**Managing risk and uncertainty in**

**Beyond Budgeting Implementations**

**By Matthew Leitch, 3 November 2003**

**(updated 18 May 2004)**

**Contents**

[Introduction 3](#_Toc8889140)

[Devise an inherently robust project plan 3](#_Toc8889141)

[Your Vision 4](#_Toc8889142)

[Planning your route 5](#_Toc8889143)

[The Step List 5](#_Toc8889144)

[How to use the Step List 6](#_Toc8889145)

[Ideas for sequencing changes 6](#_Toc8889146)

[Coherence and consistency 9](#_Toc8889147)

[Breaking down large tasks 10](#_Toc8889148)

[Resources and evolutionary steps 12](#_Toc8889149)

[Your first steps 12](#_Toc8889150)

[Summarising your plan 14](#_Toc8889151)

[Workshop outline 14](#_Toc8889152)

[Manage areas of uncertainty and specific risks 15](#_Toc8889153)

[Typical areas of uncertainty 15](#_Toc8889154)

[Managing specific risks and potential opportunities 18](#_Toc8889155)

[Workshop outline 19](#_Toc8889156)

**Managing risk and uncertainty in**

**Beyond Budgeting Implementations**

## Introduction

If you’re thinking of moving to a Beyond Budgeting model then, as with any important change, you face risk and uncertainty. Will people accept what you propose? What happens if your CFO is replaced? What should you do about the bits of your vision that aren’t very clear? Others are looking at your proposals and wondering if they will work and what could go wrong.

Even the best supported and quickest Beyond Budgeting implementations have not been done overnight. (The most aggressive implementation yet documented - Rhodia - took 2 or 3 years to complete even though the initial changes to remove fixed performance contracts were very quick.) There are scores of things that must be changed and some of the steps some companies have taken, such as implementing rolling forecasts, can be technically difficult.

Managing risk and uncertainty for your project is one of the most important keys to success. There are two aspects:

1. Devise a project plan with an inherently excellent risk profile.
2. Think about areas of uncertainty and specific things that might happen but which are not the most likely or planned outcome, and consider how to control or influence them.

## Devise an inherently robust project plan

This first aspect is the most important as it is the most effective in managing risk. This section offers some guidelines for structuring projects, a list of typical implementation steps based on the content of the book ‘Beyond Budgeting’, and some suggestions for relatively easy yet very beneficial early steps to get you started.

The golden rule is to divide the total project into around **50 deliveries**, each of which is **beneficial on its own**. Beneficial changes are delivered (often in groups) every few weeks or even more often, rather than in a big bang after months of analysis and design. You should also be flexible and prepared to change your approach based on what you learn from work completed.

This approach is called ‘Evolutionary Project Management’ and there are many excellent technical reasons why it is the best known method of structuring projects. It slashes risks of failure, accelerates benefits, reduces costs, increases learning from experience, reduces the risk of working towards obsolete requirements, and enables real progress to be tracked instead of imagined progress. It is also just about the only style of project management that is philosophically compatible with Beyond Budgeting, as it emphasises adaptive processes.

However, the reason most Beyond Budgeting implementations to date have been achieved through small changes that were individually beneficial is simply that *top management would not approve any work that did not deliver benefits quickly and easily*.

In response people have instinctively turned to some kind of evolutionary approach, without realising it is the state of the art in project management.

Quite often there has been one delivery of particular importance that has been seen as *the* Beyond Budgeting implementation. This is where a new procedure for adaptive planning is rolled out for people to follow instead of budgetary control. However, there are many other activities that go on before and after this crucial step so the true scope of a Beyond Budgeting implementation is always wider than this.

The BBRT strongly recommends that the entire vision for Beyond Budgeting be explained before approval for specific changes is sought. However, this does not prevent organisations from taking their implementation a step at a time, or approving specific actions in stages.

### Your Vision

You should already have ideas about what you want to do instead of budgetary control. This grand design, or ‘vision’, may have some gaps and will certainly be missing a lot of detail.

No matter. Your vision will be extremely helpful in planning, and in adapting your plans as implementation unfolds.

Some companies have faced many obstacles on their way to a Beyond Budgeting model and had to implement parts of it when management recognised a need. It helps to know what you want to build so that you can seize such opportunities and resist pressure to make changes that would undermine your vision.

Some companies have sketched a series of designs showing how their performance management systems and processes can be transformed, in phases, from bad old budgetary control to the adaptive, effective Beyond Budgeting model.

At Unilever, Steve Morlidge has devised a grid that allows group companies to locate themselves on each of 6 aspects of the Beyond Budgeting model according to where they are between traditionally fixed, and fully adaptive. Steve’s scheme has two intermediate management models. It is possible to show where you currently think you are and where you would like to get to.

