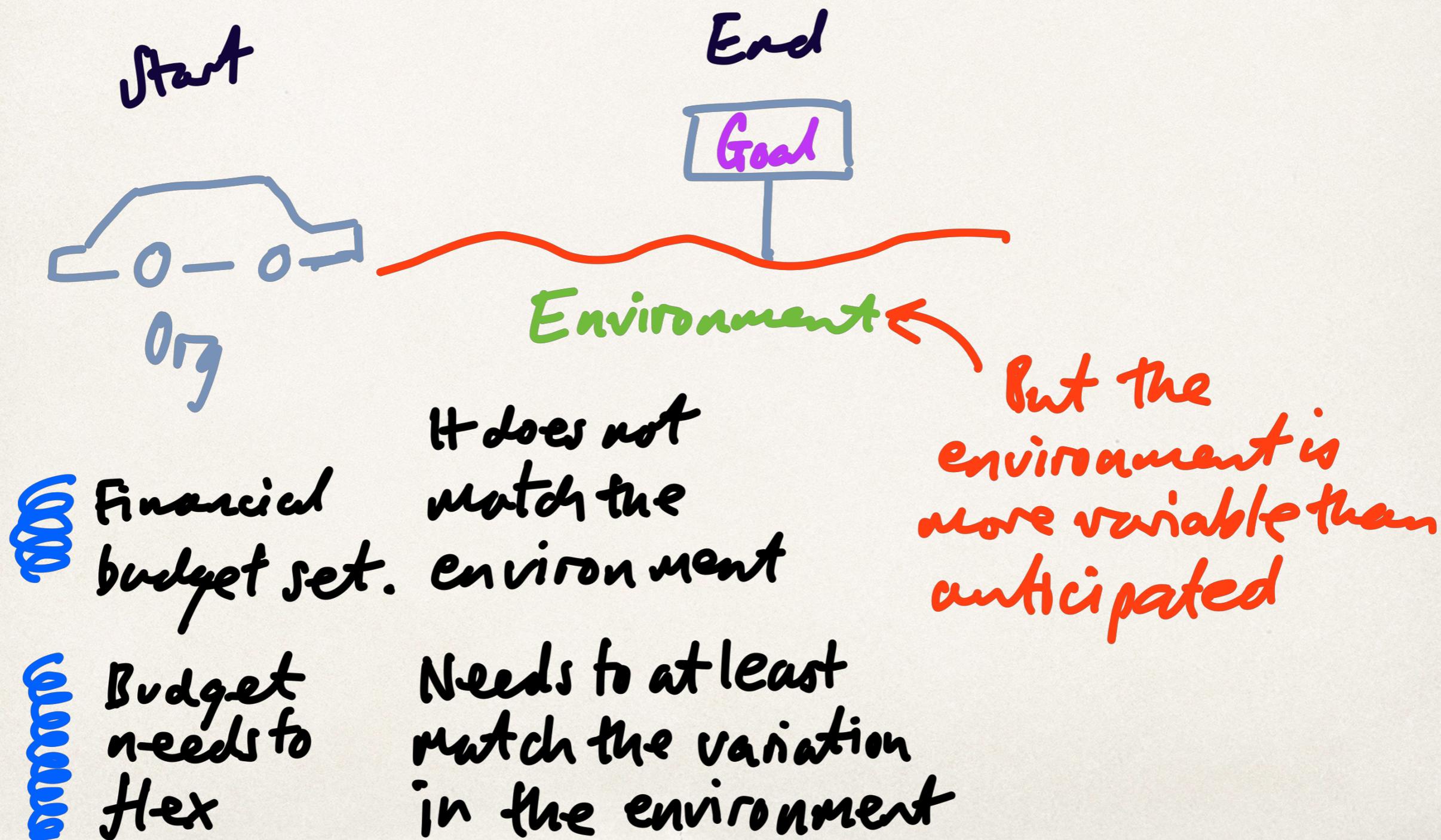
Lens: Ashby's Law of Requisite



Lens: Ashby's Law of Requisite



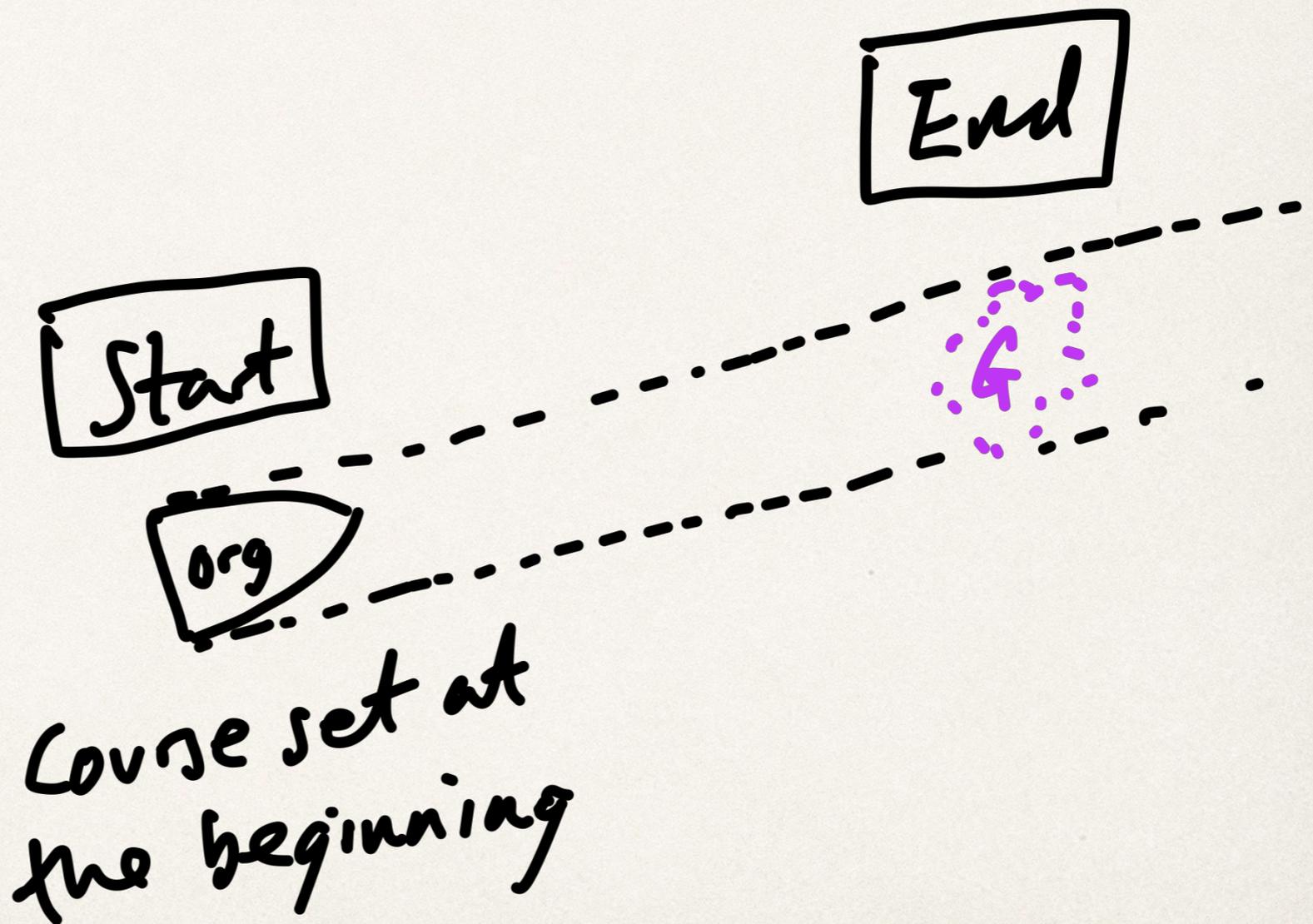
Lens: Ashby's Law of Requisite



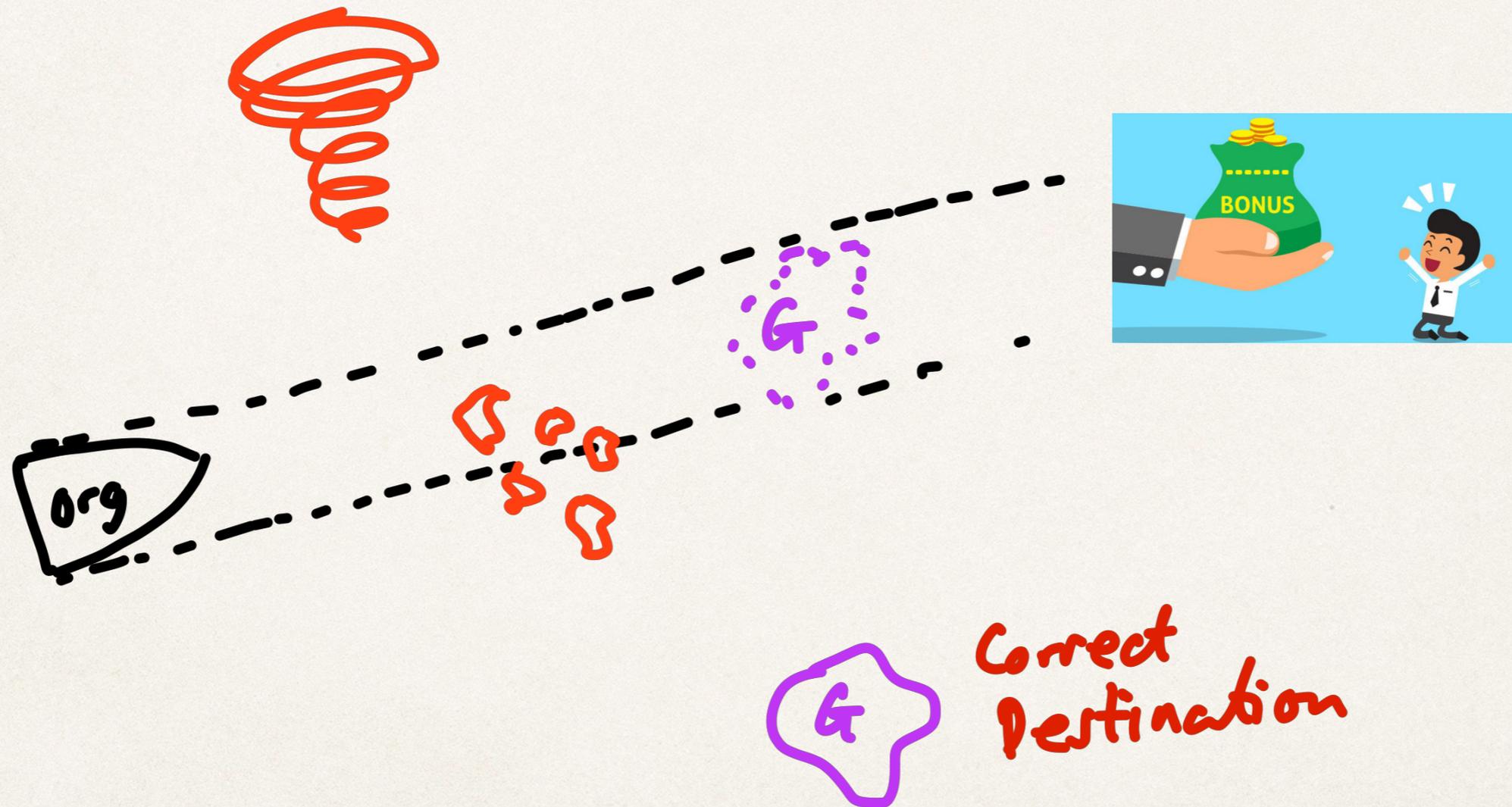
Problems with Traditional Budgeting

- ❖ **Bureaucracy:** detailed budgeting is time consuming, costly and wasteful
- ❖ **Inflexibility:** difficult to adapt to changing circumstances
- ❖ **Political:** striving to set lower targets and sand-bagging costs budgets leads to a focus on internal affairs

