



Make it real!



THE CASE FOR TRANSFORMATION

What the BetaCodex stands for today.
Why you should change your organizational model.
How you can start the transformation journey.

BetaCodex Network Associates

Niels Pflaeging & Gebhard Borck

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The BetaCodex (or “beyond budgeting”) movement has been on a journey of more than 15 years so far...

The 1st phase
(1998-2002):
Finding a world
“beyond budgeting”

The 1st phase:

- The BBRT is **founded in 1998** as a study group within CAM-I, an industry association. In 2002, the BBRT becomes independent from CAM-I.
- **Company visits:** The BBRT looks into organizations to find ways to abandon budgeting. It finds organizations like Handelsbanken, AES, Borealis, and Ikea.
- More than 20 **detailed case studies** are written up, and discussed with the membership during meetings and shared with the wider audience at conferences. The BBRT expands to the Americas and other regions.
- The **principles of the model** are outlined and refined. Many articles are published.
- From 1998 on, the BBRT gathers around **150 member organizations**.

The 1st phase of the journey: Looking for a world “beyond budgeting”

From:

1922, James O. McKinsey: “Budgetary control... is urgently needed as the basis for centralized executive control and to coordinate the activities of functional departments”.

To:

1997, Dr. Jan Wallander: “Budgeting is an unnecessary evil.”

Critical success factors

1. Fast response
2. Innovation
3. Operational excellence
4. Customer intimacy
5. Great place to work
6. Effective governance

7. Financial performance

Typical problems of budgetary management

1. Too long/expensive annual planning/budgeting process
2. Inflexible to change. Innovation stifled, not inspired
3. ‘Spend it or lose it’ cost protection mentality
4. Sales targets and incentives drive behaviour, which becomes divorced from strategy
5. Extrinsic, not intrinsic motivation, overly centralized decision-making
6. Dysfunctional, even unethical behaviour

• Inferior financial performance

These are **symptoms** of a deeper problem

The 2nd phase of the journey: Understanding the new model

The 1st phase
(1998-2002):
Finding a world
“beyond budgeting”

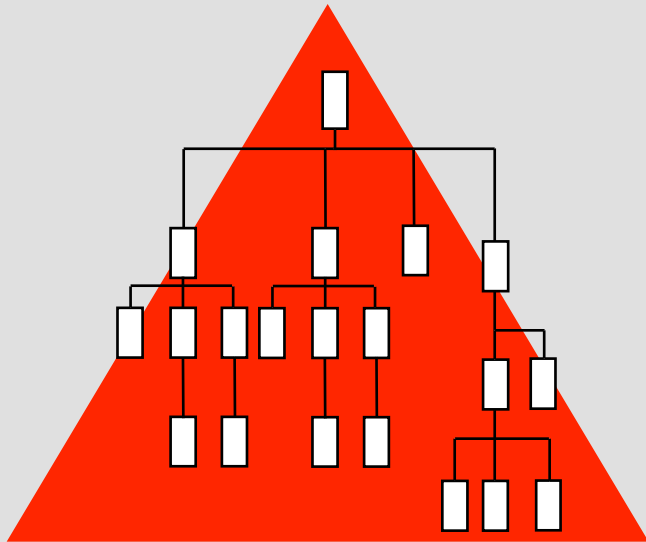
The 2nd phase
(2003-2007):
Understanding
the new model

The 2nd phase:

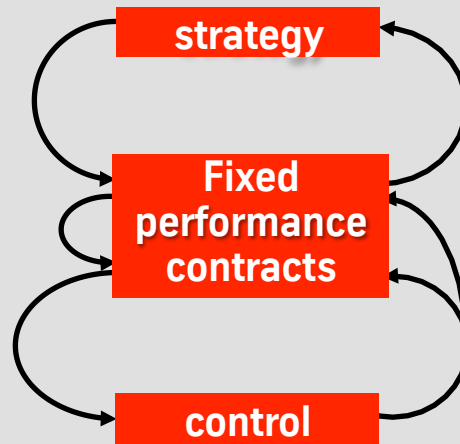
- The first **HBR article** on Beyond Budgeting appears.
- The first **books** by BBRT directors are published, in languages such as English, German, Spanish, Dutch and Chinese.
- The BBRT authors many **concept papers** on the model.
- Further **pioneering case studies** are identified and described, such as Southwest Airlines, Toyota, Semco, Aldi, DM, and others.
- **Tools** such as the BBRT online diagnostic are being developed, transformation is tried.
- The BBRT positions the model not as a performance management solution, but as the **21st-century alternative to tayloristic management.**

Outlining the “industrial age“ model and its pitfalls

“command and control“



“keep on track“



- Too centralized
- Too inward-looking
- Too little customer-oriented
- Too bureaucratic
- Too much focused on control
- Too functionally divided
- Too slow and time-consuming
- Too de-motivating
- ...

