

Dynamic Management

The SpareBank 1 group's road to a new corporate governance based on the principles of Beyond Budgeting

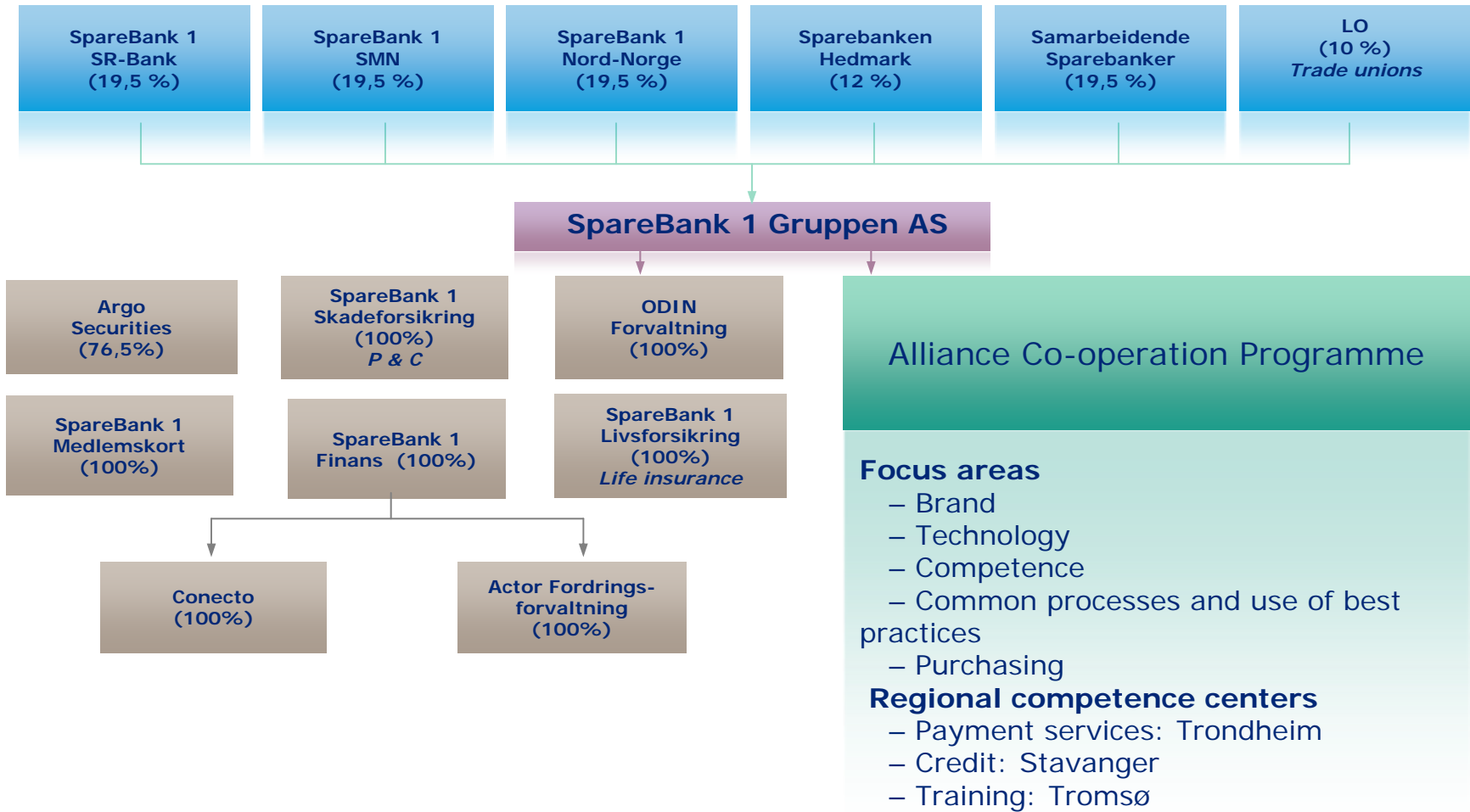
LESS 2010, Helsinki
18 October 2010

Sigurd Aune, CFO
SpareBank 1 Gruppen AS

Agenda

- **SpareBank 1 Group in brief**
- Dynamic Management – SpareBank 1 Group's performance management model
 - Theoretical foundation – Beyond Budgeting
 - Why did we want to change our model?
 - How did we start?
 - What is Dynamic Management?
 - Experiences so far
- Summary

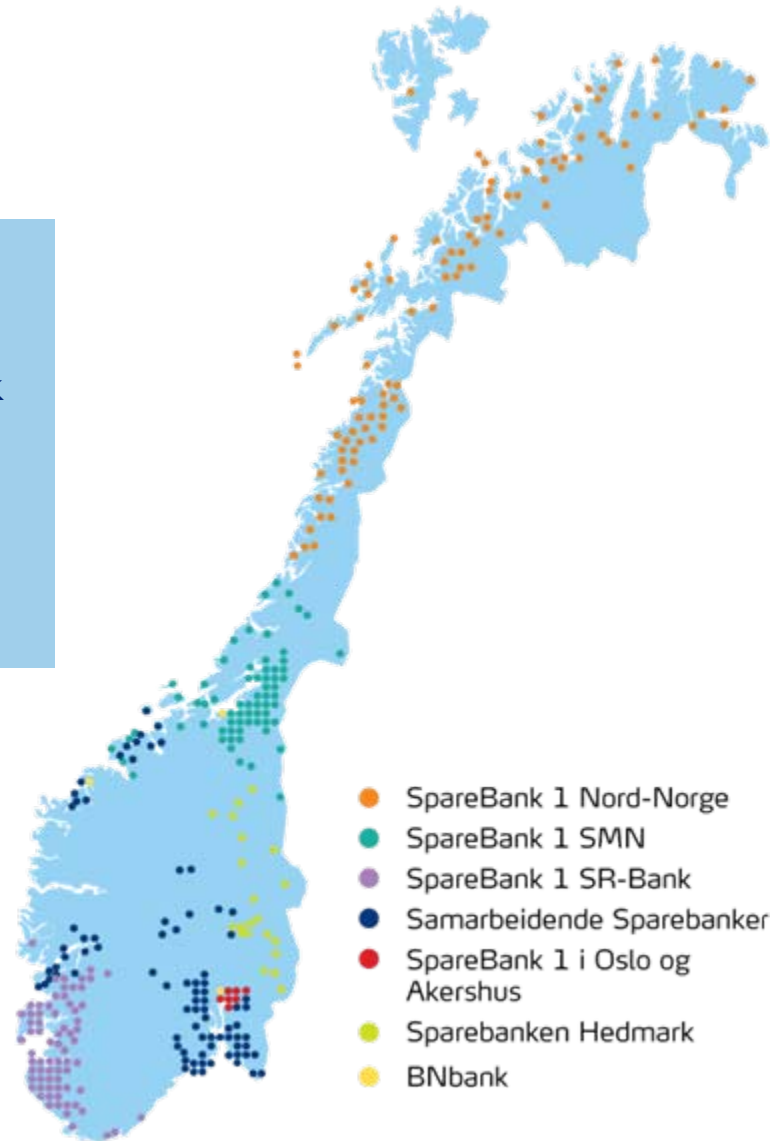
SpareBank 1 Gruppen is part of the SpareBank 1 Alliance