An intriguing possibility is that this graded approach, or something like it, may help identify where elements of a management model are inconsistent with each other, and also be a guide to implementation sequence.

Developing your vision is outside the scope of this guidance, but it helps to develop your vision and the outline of your implementation plan together.

It is not necessary, or even possible, to design your new approach in every detail in advance. Trying to do that is a good way to kill your project before it even starts. Done correctly, your implementation plan will give you the opportunities you need to learn from experience and design the details so they work in practice.

### Planning your route

Planning your route is something you need to do once you have assessed the case for change and started telling people in your organisation about the Beyond Budgeting model. If you can see interest in Beyond Budgeting in principle it may be time to develop some much more concrete proposals.

Even the best vision won’t tell you what to build first or what steps to take to do so. Sometimes, the exact sequence of steps does not matter, but often it does.

Planned well, management performance will improve from the very first step of your Beyond Budgeting implementation, with no transitional dip, and as all the elements of the Beyond Budgeting model fall into place the benefits will be magnified by increasing coherence. The tendency for the old model to reassert itself while key elements remain can be managed by obtaining Board support for the whole vision at the outset and by other actions that manage this particular risk.

It is not necessary to plan every step of your project from start to finish in detail. Have an overall plan and work on the details of the first things you will do.

There is no sequence of steps for implementing the Beyond Budgeting model that is the best for every organisation. Discussions between Beyond Budgeting members, and experience from implementation projects so far, shows that every Beyond Budgeting implementation plan must be crafted to fit the circumstances of the organisation involved.

Take steps in the sequence that accelerates benefits and hastens the day when budgets are abandoned. Do things in a sequence that accelerates delivery of benefits rather than because it looks like a logical train of thought towards a perfect end result. Don’t aim for perfection every time, just for improvement.

For example, imagine a case where management is currently based on detailed financial budgets, with no other information available. What would happen if the details were ignored and only summary financials used? The purely financial perspective is far from ideal, but it is no worse than it was before. People are used to the issues and to some extent already work around them. Also, time is saved through the reduced detail and more freedom is given to managers.

With hardly any effort a significant step towards a Beyond Budgeting model has been taken and conversations about the figures will be more strategic. Over time, new KPIs can be added and systems enhanced. Each improvement will make the management model better still.

### The Step List

Associated with this guide is an Excel file containing a list of typical steps in a Beyond Budgeting implementation. (It does not cover the initial work of generating enthusiasm and winning Board approval - just the implementation.) The steps are based on close analysis of case studies and the Beyond Budgeting model. Many of the steps could just as easily be part of other projects. Steps to do with removing fixed targets are more distinctive.

This ‘Step List’ is designed to help you think through the alternative routes to a Beyond Budgeting model. It does not propose a route.

Steps are grouped under typical elements of a beyond budgeting model or implementation project to help you link them to your vision. The groups are graded GOLD, SILVER, and BRONZE as a very general indication of which are best to do first.

There are also suggestions for how each group of steps might be repeated in iterations. For example, you might need to do something once initially, then a second time after introducing more decentralisation. Or you might have to redesign a management information pack more than once to accommodate trend graphs, then new KPIs, improved cost analysis, external benchmarks, and so on, as they become available. Waiting for everything to be finished before redesigning management information packs would lead to a long delay to even simple improvements.

Looking at the list of typical tasks and iterations it is easier to see how you can break a large programme of change into around 50 beneficial deliveries.

### How to use the Step List

If you want to make use of the Step List as a source of ideas, link it to your vision and start amending the list of steps to fit.

You may also want to tackle your organisation in sections. For example, head office then units, or a trial unit or division first, or tackle divisions one by one. If your approach to each part of your organisation is likely to be different then you will need to produce more than one list of tasks. If not, it may be enough to create the tasks once and copy them.

It may be helpful at this point to consider and list the resources needed to do each task. Who can do them? How much work might be involved? Does money need to be spent? Some very important steps may take only a few hours of spreadsheet editing, while others may be three year IT projects.

Remember to put most detail into the earliest steps.

For large groups of companies it may be impossible to plan in detail for each company. Sometimes, a member company moves to the Beyond Budgeting model but the group does not. In other examples, budgets have been abandoned at the group level but are still used by some or all member companies.

You will need to devise a plan for the group level, and a way to change performance management in each group company. Some groups enforce the same procedures and systems on every group company, but others give more freedom to member companies and would expect each one to have its own vision and implementation plan.

### Ideas for sequencing changes

A good sequence brings benefits quickly, uses resources efficiently, provides opportunities to learn from experience, and manages risks such as rejection and loss of control.