Problems with Traditional Budgeting

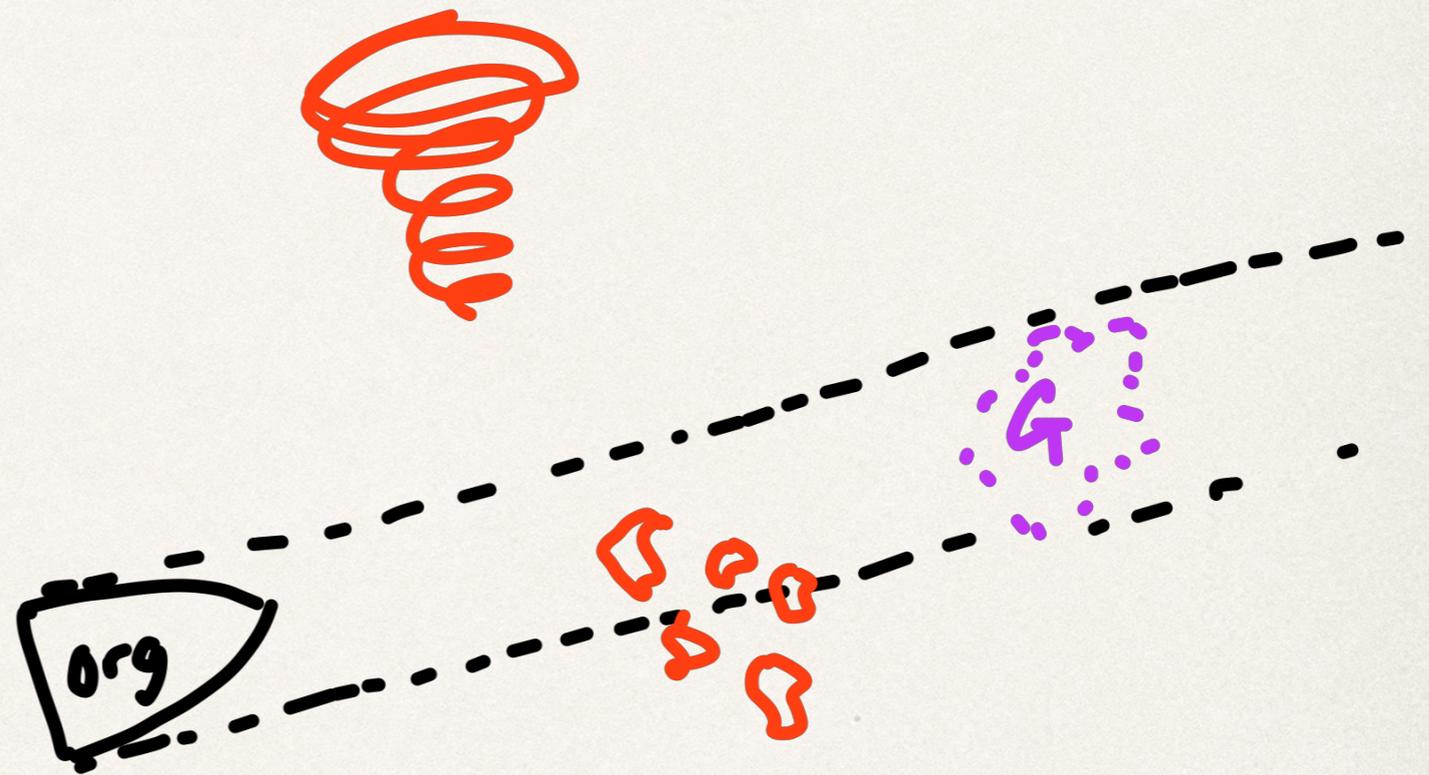
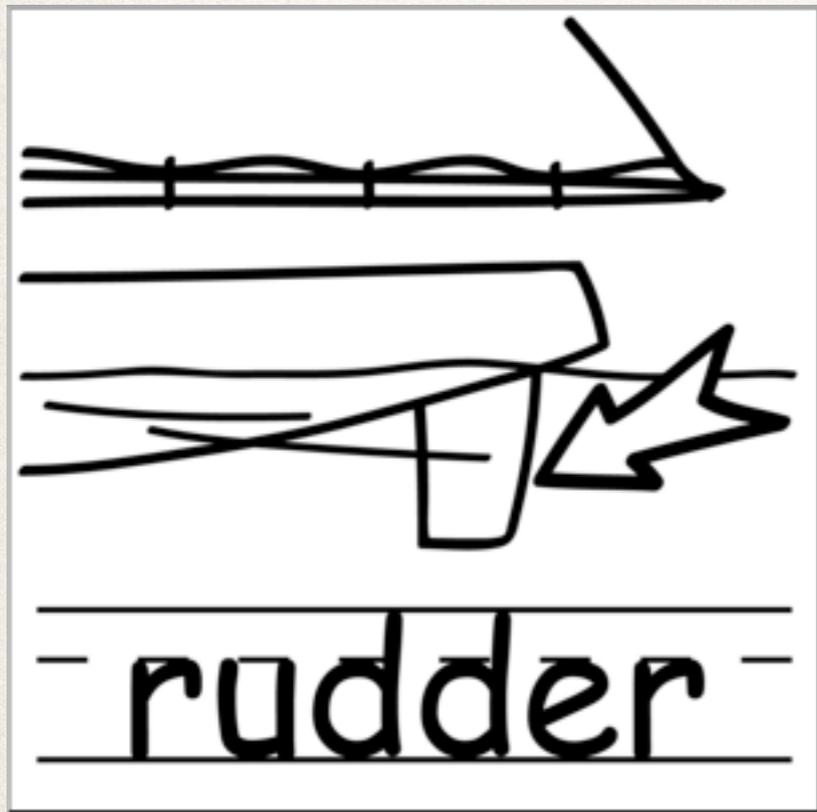


Problems with Traditional Budgeting



Applying Ashby's Law

Ashby Law determines the Degree of Control and Flexibility of Decision-Making



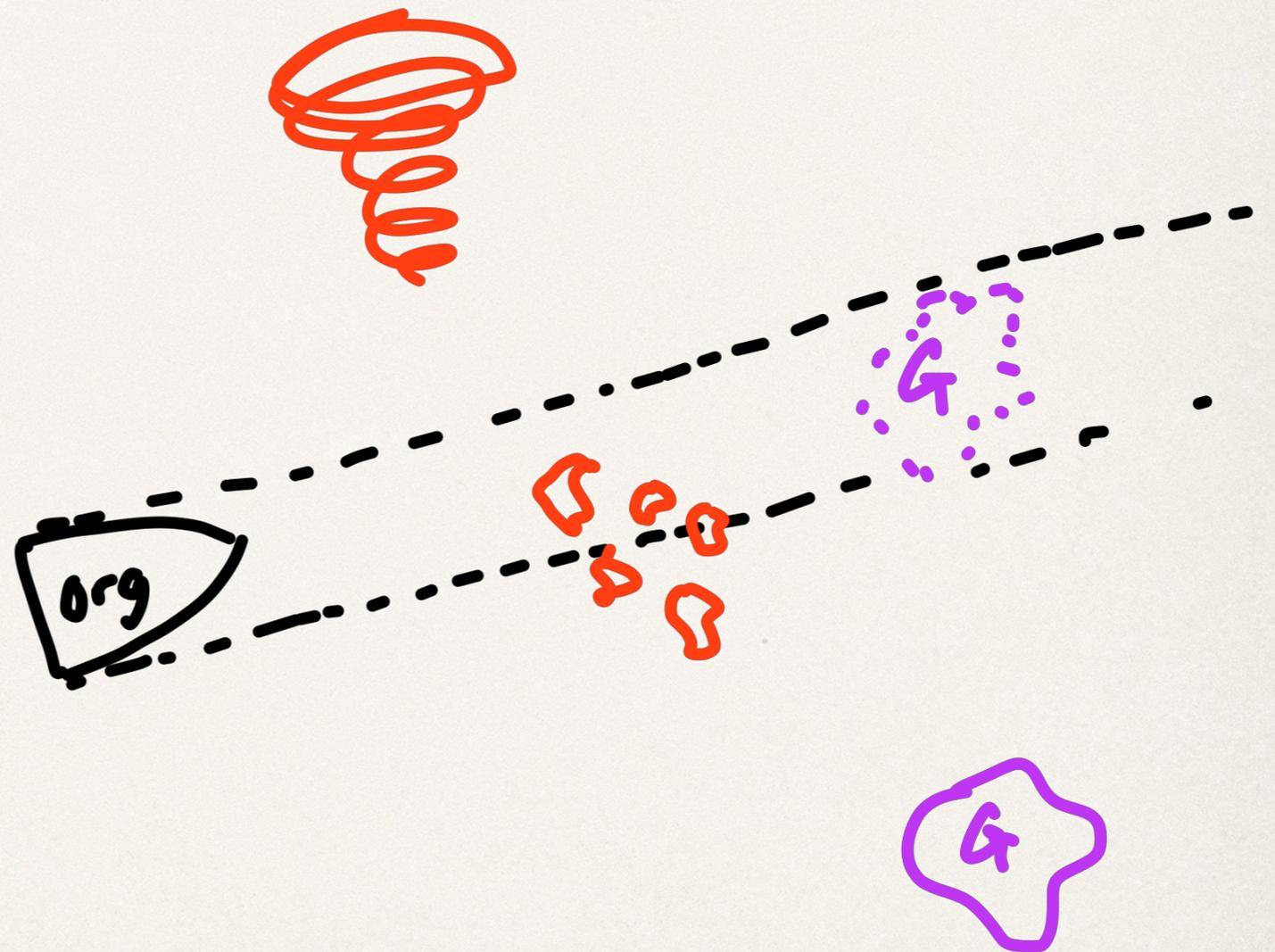
Budget needs
allow for a continuous
course adjustment to match
variation in
environment