The SpareBank 1 Alliance is the second largest bank in Norway

The SpareBank 1 Alliance

- 18 independent savings banks
- Co-ownership of two commercial banks (BN Bank og Bank 1 Oslo)
- Total assets of NOK 667 billion
- 352 branches across Norway
- Total no of employees: 6 300

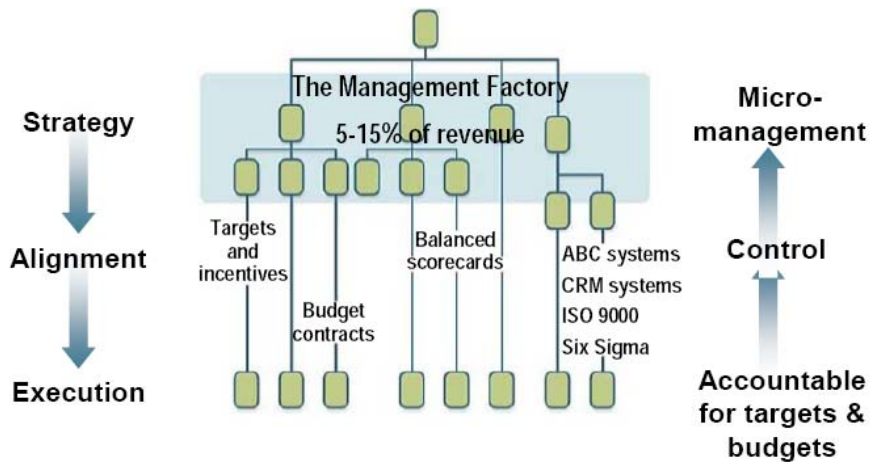


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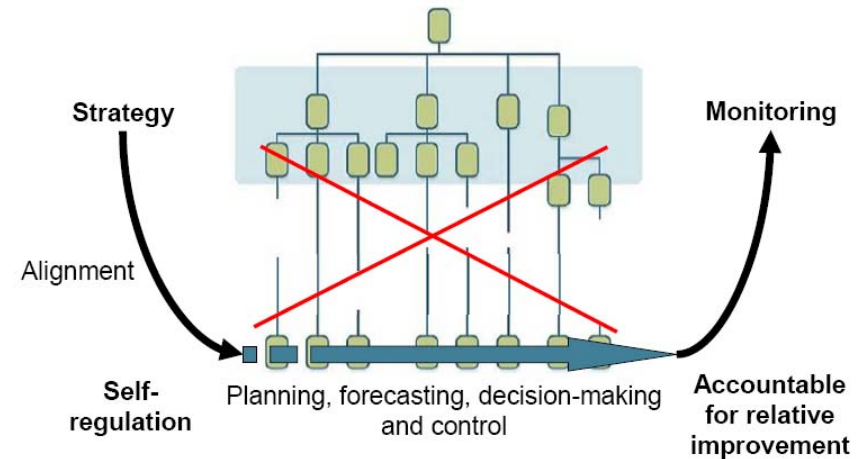
Beyond Budgeting is the foundation for our performance management model

Traditional management



Tools such as budgets, forecasts and balanced scorecards are used to give senior management a better basis for making decisions

Beyond Budgeting



Tools are used to give all the managers and teams in the organisation a better basis for making decisions

Source: Beyond Budgeting Round Table (BBRT)

12 Beyond Budgeting Principles

Six 'leadership' principles

Governance & transparency

- | | |
|-----------------|--|
| 1. Values | Govern through a few clear values, goals and boundaries, <i>not detailed rules and budgets</i> |
| 2. Performance | Create a high performance culture based on relative success, <i>not meeting fixed targets</i> |
| 3. Transparency | Promote open information for self management, <i>don't restrict it hierarchically</i> |

Accountable teams

- | | |
|-------------------|---|
| 4. Organization | Organize as a network of lean, accountable teams, <i>not around centralized functions</i> |
| 5. Autonomy | Give teams the freedom and capability to act; <i>don't micro-manage them</i> |
| 6. Accountability | Focus everyone on improving customer outcomes, <i>not on hierarchical relationships</i> |

Six 'process' principles

Goals & rewards

- | | |
|------------|---|
| 7. Goals | Set relative goals for continuous improvement, <i>don't negotiate fixed performance contracts</i> |
| 8. Rewards | Reward team-based success based on relative performance, <i>not on meeting fixed targets</i> |

Planning & controls

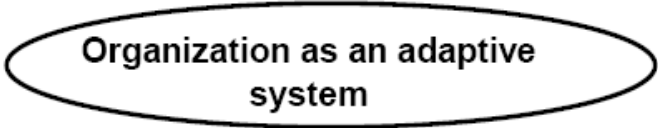
- | | |
|------------------|---|
| 9. Planning | Make planning a continuous and inclusive process, <i>not a top-down annual event</i> |
| 10. Coordination | Coordinate interactions dynamically, <i>not through annual planning cycles</i> |
| 11. Controls | Base controls on relative indicators and trends, <i>not on variances against plan</i> |