This section lists many considerations that may help in sequencing deliveries and steps. Consider if there are any over-riding considerations that determine your approach. Then consider each task or delivery, and each organisational unit and see what sequencing constraints and considerations apply. As necessary, go back to modifying the steps. Give ratings to tasks (e.g. priority numbers or colour coding). Gradually build up a picture of what you want to do, in what sequence, when and why. Many things can be done in parallel.

Some important sequencing rules of thumb are:

1. Do the most beneficial things first.
2. Do the easiest things first, and that includes working with the most receptive and enthusiastic people first.
3. Do things early that will produce visible evidence of change and benefits.
4. Do things early that reduce fear of internal control failure.
5. For things that might prove difficult to design give yourself time and a chance to learn from experience.
6. Reduce delays and dependencies by using iterations instead of waiting for one area to be complete and perfect before moving on to the next.
7. Replace annual processes with more frequent adaptive processes early if possible. As long as you are locked into an annual cycle it is hard to make improvements more often than annually so learning and progress are slow. Once you operate faster cycles, improvements can be delivered more quickly.
8. Do not be too concerned if you cannot decide a sequence all the way to the end of the implementation. Have a plan to the end, but put most detail into planning for the next few steps, and be prepared to change the route on the basis of what is learned and what happens as steps are completed.

Consider a step as potentially having a high value if, for example, it:

1. directly dismantles the fixed performance contract (because until you do this other improvements will have little effect);
2. replaces or removes something that currently takes a lot of time or is very damaging;
3. helps your organisation be better at something that is important; and/or
4. uplifts something that is currently very weak and undermining other things (e.g. very poor selection of KPIs).

Consider a step as potentially being easy to do if, for example, it:

1. just involves stopping doing something;
2. requires help only from the most enthusiastic and competent people;
3. requires very little new design work;
4. avoids extensive software engineering;
5. does not involve difficult negotiations;
6. involves (re)educating only a few people; and/or
7. will disadvantage nobody, or at worst only a small minority, and therefore should face little political resistance.

Here are some reasons for considering a step as potentially reducing fear of internal control failure:

1. It mitigates the risk that some managers will actually perform worse as a result of being asked to work differently. This risk is greatest where managers are given greater authority, and there is also some risk when the fixed performance contract is removed. This is due to the amount of learning needed by managers. Useful mitigation of this risk includes training, increased cycle frequency (because of more opportunities to learn and less to forget), improved central monitoring of actuals, and improved central monitoring of skill.
2. It gives senior management a clearer picture of what is happening in the business than can be gained from budget variance analysis. For example, improving management information packs to show trends and better analysis of existing information will increase confidence and quickly make the variance analysis against budgets seem less important;
3. It involves internal auditors and gets them on side. They will appreciate being helped to understand what is going on and will want to feel that they have an excellent understanding of the new model and the project so that they can report on it.
4. It involves external auditors and gets them on side. External auditors do not have "control requirements" but some (e.g. PricewaterhouseCoopers) do like to place reliance on management's use of management information and budgets. They will appreciate being fully informed and helped to understand how the Beyond Budgeting model works and why it will decrease the risk of creative accounting while increasing management's ability to spot problems.
5. It deliberately adjusts internal controls to support the new model appropriately rather than simply removing old controls.

The priorisation method advocated as part of Evolutionary Project Management by Tom Gilb can be very helpful in simplifying the choices.

First, consider your stakeholders. Who cares about your management control system? You should be able to list dozens of stakeholder groups. Normally the ‘suppliers’ in your project will also be classified as stakeholders.

Second, consider what the stakeholders care about. These should be the ‘performance characteristics’ of your management control system, i.e. dimensions of its performance that might perhaps be measured and would vary over a range rather than being yes/no characteristics. For example, you might decide the performance characteristics should be things like speed of adaptation, effectiveness of uncertainty management, extent of empowerment, standard of internal control, accuracy in predicting future outcomes, and financial results. Consider also your resources, perhaps in terms of people, money, and time, though there may be more specific resource constraints to think about.

Third, think about where your organisation currently performs on each performance characteristic, and how that compares with the level below which the survival of your organisation is threatened if improvement is not made (i.e. the survival level), the level below which people are unhappy with performance (i.e. the fail level), and the level at which further improvement is not valuable (i.e. the goal level).

Fourth, create a table where the rows are performance characteristics and resources, and the columns are for potential steps. Write down estimates of the impact of each step on all performance characteristics and all resources.

Fifth, consider your prioritisation policy. Gilb recommends giving priority first to steps that help raise your performance above the ‘survival’ level, then steps that lift you above the ‘fail’ level, preferably on more than one performance characteristic.

Sixth, prioritise, taking into consideration other constraints such as resources and dependencies between steps.