Ashby Law determines the Degree of Control and Flexibility of Decision-Making



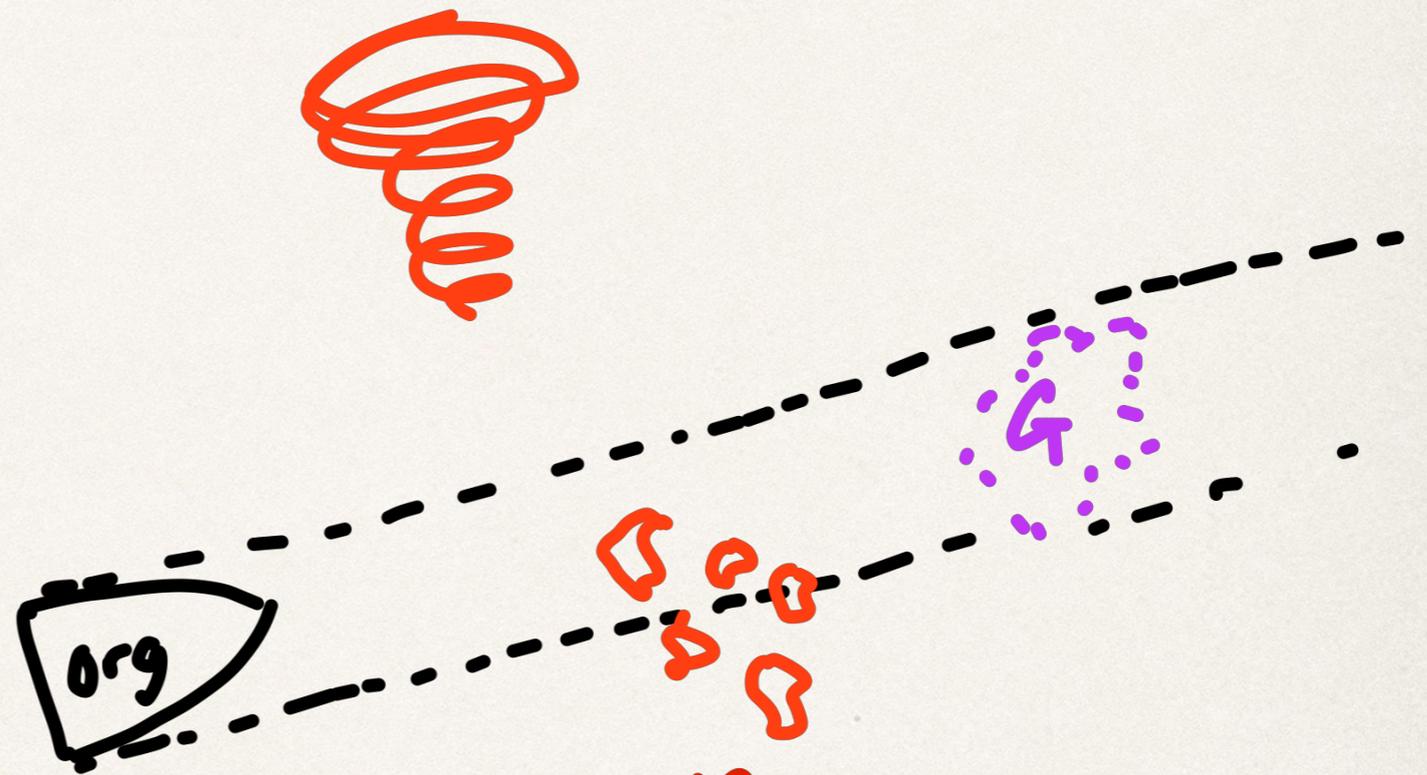
Without a flexible control system people will break the rules



Ashby Law determines the Degree of Control and Flexibility of Decision-Making



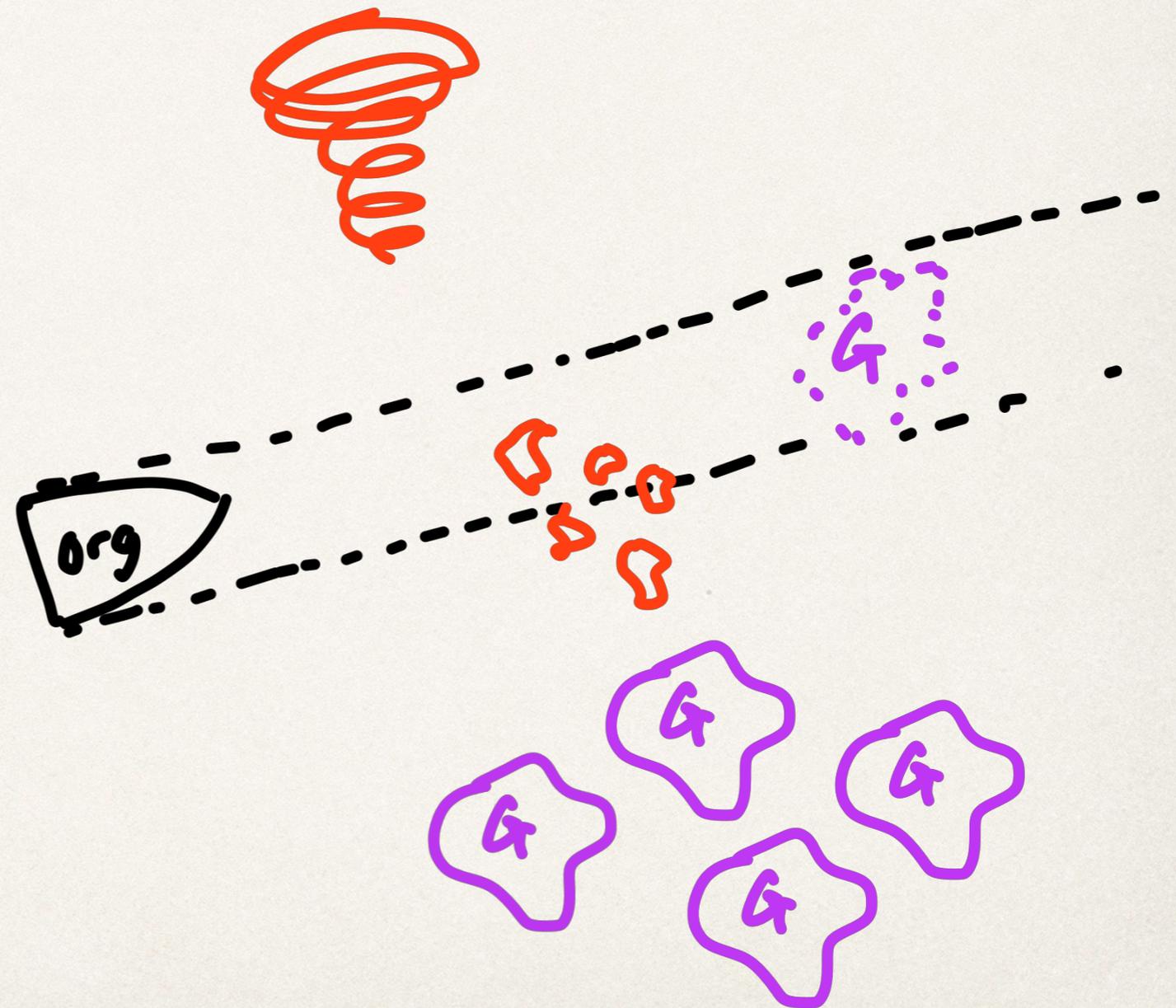
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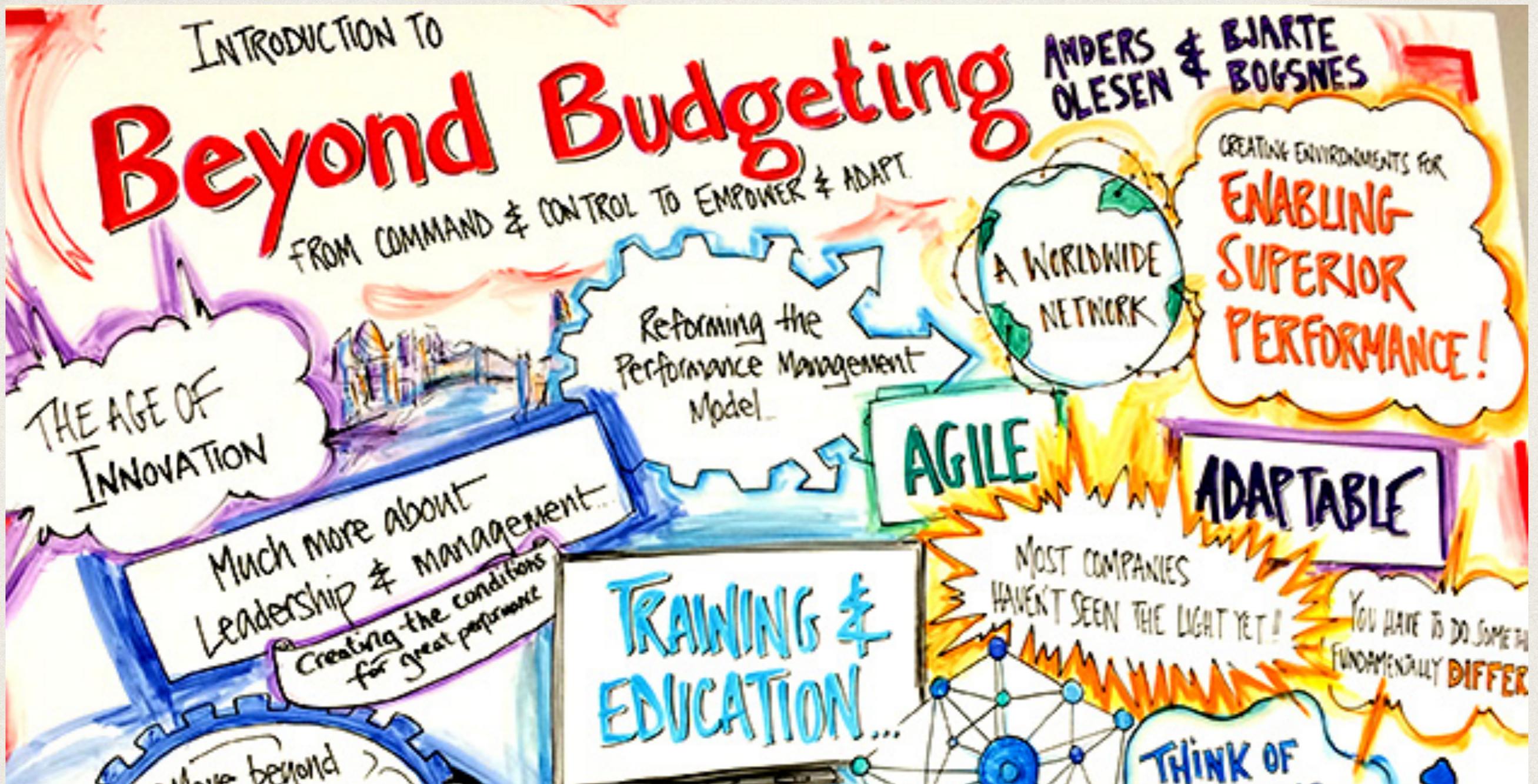
So it's not the person
it's the structure.
Examples: numerous
banking scandals.