Resource management

- | | |
|---------------|--|
| 12. Resources | Make resources available as needed, <i>not through annual budget allocations</i> |
|---------------|--|

Beyond Budgeting is a mental model and not a management tool

Mental model



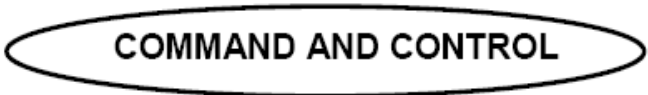
Management model



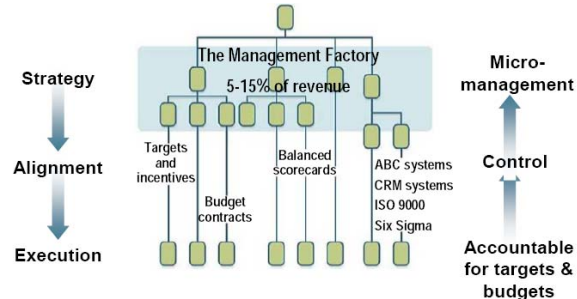
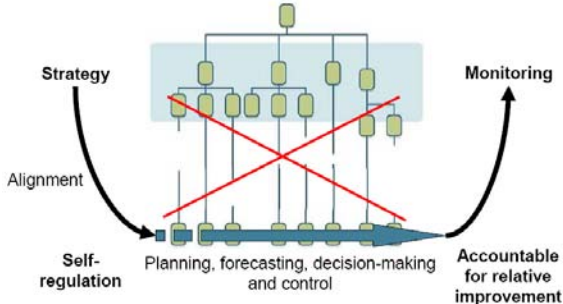
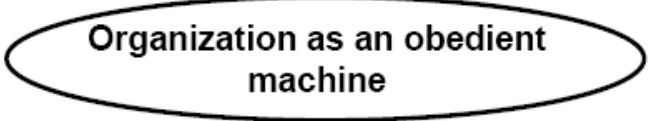
Management tools and techniques

- Economic value-added
- Balanced Scorecard
- Benchmarking
- KPIs
- Rolling forecasts
- CRM systems
- Activity-based costing
- Lean operations
- Outsourcing
- CPM systems

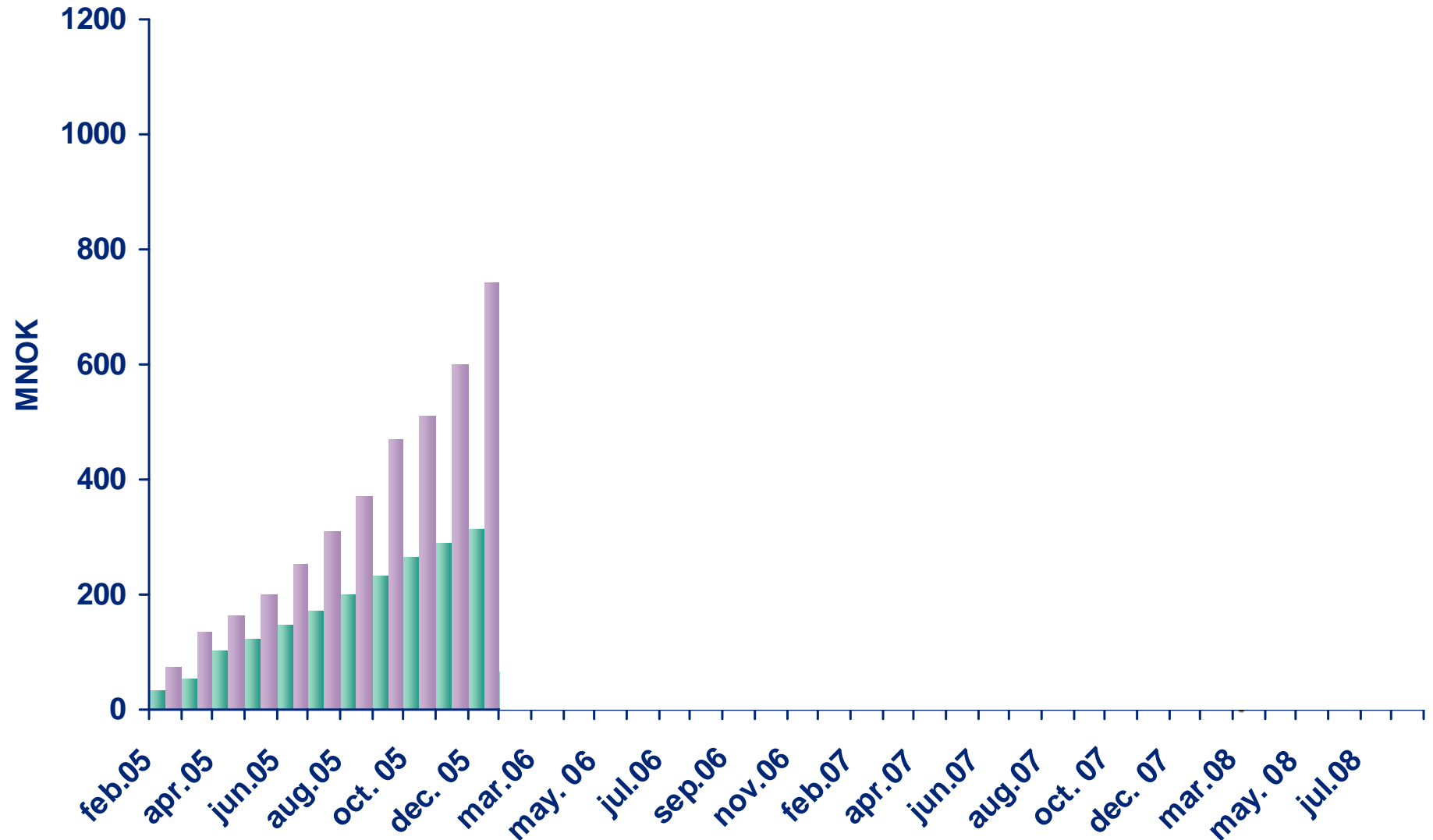
Management model



Mental model



We seldom (never...) hit the budget targets



■ Budget ■ Profit

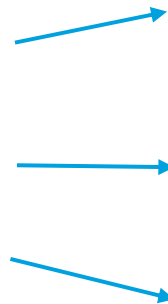
Convincing the board of directors

- "By separating processes you're letting go of illusive control and gain actual control and flexibility"