In early 2004 I carried out an online survey of what people liked and did not like about the Beyond Budgeting model. The results suggested that most people are interested in increasing the speed and control of their management system. The results are reported at <http://www.workinginuncertainty.co.uk/study_bbrtargs.shtml> and their implications for performance characteristics are developed further in ‘A framework for accelerating management systems’ at <http://www.workinginuncertainty.co.uk/accelerated.shtml>.

### Coherence and consistency

Fixed performance targets and the Beyond Budgeting model are not compatible. Also, despite the fact that nearly everyone has instinctively understood the principles of Beyond Budgeting since childhood there is still *intellectual* conflict between the Beyond Budgeting approach and ‘traditional’ management control thinking.

Most Beyond Budgeting implementation teams have had to continue promoting the value of their vision throughout the implementation and for years beyond.

During your implementation project there will be periods where you have elements of old and new management models running side by side. In the book ‘Beyond Budgeting’ this is described as an incoherent management model. That is not to say it is less effective than pure budgetary control, but it does mean it is less effective than a pure Beyond Budgeting model and that there will probably be some conflict between the models.

If you break the annual fixed performance contract early this will reduce the tension between old and new management models. Other management tools you introduce will also be more beneficial as a result of removing the fixed performance contract.

The fixed performance contract is, in reality, often several fixed performance contracts. For example, a manager in a subsidiary company may be influenced by:

1. personal objectives, agreed annually;
2. annual budget or other departmental or company internal targets;
3. annual budgets submitted to Group; and
4. annual company and group external financial reporting.

All these make it difficult for managers to update their plans and expectations more often than once a year. The more of these that can be removed, or at least made less detailed, the easier it is to behave adaptively. However, if this freedom is not granted no amount of decentralisation, empowerment, improved information, or exhortations to be responsive will have much effect.

On the other hand, as the fixed performance contracts are loosened and removed each improvement in information, governance, empowerment, and so on can translate into better, faster adaptation.

At a more detailed level there are practical matters of consistency to consider when planning the steps to your vision. For example, imagine you have just decided that a certain set of measures are the most important in your business and have begun monitoring a new scorecard that shows them. You have a problem if people are still rewarded for achievement on the old set of measures. Another problem would arise if the new KPIs were in use by top management, but at other levels in the organisation the old KPIs were used.

### Breaking down large tasks

Problems of consistency can make it look like you have no alternative but to make large bundles of changes together rather than delivering smaller improvements more frequently. However, these apparent difficulties can be overcome by devising convenient ways to roll out small but *coordinated* changes rapidly. Rather than large, complicated rollouts that change everything your rollouts will be smaller, easier, and introduce change in increments that people can adapt to.

For example, consider again the problem of changing the measures that are used in a business. Even if you debate long and hard in a country hotel with consultants in attendance the first rethink of measures will still be based on a certain amount of guesswork. If you only allow yourself one chance to get it right you won’t. Furthermore, some numbers will not be available at first. You won’t want to wait until all are available before you start showing the ones that are.

The first scorecard design and cause-effect model is just a starting point and experience from doing things differently and watching the effects should allow you to revise those ideas and make your model more reliable.

You will need to tell people that a series of improvements is coming, and then establish a pattern of rolling out small changes frequently. People will have to accept that their management information pack will change slightly from month to month, that not all numbers have a full past history or comparatives, and that some numbers will change their definitions. They will have to understand that the scorecard on which their rewards might be based will change from time to time to better reflect the true needs of the business and that they will be expected to take note of the changes and adapt.

It would be wrong to roll out radical changes frequently as different theories about how the business works are considered and rejected. This kind of vacillation is damaging. You need to think clearly about the uncertainty that remains and focus on delivering early the improvements that look most likely to be well chosen while working to reduce the uncertainty over other ideas.

Of course, if the position your project starts from is one of inconsistency, then if you need to you can remain inconsistent as you deliver improvements, and also gain from increasing consistency when you can.

Compared to some other projects (e.g. building a bridge) Beyond Budgeting implementations offer many easy opportunities for incremental improvements. There are many improvements that can be made to ways of working and supporting tools, and many parts of an organisation in which these can be used.

Once you get used to thinking in terms of small deliveries that are beneficial on their own it is easy. However, at first it can sometimes be hard to see how some parts of your vision can be delivered incrementally. Here are some examples to show how apparently large deliveries can be broken down into more manageable ones.