Ashby Law determines the Degree of Control and Flexibility of Decision-Making

Multiple Goals
increases likelihood and flexibility.



Beyond Budgeting

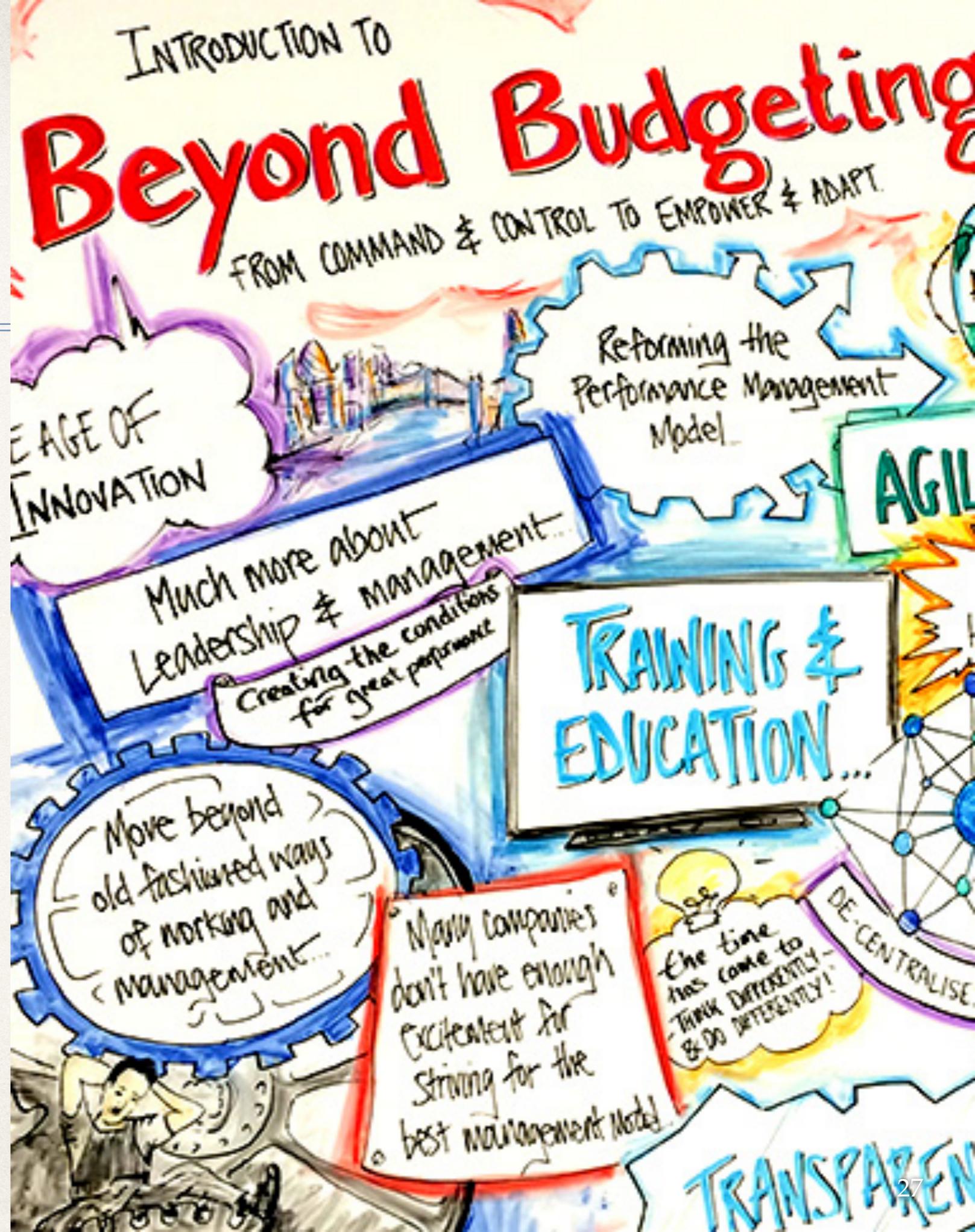


Beyond Budgeting

An Organisational Operating System

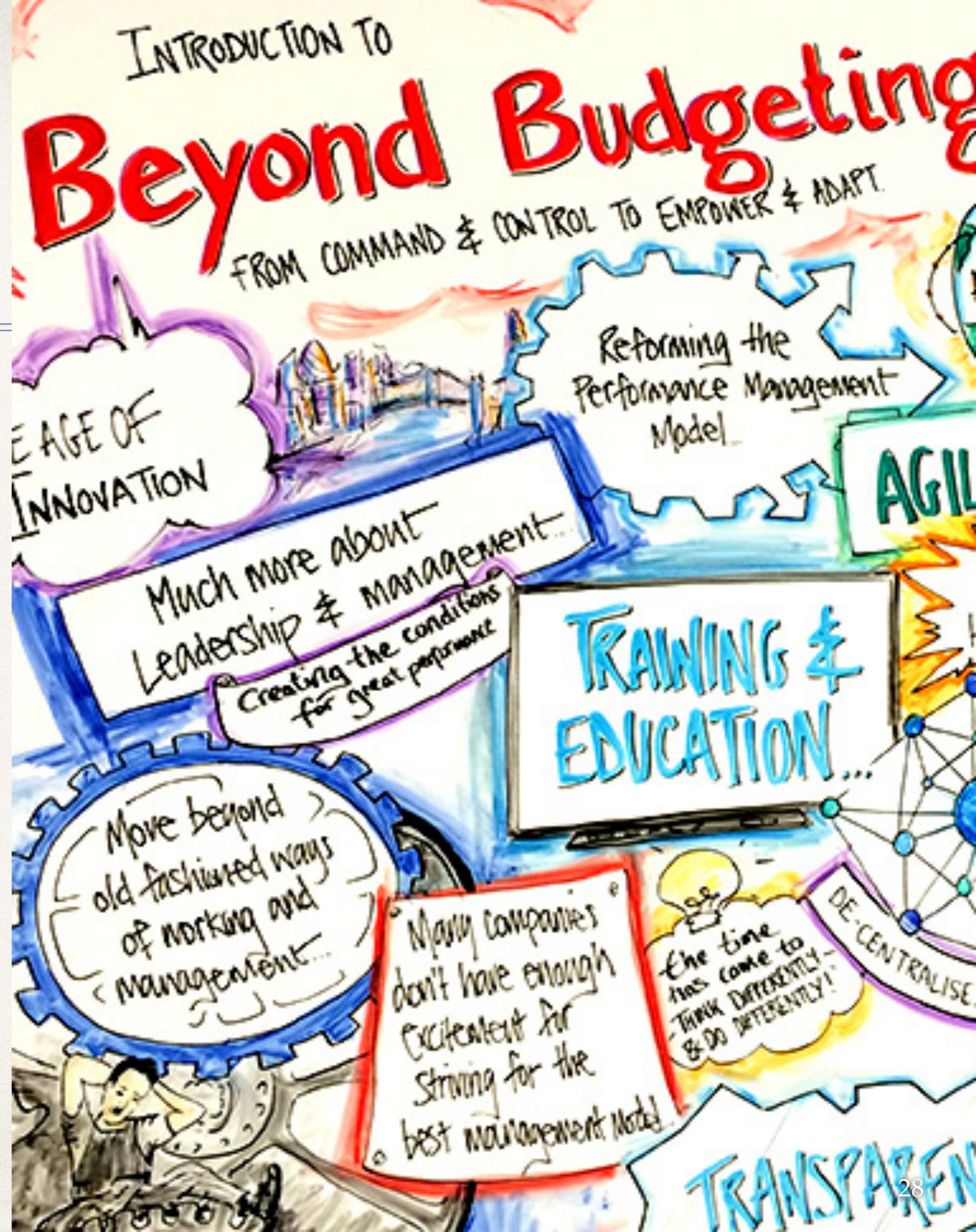
Beyond Budgeting

A management system characterised by **flexible** financial management processes and a **devolved** organisational structure.