"Traditional"
budget/plan

Step 1 - Separate

Step 2 - Improve

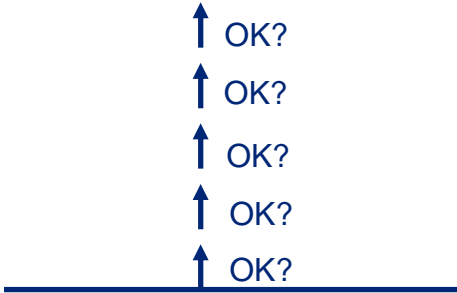
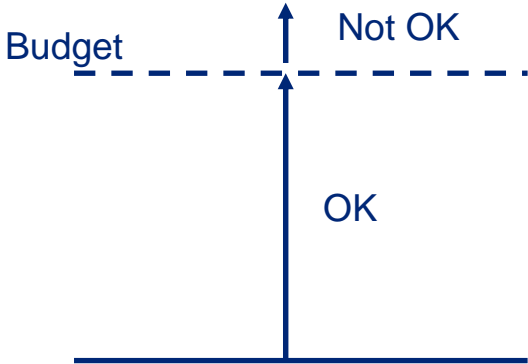


- Front-loaded
- Ambitious
- Relative if possible
- Action-based
- Expected outcome – early warning
- Both financial & non-financial
- Limited detail
- No pre-allocation
- Projects - decision gates & criteria
- Operations - relative KPIs etc.
- Monitoring - intervention if needed only

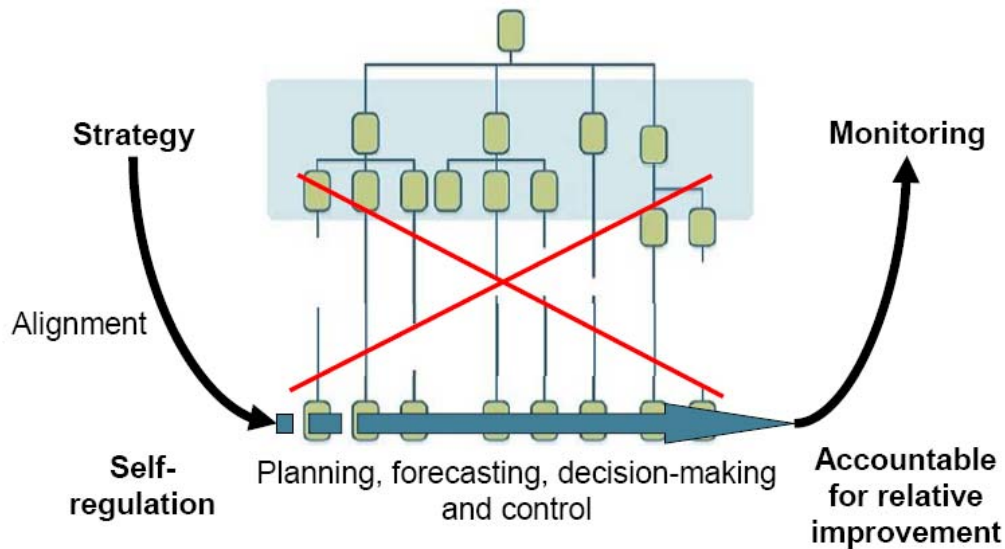
"Same number –
conflicting purposes"

"Different numbers"

Resource allocation principles



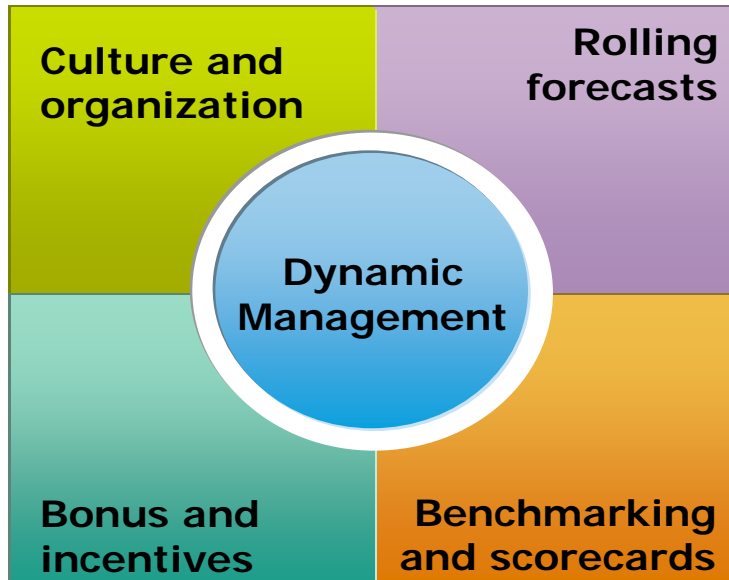
New CEO desired a change in the management principles



- New CEO from June 2007.
- His thoughts on management fit in well with the principles of Beyond Budgeting.

We sought inspiration from Handelsbanken, Statoil and Beyond Budgeting and started our work on Dynamic Management through four projects