1. **Rolling forecasts**: Producing 5 quarter rolling forecasts every quarter is often something that companies want to do. It is technically demanding and companies have found that it sometimes exceeds the power of MS Excel. Nevertheless you can break it down in various ways:
2. Company by company around a group, or division by division.
3. Getting progressively more accurate.
4. Start with one quarter ahead and then extend.
5. Don’t try to forecast everything. Consider what decisions you will actually make on the basis of forecasts and start by trying to forecast just the things that you need to know for the most important of those decisions (e.g. hiring, Christmas stocks).
6. Do ‘best guess’ forecasts first, then add probability distributions to show your uncertainty explicitly.
7. **Decentralisation**: Another big step? Not necessarily. Even radically decentralised organisations like Svenska Handelsbanken got there in stages. The limiting factors are the skill and appetite for responsibility of the people to whom more responsibility is being given. Add new responsibilities gradually and keep pouring on the training and coaching.
8. **Internal trading**: One might think that to work at all internal trading has to be realistic and comprehensive, so the natural first step is to list all the things that could be traded internally before devising a negotiating process, and so on and on. An alternative view is that you can get there in stages. For example, you might move from approximate cost reallocations between divisions (based on progressively more accurate and comprehensive records of services and goods provided), through a period where more and more of the most important services come to be traded according to negotiated prices. Gradually, competitive pressures increase and pricing accuracy improves.

### Resources and evolutionary steps

‘But surely 50 releases will take more work than 1 release?’ Apparently not. The evidence from projects generally is that evolutionary delivery requires less resource, not more. There is an overhead for each step and another at the start of the project where you have to do things to get into a position where 50 deliveries can be done with minimal overhead. However, these extra costs are more than compensated for by the benefits except in conditions of exceptionally simple work with minimal risk and uncertainty.

Research in systems development projects shows that work to complete a project increases disproportionately with the size of the task. There are diseconomies of scale, so if you convert one big project into lots of smaller ones the work is more efficient, as well as much more likely to be completed successfully.

The 50 releases are not the same as the 1 big release. Each one is smaller, less complicated, less risky, and demands less adaptation by users. These are changes they can accommodate easily, usually without taking days out for training courses.

### Your first steps

By now it should be clear that a Beyond Budgeting implementation is not a burst of ‘quick wins’ followed by a tough and lengthy project that delivers the more fundamental change. Your project is going to be a continuing series of quick wins from start to finish. Nevertheless, there are certain changes that stand out as a good way to start.

**Eject the fixed performance contract.** A previous section gave many characteristics of steps that should be done early on. On many of these factors it is steps that dismantle the fixed performance contract that come out on top. Not creating budgets is just a matter of stopping doing something. It saves vast amounts of time in the Finance department and 8 – 10 times as much elsewhere (which is often time needed for implementing other steps), and lots of other changes bring little benefit until the fixed performance contract is removed. By comparison, just simplifying the fixed performance contract (e.g. by moving to high level KPIs) saves far less time (because the time is taken by negotiation, not computation) and does not magnify the benefits of other steps.

Removing the fixed performance contract creates opportunities for improvements in many areas that were not possible otherwise. The case of Rhodia is a good example of this. Svenska Handlesbanken shows what can be achieved over a longer period.

What if you have just built a new budget? Surely you don't want to waste that work by abandoning budgets now. Why not? As everyone knows sunk costs are irrelevant to decisions. The sooner you stop budgeting the sooner you can stop calculating variances and negotiating explanations. The sooner the fixed performance contract is dismantled the sooner people will turn their attention to what matters, stop playing with numbers, and start managing risks properly. Don't wait another year to enjoy these benefits.

Sight Savers International actually prepared a budget as the starting point for abandoning budgeting. This meant they had just been through a planning cycle, which made the first rolling forecasts easier and provided the perceived security of a fallback if the new approach did not work.

**Appraise people differently, if you can.** This is really just part of breaking the fixed performance contract. It could be very difficult and time consuming or surprisingly easy. Check to see if it might be easy because if so it is a good early step.

Changing appraisal methods is easier under conditions such as these:

1. Your organisation is planning controversial change to pay rules anyway.
2. The people concerned are not unionised or protected by very restrictive employment laws that allow them to negotiate over *any* change.
3. The appraisals are currently done by paper documents and spreadsheets, rather than being hard-coded into some computer system.
4. The appraisals currently involve an element of judgement rather than being driven entirely by objective numbers and a formula.
5. You don’t try to change everything but instead just work on the part that breaks the fixed performance contract, which is reviewing performance with the benefit of hindsight.

The full list of changes needed to fulfil your vision for remuneration might involve changing the balance between basic pay and performance bonuses, moving from trigger points to a smooth relationship between performance and pay, using retrospective reviews, changing the balance between personal and team performance, and using relative performance measures.

The easy part is to say you will evaluate performance retrospectively, taking into account actual conditions rather than using a target negotiated far in advance. Then provide what data you have on performance in a form that allows people to make comparisons. Everything else can stay the same and yet you have still broken the fixed performance contract.