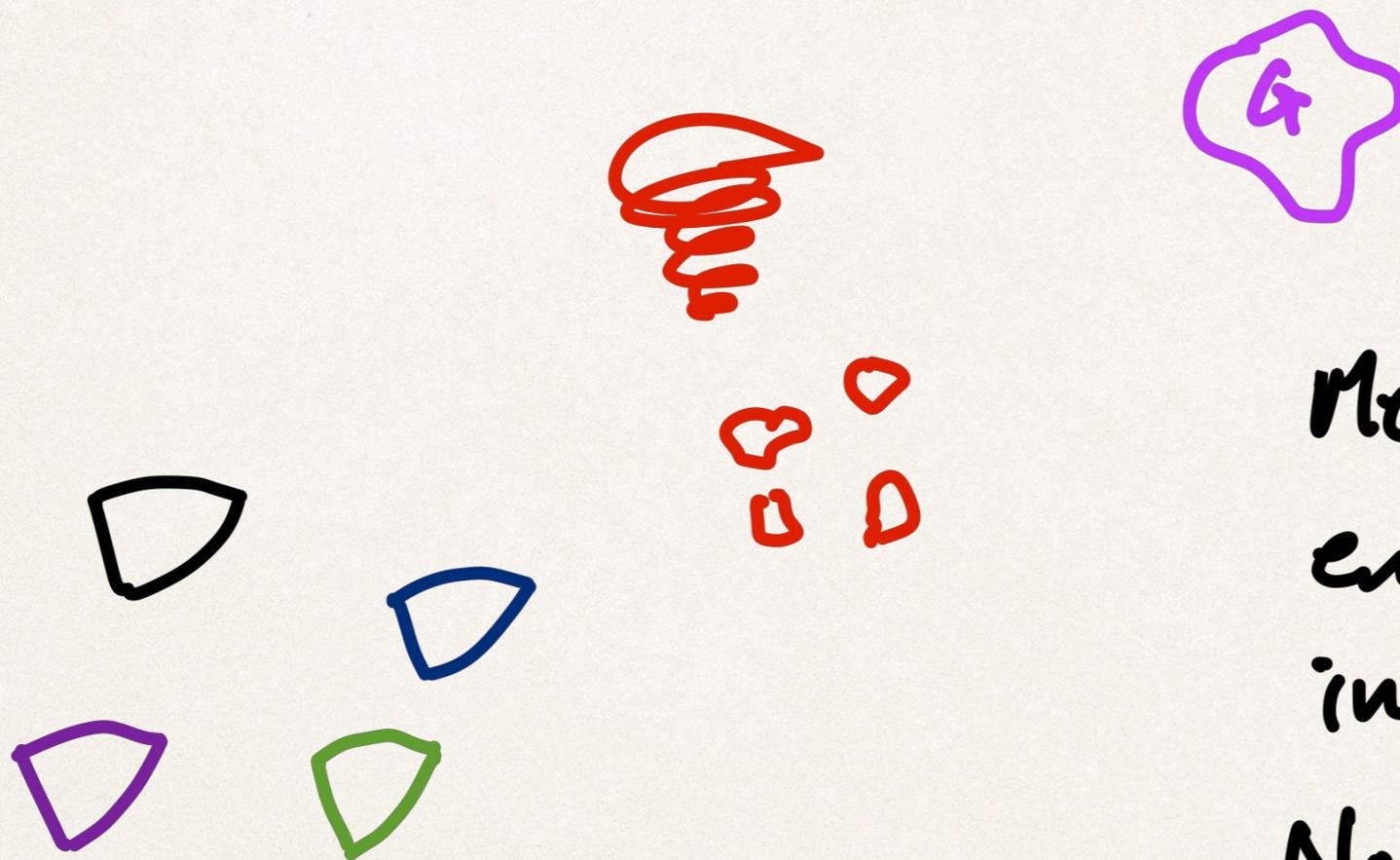


Beyond Budgeting

It enables businesses to adapt to their environment more effectively than those with traditional fixed budgets and functional hierarchies.

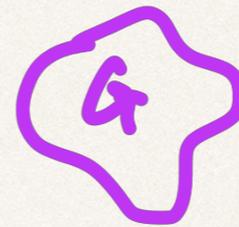
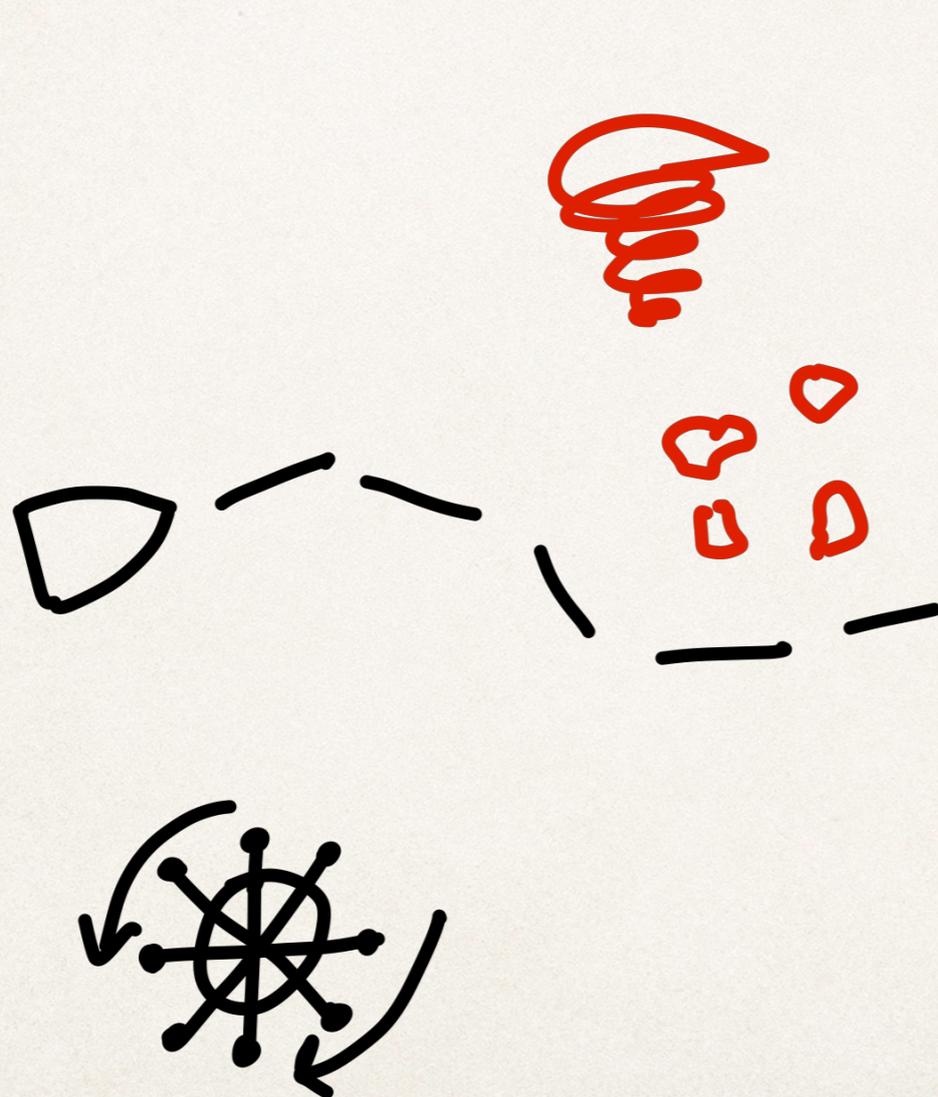


BB: Measure Performance against Peers



Measure against environment, including peers
Not against some internal target.

BB: Measure against Rate of Change



Measurements should
match rate of
change in the
environment.

Problem with traditional target setting

- ❖ We need a dynamic 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
- ❖ Forecasting - compensating for lack of agility?