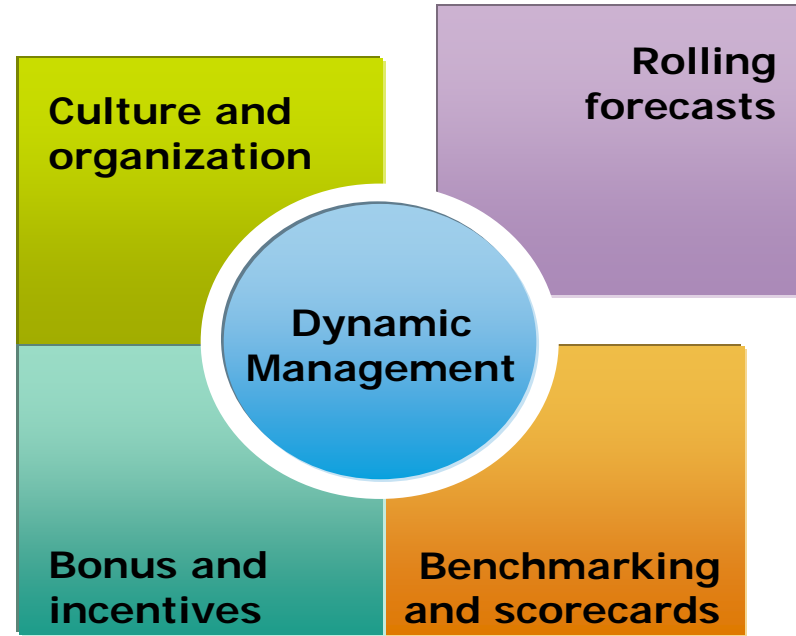
Four projects for the introduction of Dynamic Management



- We used 2007 to motivate Group Management to change the model
- In June 2008 Group Management decided to establish four projects related to a new model and to stop budgeting
- We decided to start with some performance management elements that were important, visible and concrete

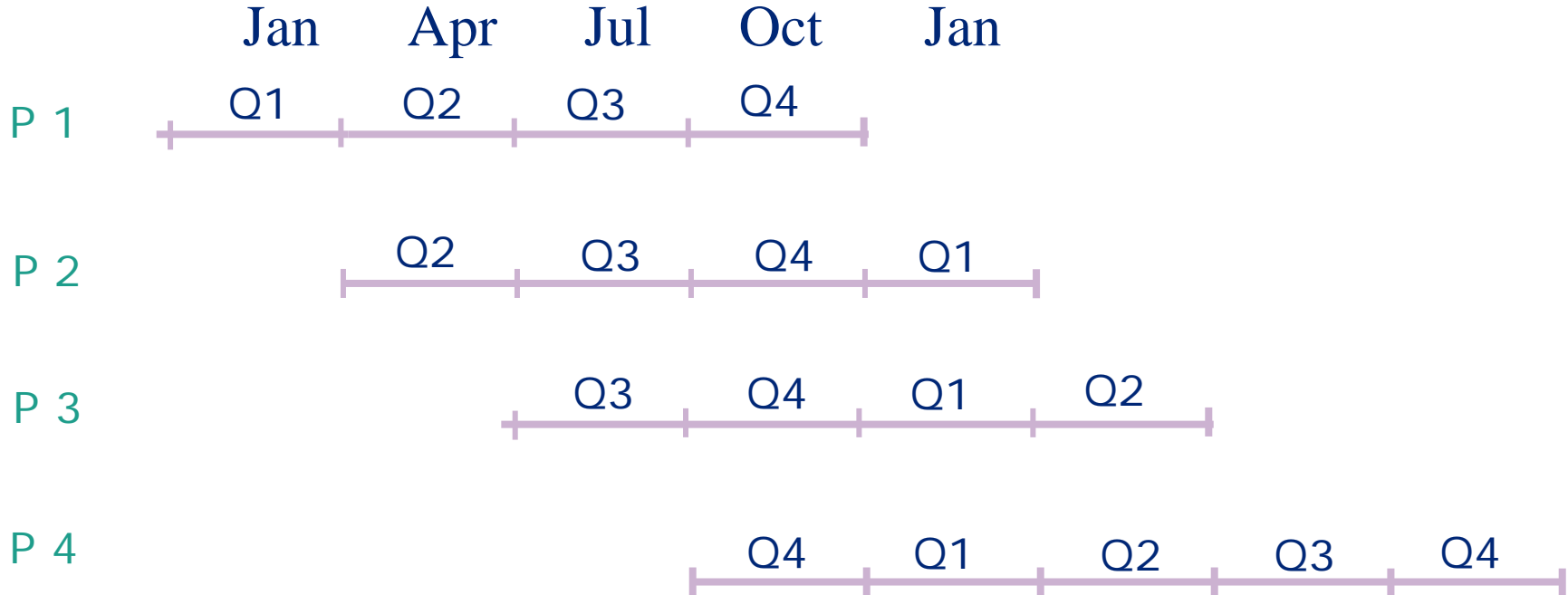
Rolling forecasts

Brutally honest



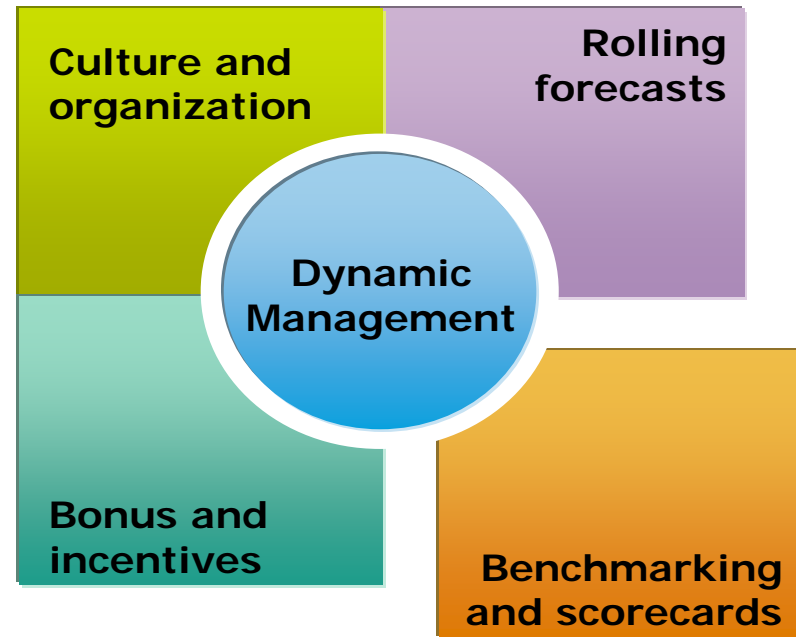
Rolling forecasts – process

- Rolling 12 months forecast each quarter
- Due to owners that still operate with a budget, the forecast made in October is 15 months



Benchmarking and scorecards

Daring to be ambitious



In what league are we playing and what level of ambition should we have?