The world has changed – a holistic look at today's critical success factors

high



Industrial age ends:
"Supplies have the power",
Evolution of mass markets:
Taylorism as the superior model

Knowledge economy advances:
"Customers have the power",
strong competition, individualized demand:
decentralized and adaptive model is superior!

Here, only efficiency mattered, really!

Now, all these factors are equally important!

Dynamics and complexity



low

Characteristics

- Incremental change
- Long life cycles
- Stable prices
- Loyal customers
- Choosy employers
- „Managed“ results

Characteristics

1. Discontinuous change
 2. Short life cycles
 3. Constant pressure on prices
 4. Less loyal customers
 5. Choosy employees
 6. Transparency, societal pressure
- High financial expectations

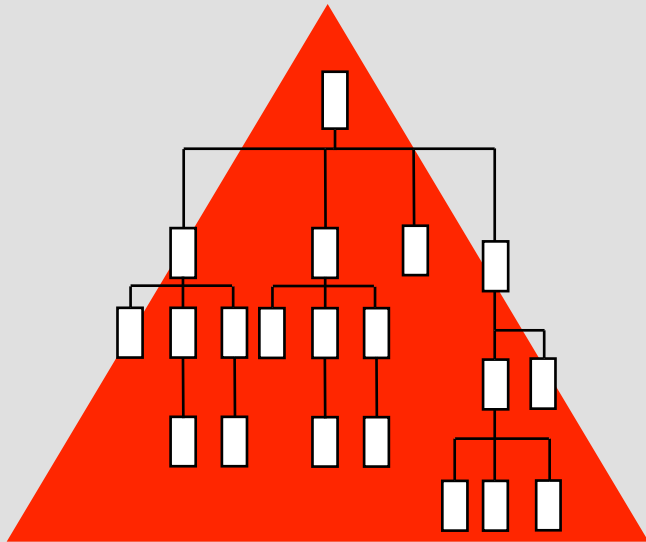
Competitive success factors (CSF)

- Fast response
- Innovation
- Operational excellence
- Customer intimacy
- Great place to work
- Effective governance
- Sustained superior value creation/fin.perf.

Most organizations still use a management model that was designed for **efficiency**, while the problem today is **complexity**.

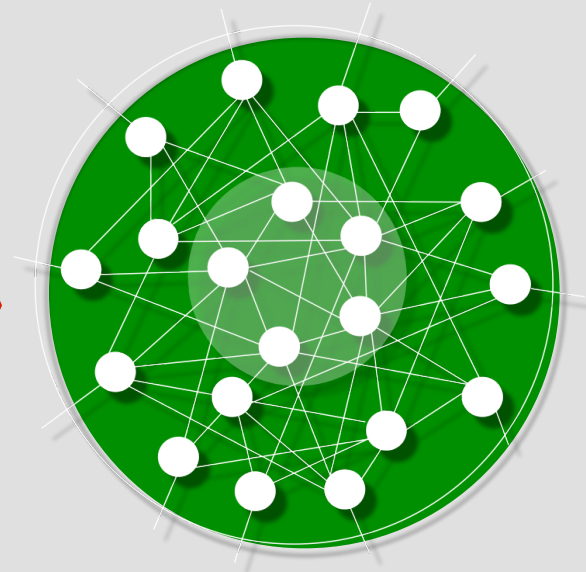
From command-and-control hierarchy to market-driven network

Traditional model: “Alpha”
(centralized functional hierarchy)



- “Bosses” rule!
- Top-down command and control
- Top management is always in charge
- Centralized leadership
- Hierarchical relationships

Emerging model: “Beta”
(decentralized leadership network)



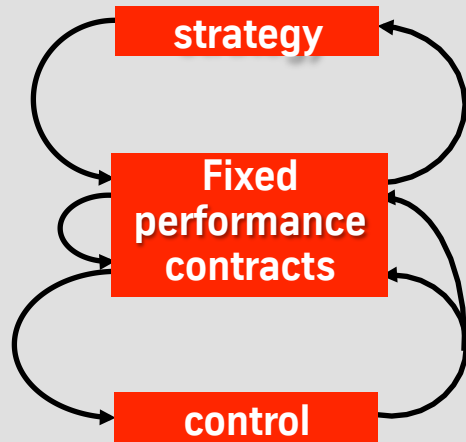
- “The market” rules!
- Outside-in sense and respond
- Front-line teams are always in charge
- Devolved leadership
- Social density