Getting started - solving the budget conflict

The budget purposes

- Target
- Forecast
- Resource allocation

Same number - conflicting purposes

1. Separate



Target

What we want to happen



Forecast

What we think will happen



Resource allocation

What it takes to make it happen

Different numbers

2. Improve

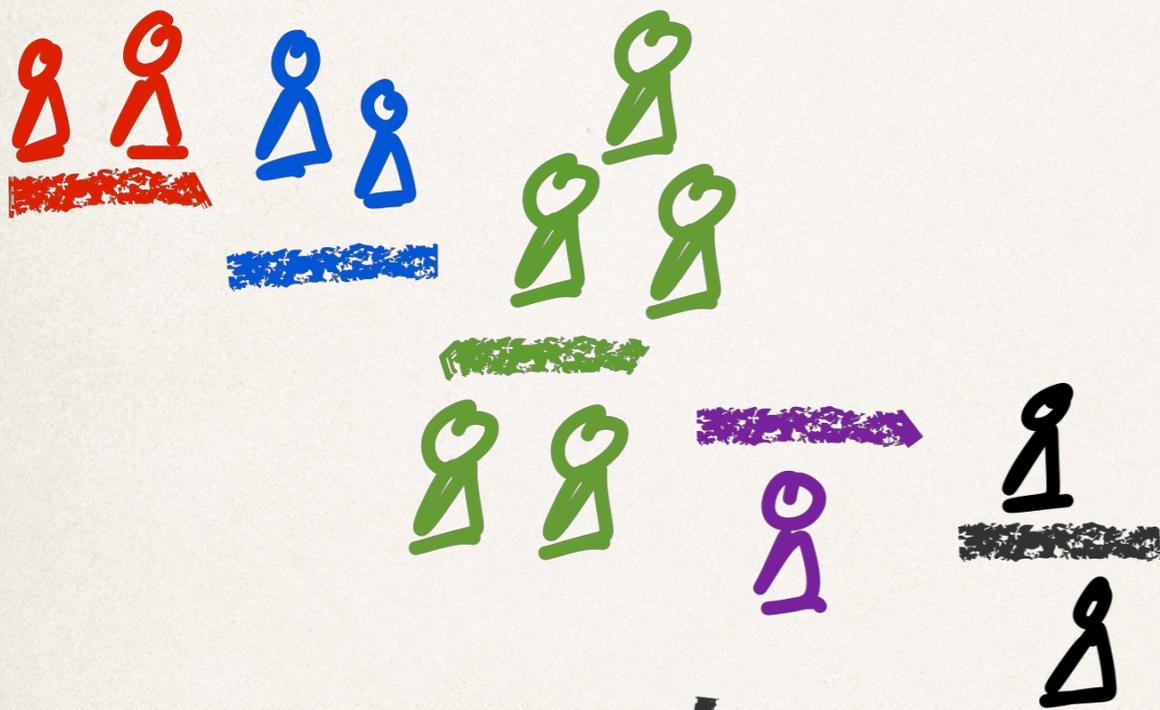
- Inspiring & stretching
- VUCA robust

- Unbiased - expected outcome
- Limited detail

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

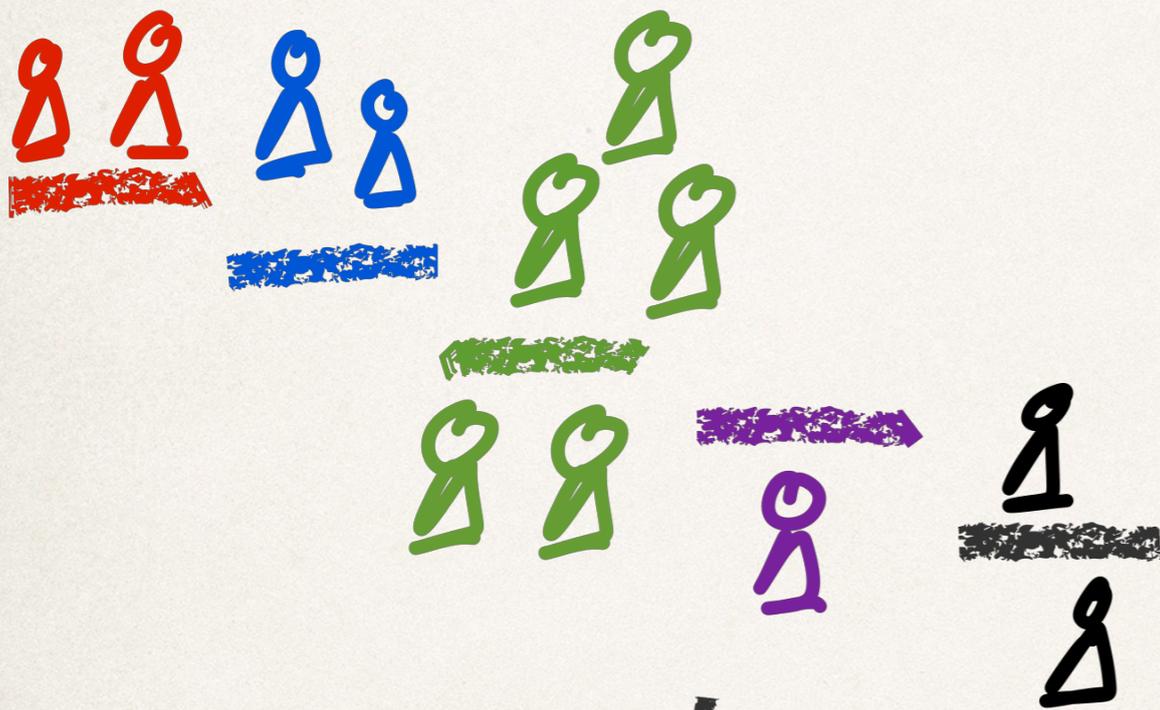
Event driven - not calendar driven

BB: Plan & Reallocate Resources continuously

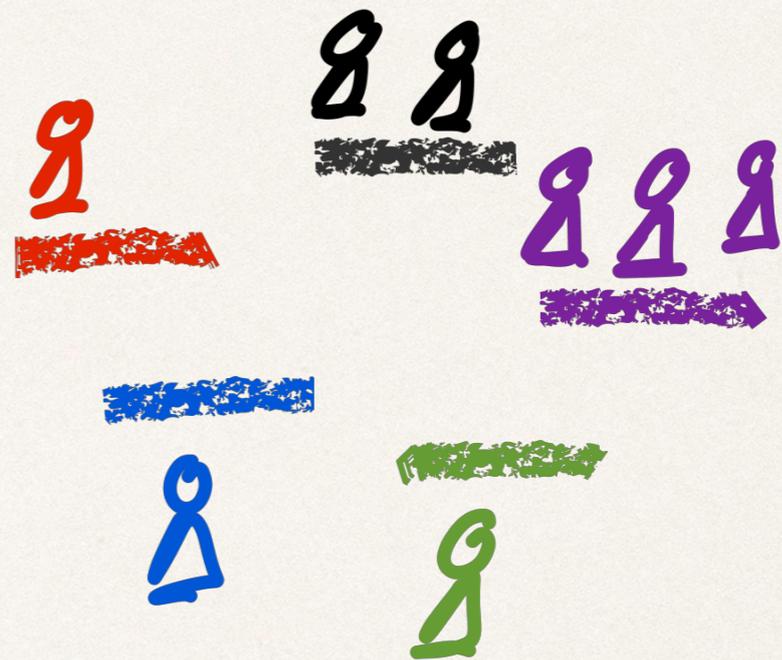


Planned
for 12 months

BB: Plan & Reallocate Resources continuously

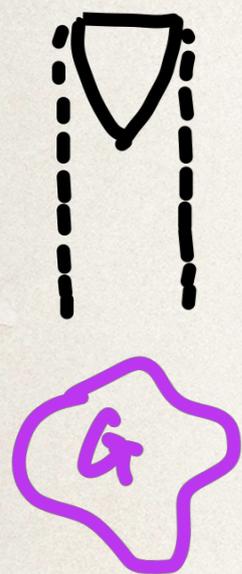
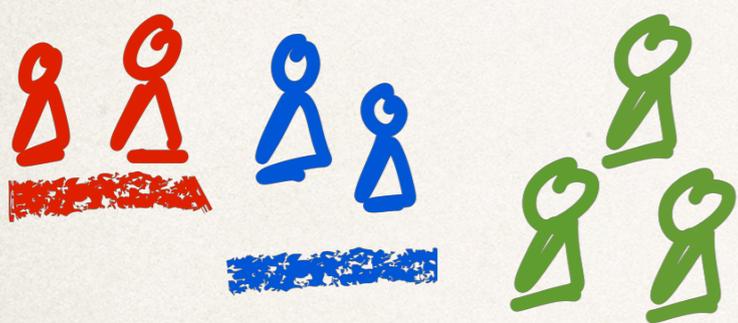


Planned
for 12 months



Flexing
continuously

BB: Reward Shared Success



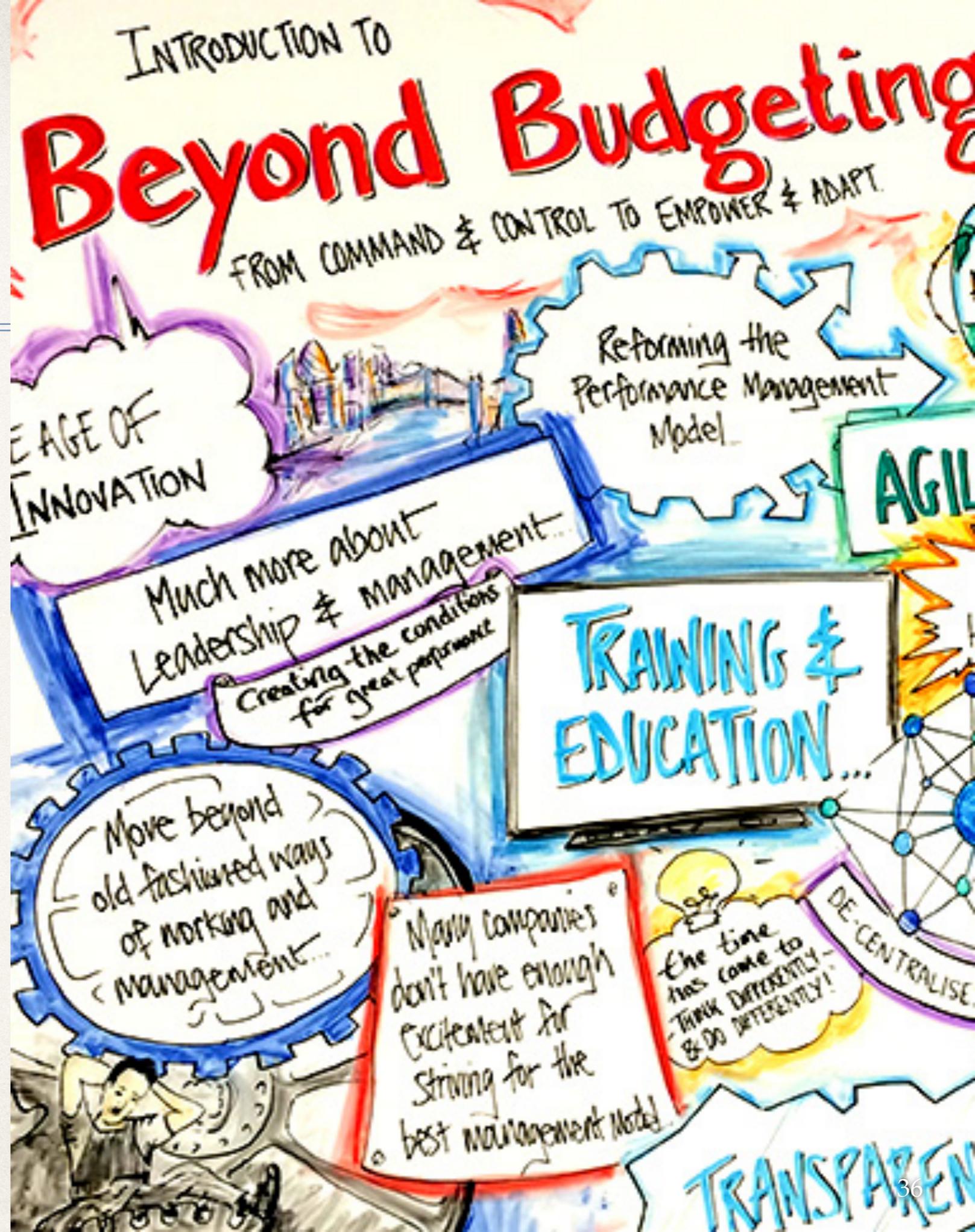
It's not possible
to define targets
upfront
Individual targets
are sub-optimal

Interdependence means
targets and incentives
should be shared



Beyond Budgeting

Enables better, more consistent levels of performance based on efficient processes and the collective endeavours of self motivated and fulfilled people.



BB recognises what an Organisations needs to function

- ❖ Co-ordination
- ❖ Alignment
- ❖ Synchronisation

A Dilemma

To Function Organisations Need

- ❖ Co-ordination
- ❖ Alignment
- ❖ Synchronisation

Without this everyone
would do what they
want, leading to

CHAOS.

To Function Organisations Need

- ❖ Co-ordination
- ❖ Alignment
- ❖ Synchronisation

Without this everyone
would do what they
want, leading to

~~CHAOS~~

Therefore we need constraint;
less variation.