Another potentially easy change is to reform the annual timetable. In an organisation that aspires to adaptive processes it makes little sense to discuss personal plans with people annually. Accelerate the cycle up to quarterly and each cycle will become much easier and quicker to do, you will have more opportunities to make refinements, and what people decide to do will be relevant for them instead of embarrassingly obsolete for most of the year.

If frequency is increased the process must be simpler and the paperwork shorter. This will be welcomed by everyone but also makes it much easier to design, agree, and roll out the simple forms needed. As always, plans that are written out in detail and at length, with much debate and negotiation tend to be plans nobody wants to change, even when they should. So keep it simple and encourage people to respond appropriately to events.

Read about the Svenska Handelsbanken approach in the book, ‘Beyond Budgeting’ (at the top of page 63 in the hardback first edition).

**Make better use of existing data, e.g. in your management accounts.** Steps that do this rank highly because they give senior people a feel for what they are going to rely on instead of variance analysis, are typically done monthly so changes can be very rapid, and often amount to little more than modifying some relatively simple spreadsheets. Start providing graphs of past history so that trends leap off the page at readers. Add league tables – often it’s just a matter of sorting existing tables. Make an effort to refine the designs so they are clear and packed with interesting data.

Not everyone has the design skill to do this well but if you do it can make an impact out of all proportion to the time and effort needed. Pretty soon readers will be looking at the trends and league tables and ignoring the variance analyses. When you cut out the budget they may not notice.

Another area for improving the way you use existing measurements is monitoring of actuals. The better your scrutiny of trends and fluctuations the more obvious it will be that budget variances have little useful to say.

**Do a pilot.** Pilots are useful because they allow you to try a lot of things on a small scale. There is no need to wait for a pilot to complete before starting in other areas, however.

**Stop saying ‘budget’.** Set an example by not saying words that reinforce fixed performance contracts, annual cycles, and all the other things you are trying to replace.

### Summarising your plan

Resist the temptation to upload hundreds of tasks into Microsoft Project and start printing Gantt Charts and network diagrams. That’s a lot of work and will discourage you from changing your approach in response to events and better ideas.

Try to summarise your plan on one or two sheets of paper. There will probably be some work going on in parallel. Suggest rough dates based on assessments of how long it might take to do things. Add detail for the initial stages, showing what beneficial change is delivered each time and how.

A simple plan showing milestones of achievement (i.e. things done, delivered, and working rather than intermediate steps of work) is easier to explain and revise.

Link your plan to your vision, for example by colour coding or numbering elements of your vision.

### Workshop outline

You can involve more people in implementation planning by running a workshop. Here’s a suggested approach:

1. Pull together what has already been done on a vision and link the Step List steps to it in some way as preparation for the workshop. Expand/edit the list of steps to give a reasonable starting point.
2. Start the workshop as usual with an explanation of the agenda and explain the Evolutionary approach.
3. Then discuss priorities in general. For example, most needy/easiest divisions or subsidiaries, easiest ways to start, etc. You might put up tables and do ranking on the various factors that affect priority. Alternatively, list things that are distinctive about your organisation and consider what they imply for your project.
4. Survey constraints such as when people will be available, constraints imposed by the timing of existing annual cycles, related systems projects, organisation changes, etc.
5. Discuss overall implementation strategies.
6. Have a go at some possible sequences and see if a favourite emerges.
7. After the workshop it is likely that you will need to do some extra work to tidy up the output, check for silly mistakes and generally validate the logic of what is being proposed and flesh out details.
8. You may need a follow up session to deal with unsolved problems. Otherwise it could be just a matter of collecting agreement to the conclusions.

## Manage areas of uncertainty and specific risks

Project risk management is a well-established discipline and there is plenty of general guidance on how to do it and how to organise for it. Most of this is useful but one thing is different for a Beyond Budgeting implementation.

Conventional project management is based on budgetary control and risk management is seen as a way to achieve the original objectives no matter what happens.

If you apply this approach it will not work well and *you will be seen as a hypocrite*. Therefore, the adjustments that let you live your principles through the project are included in the suggestions below.

### Typical areas of uncertainty

This section discusses the risks that are characteristic of Beyond Budgeting implementations, and gives some ideas on how to manage them.

As your implementation proceeds you will have the opportunity to learn and to revise designs and plans. It is vital to make good use of these opportunities. Start by becoming aware of your current uncertainties. For example:

**Time and resources needed, and benefits that will be delivered.** You can’t know for sure. The conventional way to try to deal with this is to set a budget, a deadline, and it is now fashionable to set targets for benefits at the outset as well. Usually there will be a contingency or ‘risk budget’. Through the project you are supposed to monitor variances and take corrective actions to get back on track. This is budgetary control and, not surprisingly, it does not work very well.