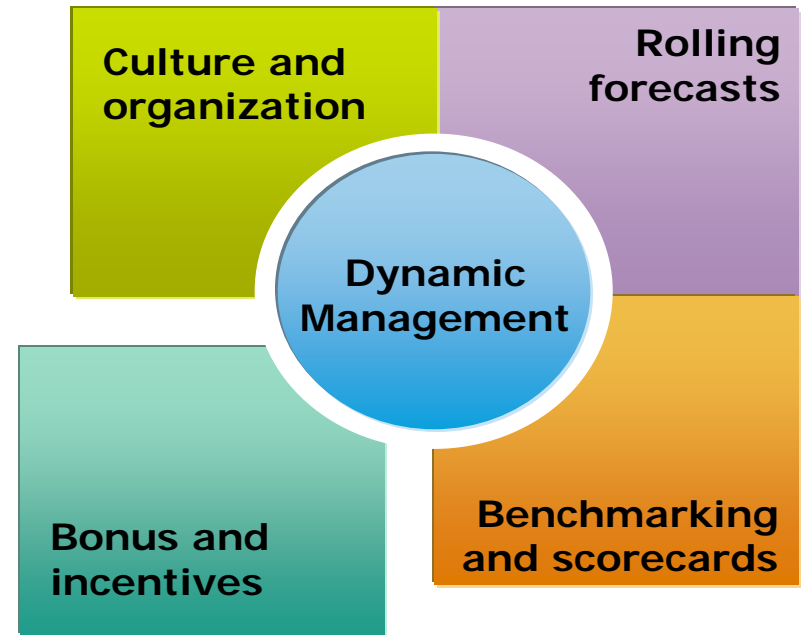
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26. runde							
Lag	S	V	U	T		P	
1 Rosenborg	26	17	9	0	53-22	60	
2 Vålerenga	26	16	4	6	59-31	52	
3 Tromsø	26	13	8	5	34-24	47	
4 Aalesund	26	12	3	11	36-31	39	
5 Haugesund	26	10	8	8	44-33	38	
6 Odd	26	10	8	8	43-38	38	
7 Start	26	10	7	9	47-50	37	
8 Strømsgodset	25	11	4	10	39-45	37	
9 Lillestrøm	26	8	12	6	42-34	36	
10 Stabæk	26	10	6	10	41-40	36	
11 Viking	25	8	10	7	39-33	34	
12 Brann	26	7	9	10	41-42	30	
13 Molde	26	7	9	10	38-44	30	
14 Hønefoss	26	6	6	14	23-49	24	
15 Kongsvinger	26	4	6	16	22-49	18	
16 Sandefjord	26	1	5	20	16-52	8	



Results are relative and benchmarking with our competitors tells us if our performance is good or not

Bonus and incentives

Linked to ambitious goals
and league tables



New bonus and incentive program

- Fixed maximum amount to all employees

Group level:

Maximum

- Top 3 on "RoE League table"

NOK 16,000

Company level:

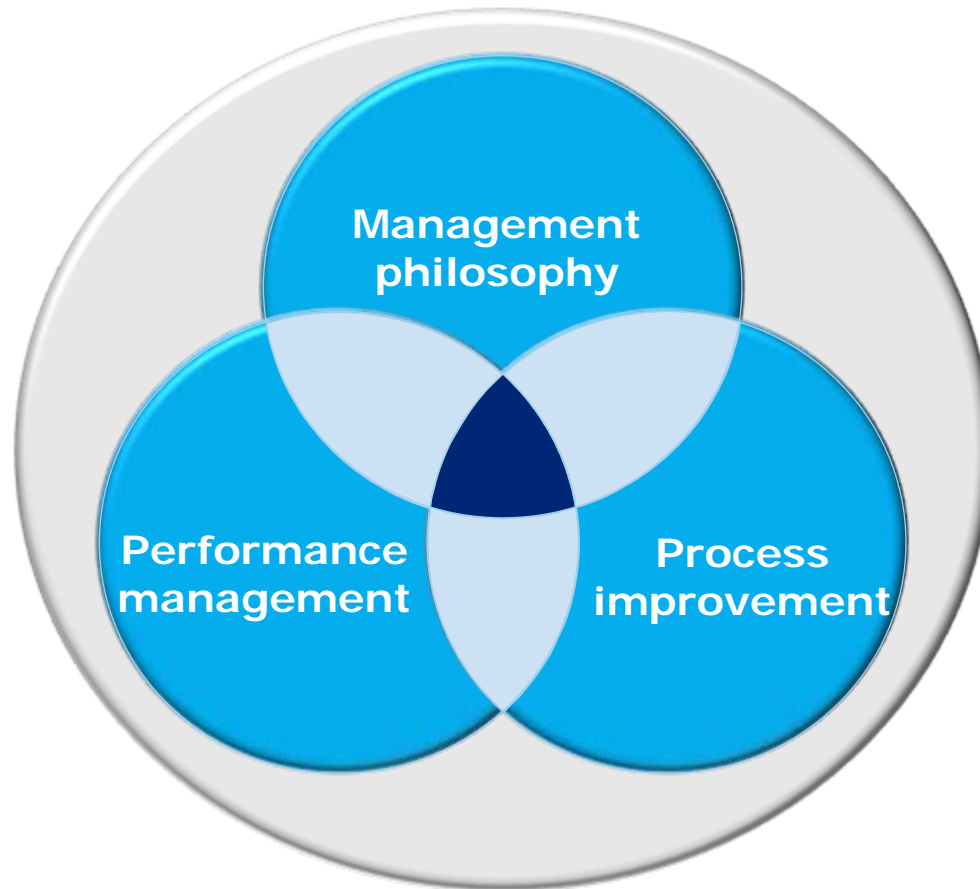
- Position in league of ambitious goals

NOK 34,000

Maximum amount

NOK 50,000

Dynamic Management consists of a management philosophy, performance management to support this and process improvement



With regard to our management philosophy we are working to increase responsibility out in the organisation and to change towards a coaching management style



Responsibility

Involvement

Business insight

"The best executive is one who has sense enough to pick good men to do what he wants done, and self-restraint enough to keep from meddling with them while they do it."