To Function Organisations Need

- ❖ Co-ordination
- ❖ Alignment
- ❖ Synchronisation

Without this everyone
would do what they
want, leading to

CHAOS

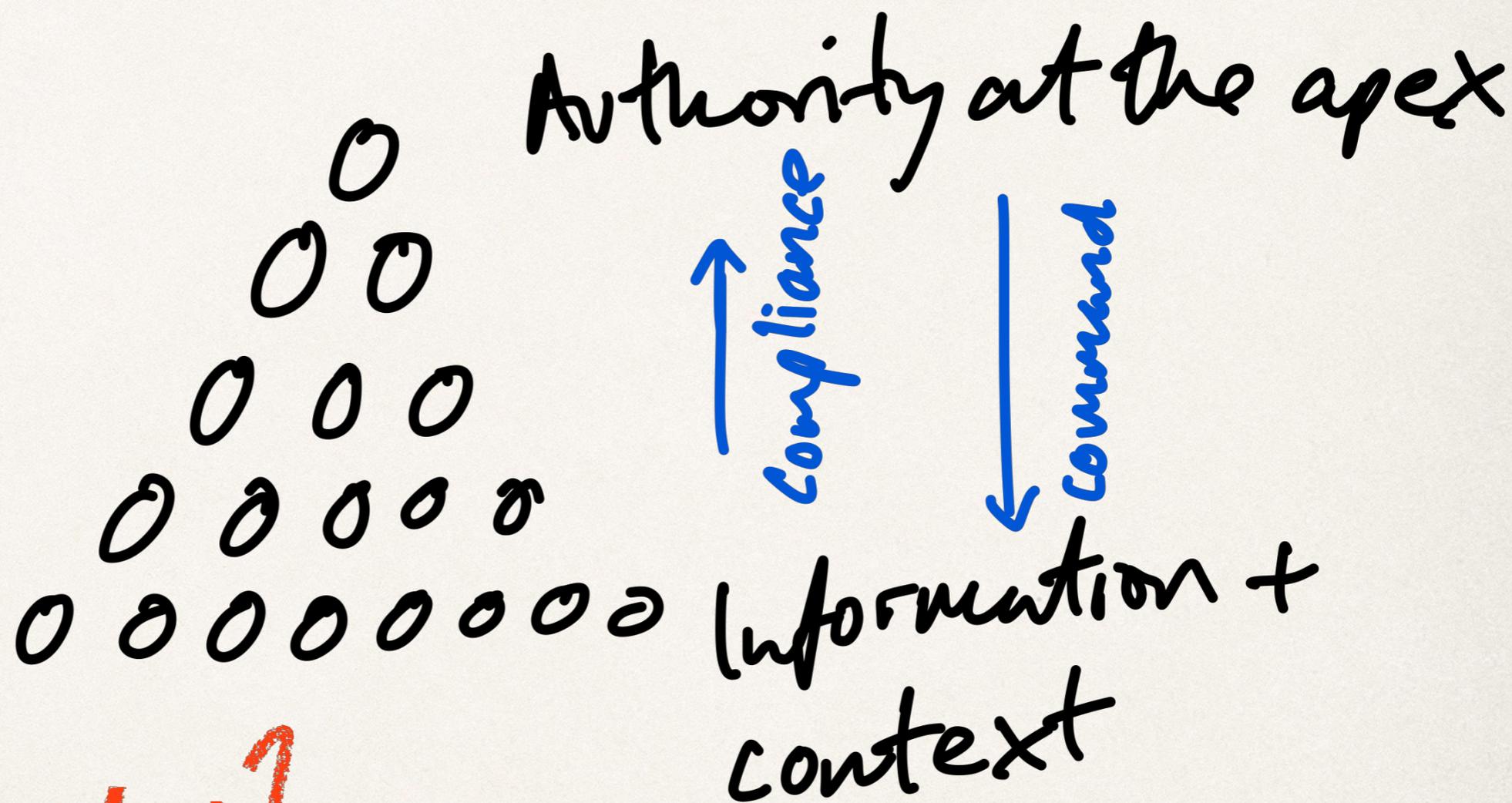
Therefore we need constraint;
less variation. **More Governance!**

Ashby Law of Requisite Variety

The variety of the **regulator** must be equal to, or greater than, the variety of the **environment**

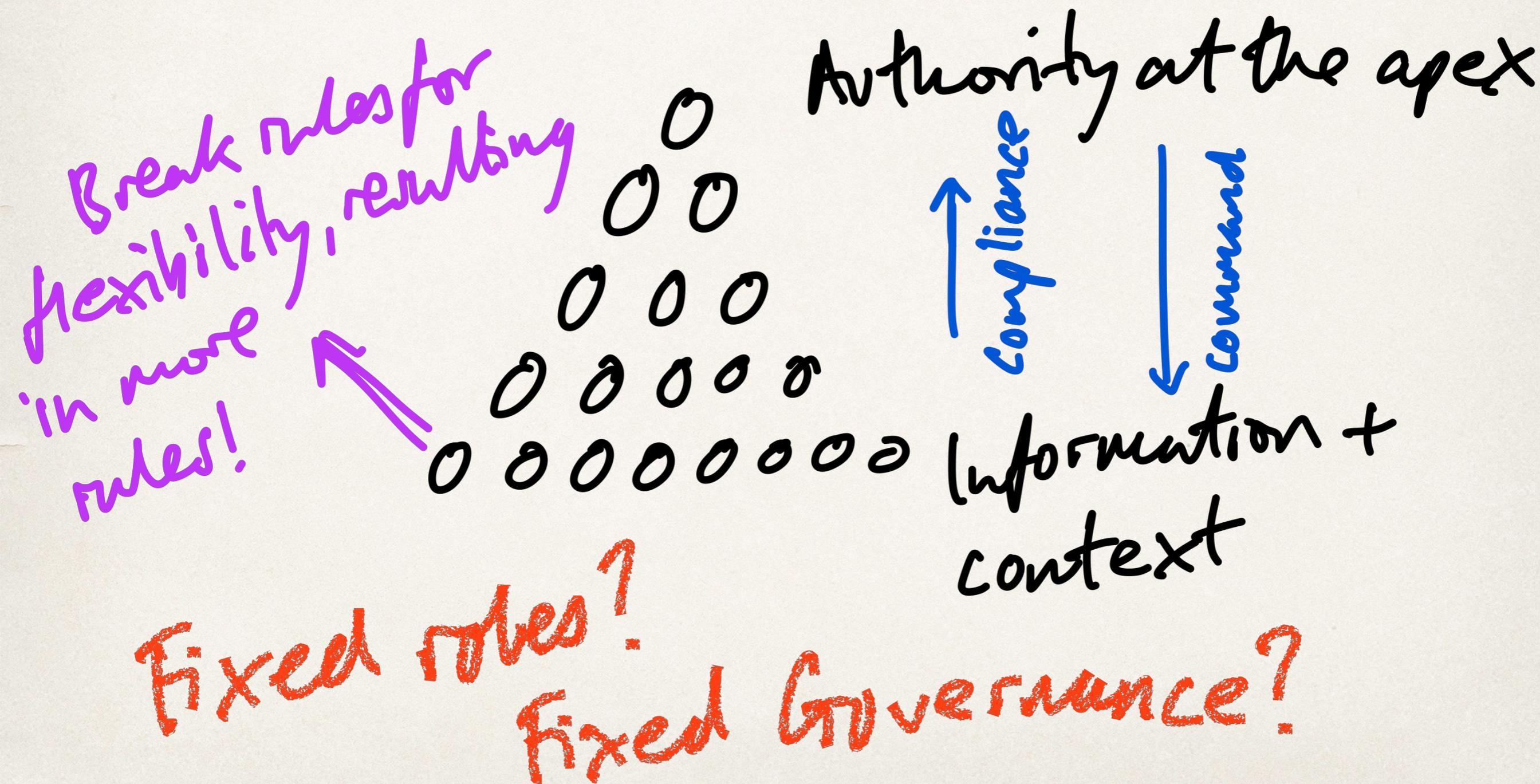
But the need
to constrain
internal variation
won't allow
adaptation to external
environment

Perpetuating Existing Structure?



Fixed roles?
Fixed Governance?

Perpetuating Existing Structure?



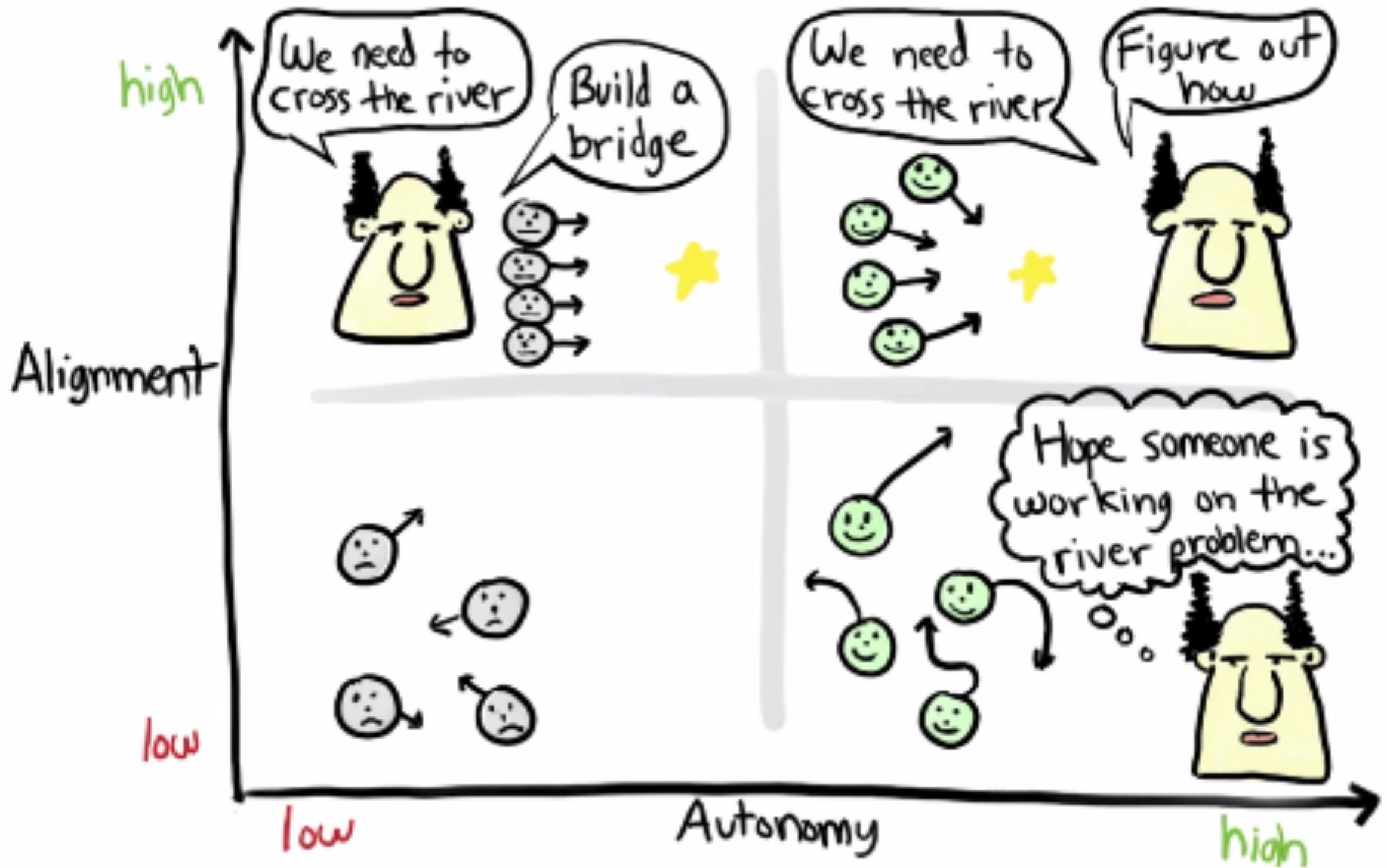
Beyond Budgeting's Solution

BB method for Cohesion without reducing Flexibility

- ❖ Co-ordination
- ❖ Alignment
- ❖ Synchronisation

BB method for Cohesion without Reducing Flexibility

Method	Approach
Structure	Supported x-functional teams
Purpose	Mission orientated teams
Authority	Decision-making delegated
Control	Goal-focused accountable team
Information	Decentralised transparency
Values	Customer needs creates 'pull'