Instead, make a forecast in the form of a range of outcomes and revise it often. Your forecasts for the next stage should be fairly tight, but your long range forecasts will be looser. If you think you should be able to achieve more try changing your implementation steps and reforecast.

One of the huge advantages of evolutionary projects is that you are delivering benefits frequently, rather than laying the groundwork for benefits that eventually might be delivered.

From time to time get your stakeholders together to discuss what has been achieved so far, what benefits have been enjoyed and what has perhaps been disappointing. Rethink your ideas about what the benefits should be and apply this new understanding to the rest of your plan.

**Current state of the management model.** One reason for prioritising an improvement is that the current situation is so poor. However, you may not know the current situation in some areas so this uncertainty needs to be reduced by some enquiries performed early in the project.

**The detailed designs for elements of the model.** What KPIs should we use? How will we organise for adaptive planning? What framework of values or policies should we use to guide people as we decentralise? It is very difficult to judge how long it will take to design new solutions. Wherever there is uncertainty it is worth considering how to trial ideas quickly and learn from them, and how to avoid getting paralysed by not having a complete answer at the outset.

**The true level of resistance/enthusiasm across the organisation.** It is very difficult to judge the true level of support or resistance to Beyond Budgeting in an organisation because what people say and do are not consistent. Ask someone to write a guide to performance management and most will write about targets and monitoring. Watch the same people doing their jobs and you will see them behave quite differently. Therefore, judging resistance from what people say when debating management methods at the planning and approval stage tends to give an overestimate of resistance.

For example, when people see league tables they respond to them, even if they have been instructed not to. The instinct to compete is so strong that when people receive a spreadsheet showing their team's performance and the performance of others, even if it is not sorted into a league table, they will sometimes sort it themselves to see how they are doing against their rivals.

Furthermore, a lot of the resistance is likely to come from specialists who have been the champions of elements of the old model, and these will often be the people who have most to say when Beyond Budgeting is discussed. For example, the Human Resources team may feel strongly that evaluation against fixed targets agreed in advance is fundamental to performance management but their view probably is not reflected in the behaviour of people across the organisation who actually do the performance evaluations. It may be that compliance with the old model is already very poor. Build in activities to gather this information as you go, and use it.

Of course the specialists who are most likely to cling to budgetary control are those of the finance team – the usual champions of Beyond Budgeting. The irony is that if you are a finance manager championing Beyond Budgeting it is your own colleagues who are likely to put up the greatest resistance.

When Bulmers started looking at the Beyond Budgeting model they surveyed views outside the finance function to find out what people thought of what was being done at that time. The results were so shocking and dismaying to the finance team that they refused ever to run a budgetary control system again.

Resistance may also arise from politics unrelated to the Beyond Budgeting implementation. It may simply be seen as sponsored by one group and another group may stall it for that reason alone.

Cultivate relationships with supportive groups. You may find allies in risk management, HR, and internal audit, for example.

Are Beyond Budgeting principles hard to understand? Not at all. From childhood just about everyone knows that rethinking your plans when something important happens is sensible (adaptive processes), that the way to see how well you are doing is to compare yourself with others (relative measures and goals), and that team work is better than trying to do everything yourself (radical decentralisation).

**Which managers will perform worse initially, and when.** Some changes in a Beyond Budgeting implementation demand new learning by managers. The risk of worse performance by some managers is greater when there is a lot to learn, so you need to bear this in mind, avoid piling too much learning on at one time and provide appropriate support and safeguards.

The changes that require the most learning are those to do with increasing authority (e.g. decentralisation, internal markets, SLAs, customer allocation). For example, if someone has never had the authority to hire and fire staff that is a significant new skill to master. Managers have to learn how to pull their new levers and what effects they will have.

Changes that replace fixed performance contracts with more flexible guidance and direction also demand a lot of learning by managers. They must learn more about how their business works as a system, how to steer it, and how to be more aware of risk and external factors. The proportion of managers who perform worse initially is lower, however, because fixed performance targets cause such dysfunctional behaviour that it is difficult to do worse, especially as managers get extra time from not doing budgets.

Changes that provide better information (e.g. new KPIs, league tables and benchmarks, open IT systems, faster actuals, customer profitability analysis, cost analysis) require some extra learning initially, but if the reports are clear and self-explanatory they should not lead to a drop in performance for anyone.

Changes that strengthen governance by clarifying values and setting limits also require some initial learning but, again, if they are simple and self-explanatory they should be helpful very quickly and the risk of any managers getting worse as a result is very low.

To mitigate the risk of worse performance by some managers during the more demanding changes there are a number of things you can do:

1. Avoid removing fixed performance contracts and increasing authority at the same time;
2. Increase authority gradually;
3. Provide appropriate training;
4. Improve information;
5. Strengthen governance;
6. Improve monitoring of actuals and follow up with managers; and
7. Improve monitoring of skill and coping, and follow up with managers.