(Theodore Roosevelt)



With regard to performance management we have changed the definition of success to improvement in relation to our competitors, not the achievement of a negotiated level

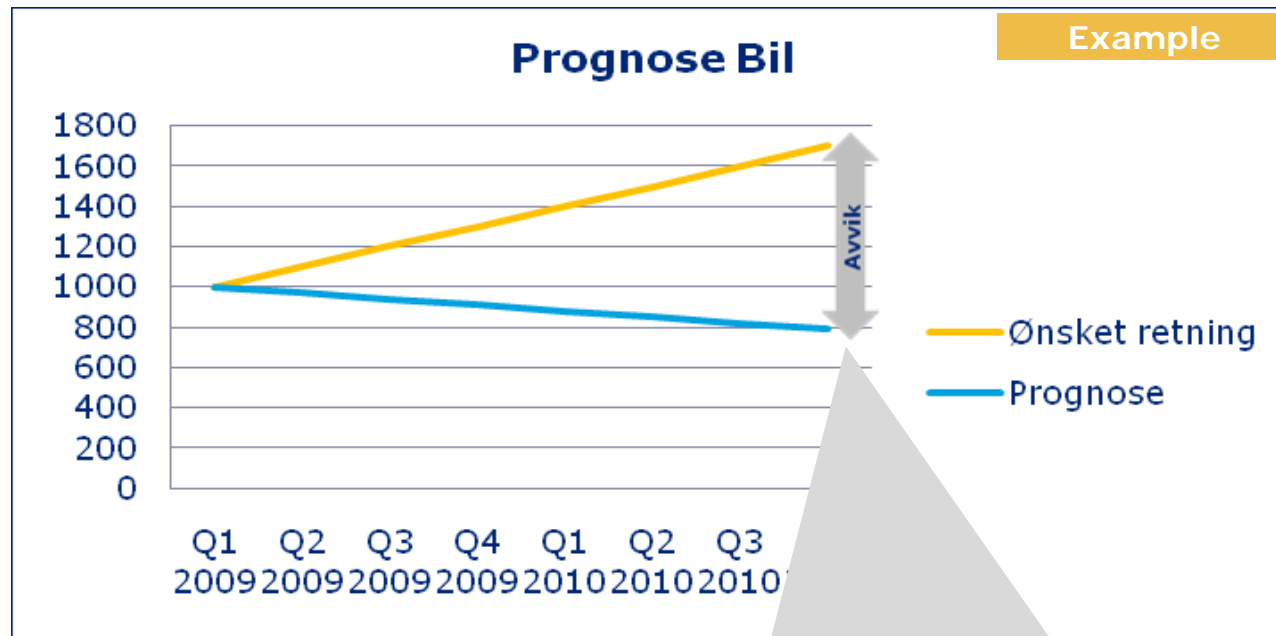


Return on equity as of 30 June 2010

Handelsbanken	12.8%
DnB NOR	12.6%
SpareBank 1 Group	11.6%
Nordea	10.4%
Gjensidige	8.1%
Danske Bank	3.4%
Storebrand	1.4%



We have also introduced rolling forecasts to support ongoing planning at all levels where the aim is to identify and close any gaps between the target and forecast



If there is a large gap between the forecast and desired direction, it will be necessary to find the cause of this and implement measures as required