BB method for Cohesion without Reducing Flexibility *this is our forte.*

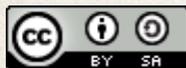
Method	BB	Traditional
Structure	Supported x-functional teams	Hierarchical specialist roles to exploit scaling
Purpose	Mission orientated teams	Deliver returns by executing predefined plan
Authority	Decision-making delegated	Decision making handled by those at apex of org
Control	Goal-focused accountable team	Comply with rules, procedures & policies
Information	Decentralised transparency	Information pushed to authority
Values	Customer needs creates 'pull'	Performance reflects quality of decisions at the apex

Other Complimentary Approaches

Title:

Owner:

Context The critical challenge or opportunity is...	Team The people and skills we need are...	
Intent Our goals are to...	Boundaries Our freedoms and constraints to experiment are...	
	Freedoms	Constraints
Higher Intent This helps the business to...	Plan The hypotheses we will test are...	



Experiment Card		WORKSTREAM	
Experiment ID:	For Transformation Office use only	Start Date:	1/4/17
Experiment Name:		Finish Date:	14/4/17
Experiment Lead:		D&T Support:	
OPEX Description:	(insert brief description of OPEX)	OPEX:	£xx,xxx
#Stores		Store Area Impacted	
STEP 1. HYPOTHESIS			
We believe that			
STEP 2. TEST			
To verify that, we will			
STEP 3. MEASURE			
And measure			
STEP 4. CRITERIA			
We are right if			
STEP 5 DELIVERABLES		STEP 6: WHERE	
We commit to delivering...		In the following stores...	

*This content of this slide is too client-specific to be shared publicly.
Contact Dean Latchana to discuss the specifics
dean@latchana.co.uk*

Real Applications and Where You Can Start

Examples From Across Industries

- ❖ *Norwegian Oil Conglomerate*



- ❖ No annual budget / Bank always open / based on project idea & capacity

- ❖ *Fast growing European bank*

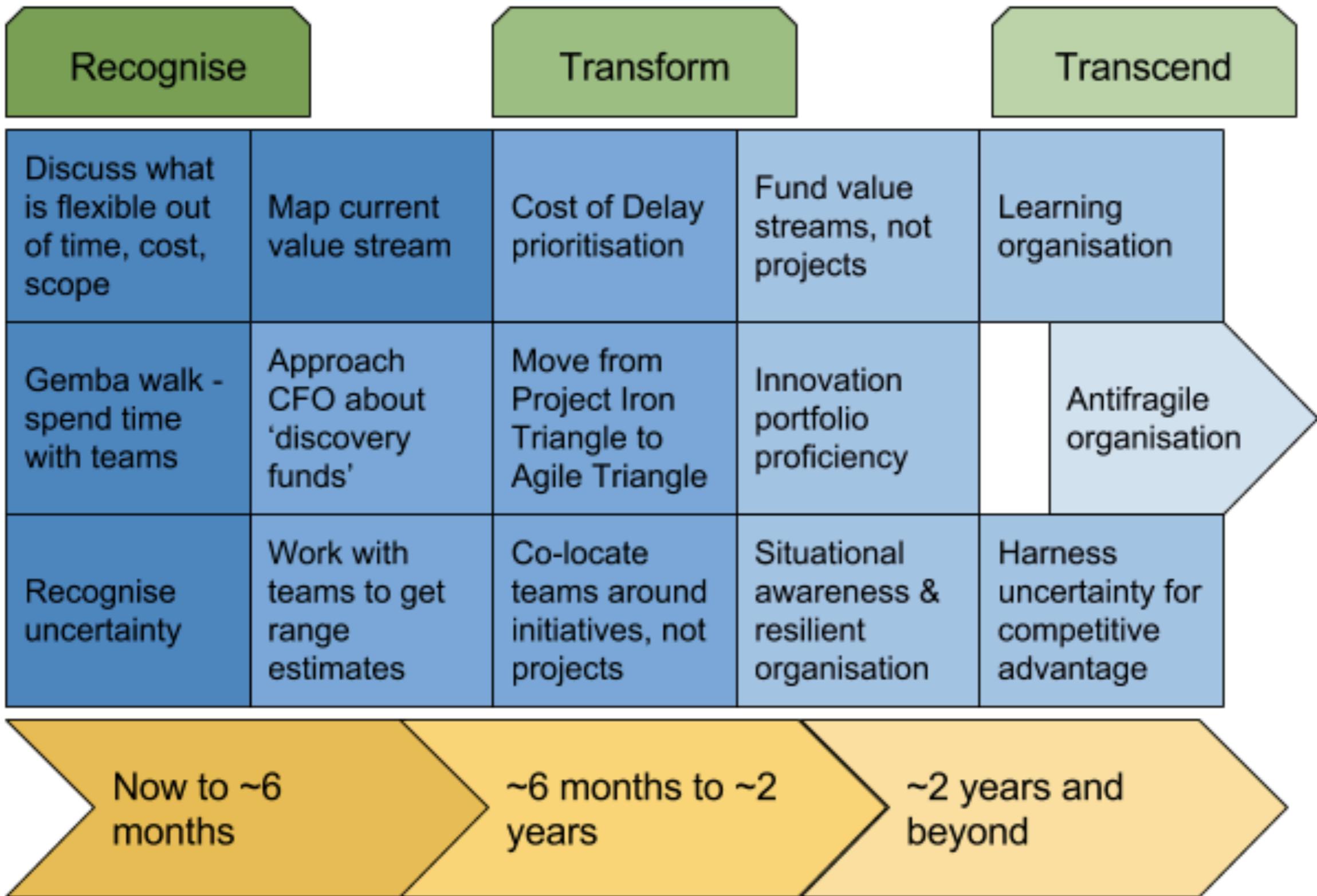
Handelsbanken

- ❖ No budget / Cost control through autonomy & transparency / Branch KPIs: *ROI, cost/income ratio, customer satisfaction*

How is it done - In Summary

Increase the flexibility of the budgeting process by:

- ❖ Moving annual budgeting to funding outcomes and teams.
- ❖ Switch accountability for decision-making and ownership of profits and losses (P&Ls) to teams which are closest to the problem and / or the commercial opportunity
 - ❖ So moving from cost-centric to value-centric accounting

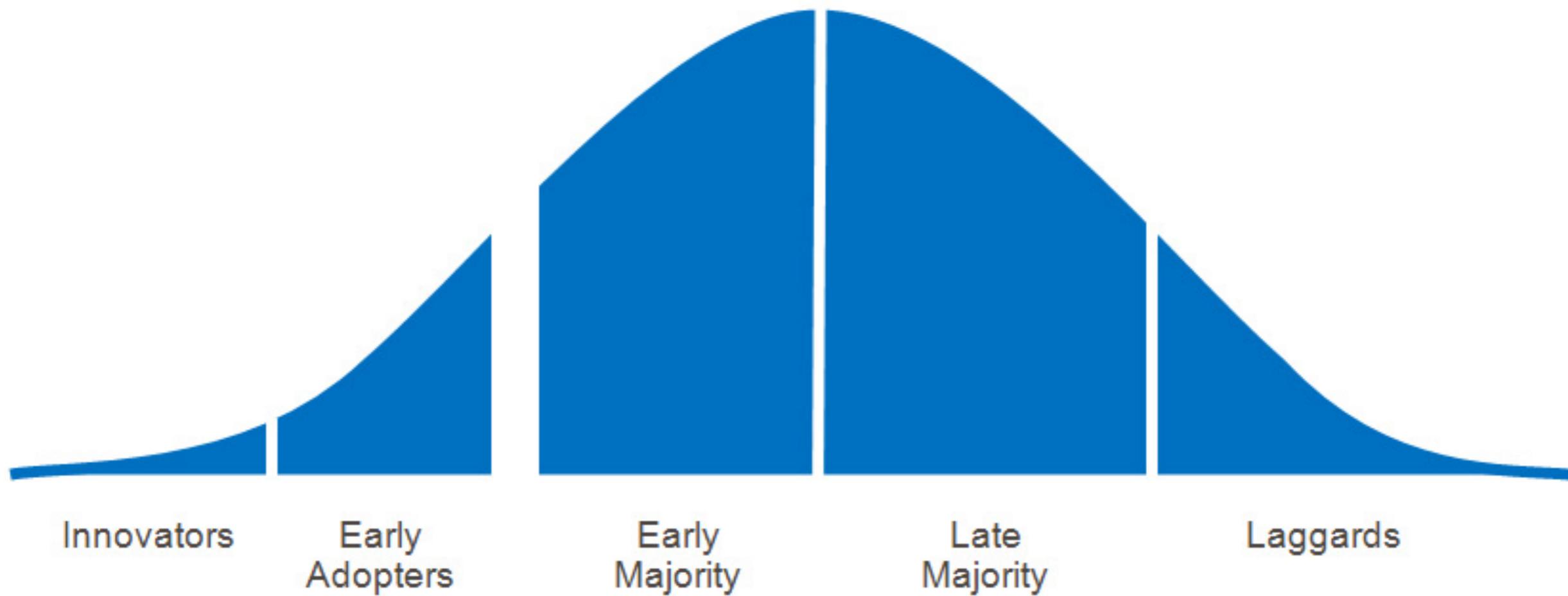


Dean Latchana - March 2017

Conclusion

“Business agility is the ability of a **business system** to rapidly respond to change”

Evan Leybourn



Going beyond the much spoken about approaches

Delivering customer value in a complex
environment:

Scrum: *People & Interactions*

Lean: *Balance & Flow*

Lean Start-up: *Learn & Experiment*

NOW CONSIDER:

Approaches to include Finance

THE
LITTLE BOOK
OF BEYOND
BUDGETING

Dr Steve Morlidge



A New Operating System for Organisations:
What it is and Why it Works