Monitor the extent to which managers are coping with change and adjust your pace accordingly.

**The timing and chances of success for related projects on which the Beyond Budgeting implementation may have become dependent.** There is an obvious temptation to link a Beyond Budgeting implementation to related projects such as systems enhancements to support rolling forecasts, revisions to management accounting methods and chart of accounts, and new sets of performance indicators. While these may offer the chance to start the Beyond Budgeting model with better systems the downside is that problems with these projects will delay Beyond Budgeting. Be cautious. The extra work needed to implement the Beyond Budgeting model once imperfectly with existing systems and then again with new systems may be well worth it, no matter how confident the managers of other projects appear to be.

**Future support and resources for the Beyond Budgeting implementation.** Top management support for initiatives is very important, but in practice top management's attention and interest come and go as new priorities and crises arise. Mergers and acquisitions, divestments, strategic reviews, an accounting scandal, rows about executive remuneration, funding problems - a CEO's work is never done.

**Actual level of conceptual understanding among managers.** It you are used to controlling by fixed targets the Beyond Budgeting model can be hard to get your head around. Even when you think you understand, it is easy to slip into old habits when talking about management methods. This can lead to confusion, especially if a senior person delivers a briefing on the Beyond Budgeting model but gets it only half right.

**Reactions to running old and new models together.** The likelihood is that most Beyond Budgeting will go through a period where elements of the old model are operating alongside elements of the new model. Reactions may be difficult to anticipate as they vary according to enthusiasm for Beyond Budgeting. Which is the best sequence?:

1. **Swap.** Take away the old process at the same time as introducing the new one.
2. **Vacuum.** Take away the old process to create a desire for some new process, then introducing the new one.
3. **Parallel run.** Introduce the new process alongside the old one to provide the security of a fallback, then take away the old process once people feel safe with the new.

The answer can be different for different elements of the model.

**Competition for resources from other projects.** The competing projects for many companies are currently Sarbanes-Oxley compliance (mainly sections 302 and 404), and International Financial Reporting Standards (especially in the EU). Mergers and acquisitions are a huge distraction when they happen.

**Whether the new model will work.** Is there any real doubt? In some of the cases studied by the Beyond Budgeting Round Table the idea was that a contingency plan would be laid so that they could go back to budgeting if the new scheme failed. In fact it did not fail as it is very easy to do better than budgetary control.

Risk and uncertainty considerations may suggest alterations to your tasks and priorities so go back to earlier work and see what should change.

### Managing specific risks and potential opportunities

As mentioned earlier the conventional style of risk management in projects aims to achieve the original objectives no matter what happens. Not very adaptive.

If you want to manage risks in a more adaptive way use it to open your mind to the full range of things that might happen. As well as considering bad things that might happen and how you can avoid them or limit their impact, consider unexpectedly good things that might happen and how you could encourage and exploit them.

### Workshop outline

Once again, a workshop is a good way to get input from more people, which is useful in risk and uncertainty management. However, be aware that risk and uncertainty management are surprisingly tricky to do and many attempts are less valuable than they seem to be.

There are two benefits to aim for:

1. Prepare your project team mentally for what is to come so that they recognise more quickly when certain scenarios are unfolding.
2. Improve your plan by adding actions to alter the probabilities of uncertain events and their impacts.

The first benefit is relatively easy to obtain but the second is where technical mistakes can undermine the work, leading to meaningless risk registers that quickly get out of date.

Here’s a suggested outline:

1. Prepare by pulling together everything you have already about your vision and project plan.
2. Start as usual with an agenda and an explanation of the importance of risk and uncertainty management.
3. Initially stay high level by just surveying areas of uncertainty. Even if you think the list given in this guide seems pretty accurate to your organisation it is still worth thinking about how they apply specifically to you – or not – as well as trying to come up with others. Think about how you could monitor or reduce these uncertainties and if those actions are worthwhile.
4. Next get down to more detail for specific events that could happen and require a change in your approach. Consider what you can do to modify the likelihood and impact of events (but do not rate them in this way unless you are certain they are single outcomes rather than sets of outcomes).
5. Finally, pull all the previous thinking together by summarising them into a control system for your project, featuring research and monitoring activities, contingency planning, and so on.
6. As usual the output will need to be tidied up later and probably fleshed out.

**Acknowledgements**

I would like to thank the Beyond Budgeting Round Table team for their cooperation and the following individuals for giving their time to help me: Adrian Poffley, Barbara Blaber, Jacky Pincon, Jean-Michel Segui, and Steve Morlidge.