Forecasts are unbiased and not a standard for performance

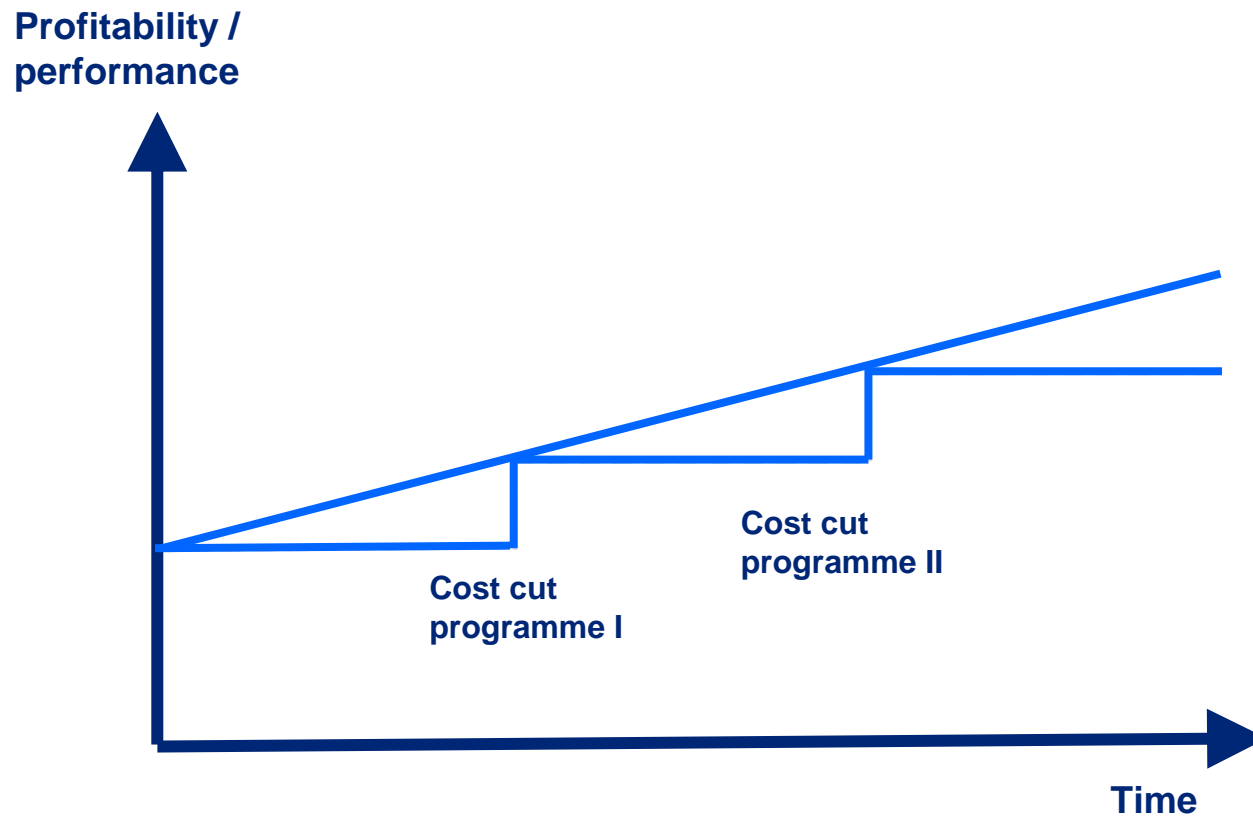


Weather forecast Oslo **how the forecast should be prepared at SB1G**

	Onsdag		Torsdag		Fredag			Lørdag	
	Kveld	Morgen	Dagtid	Kveld	Morgen	Dagtid	Kveld	Morgen	Dagtid
Blindern	1°	1°	2°	1°	0°	2°	-1°	-2°	-1°
Frognerseteren	0°	0°	0°	1°	1°	2°	-4°	-4°	-3°
Grorud	1°	1°	1°	1°	0°	1°	-2°	-2°	-1°
Kikut	-1°	-1°	0°	0°	0°	1°	-4°	-5°	-4°
Oslo	2°	2°	2°	2°	2°	2°	-1°	-2°	0°

- A tool so that individuals can make better decisions, not for reporting to a higher level
- Not a target. Forecasts do not say anything about the level of ambition. A forecast does not have to be met. Results are never measured against a forecast
- Not an application for resources

We have also started to work systematically with process improvement, a natural next step when success is improvement and the organisation is seeking opportunities to improve itself



We are already seeing changes in the organisation

- Eliminating the budget in itself has made managers more responsible for their performance
- We evaluate success differently
- Increased business comprehension
- The discussions change when the basis for making decisions changes - more forward-looking and outwards and less backward-looking and inwards
- Power relationship between the staffs and the line management has been challenged. Greater self-confidence in the line management that the decisions should lie with them.

We have gained some experience along the way

- Commitment and involvement by the senior management is essential, not only because they must set a good example but also because the changes encompass the entire organisation
- Get large parts of the organisation involved. Avoid that this becomes a "project" that is owned by the finance and accounting department or a few key employees
- External lecturers have been important as inspiration for the motivation of change
- This is a permanent change process and not a project that ends. Elements of the model can be introduced through a project, but not the overall concept
- The most important element of Dynamic Management is the development of managers, which is also the most demanding and long-lasting
- It has been (surprisingly) simple to eliminate the budget
- It is demanding to find a good balance between designing complete processes and allowing departments and companies to find things out for themselves

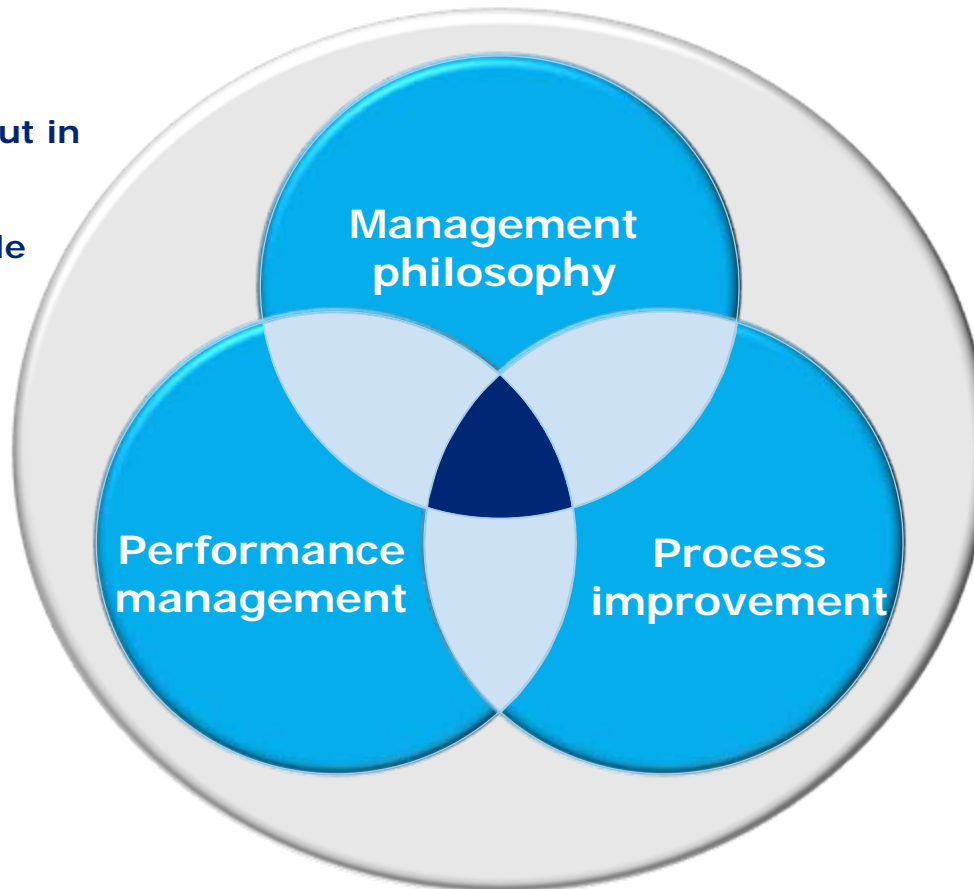
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What we say and what we do.....



In summary we have eliminated the budget and introduced some more appropriate processes and tools at the same time as we are working towards a new management philosophy



- Move decisions out in the organisation
- Coaching management style

- Success is improvement
- We plan on an ongoing basis
- Better decision-making basis for everyone

- Continuously seeking to improve the processes
- Stop doing whatever does not create value for customers

"A system based on trust without budgets, where the aim is to be the best in most areas in relation to the market and our competitors."

Why are we introducing dynamic management at the SpareBank 1 Group

Through dynamic management, the SpareBank 1 Group will achieve:

- A stronger customer position
- Better financial results than we would have achieved with traditional performance management
- Making the SpareBank 1 Group an interesting, developing and fun workplace



"....a continuous journey of learning and adaption"

Jeremy Hope et al., BBRT