Changing leadership and structures

From fixed to adaptive performance processes

Traditional model

(fixed performance contracts, negotiated in advance)



- Fixed, annual processes
- Fixed targets and incentives
- Centralized and bureaucratic control

New model

(relative performance contracts, assessed with hindsight)

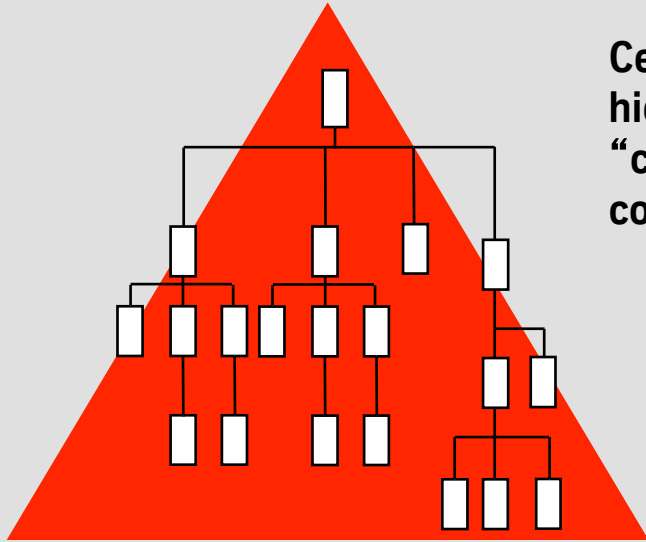


- Dynamic, continuous processes
- Relative targets/compensation
- Team-based self-control, transparency and peer pressure

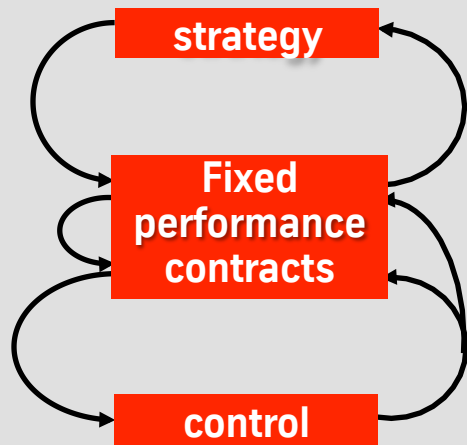


From the old coherence to a new coherence.

Alpha: Traditional model (*supports efficiency*)

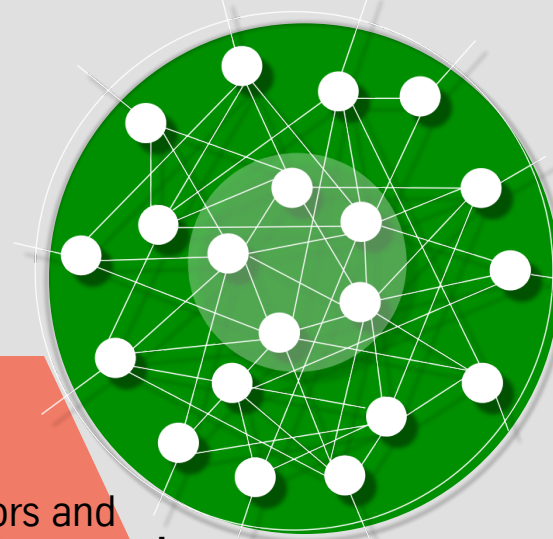


Centralized hierarchy,
“command and control”



Fixed processes

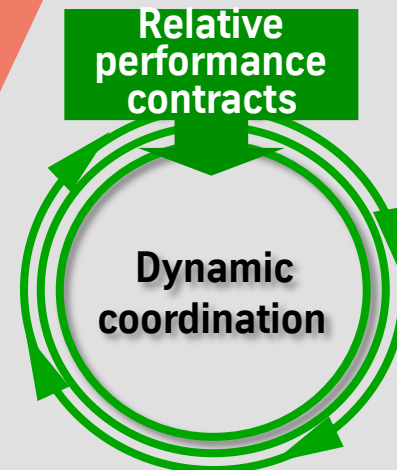
Beta: New model (*supports complexity*)



Decentralized network,
“Sense and respond”

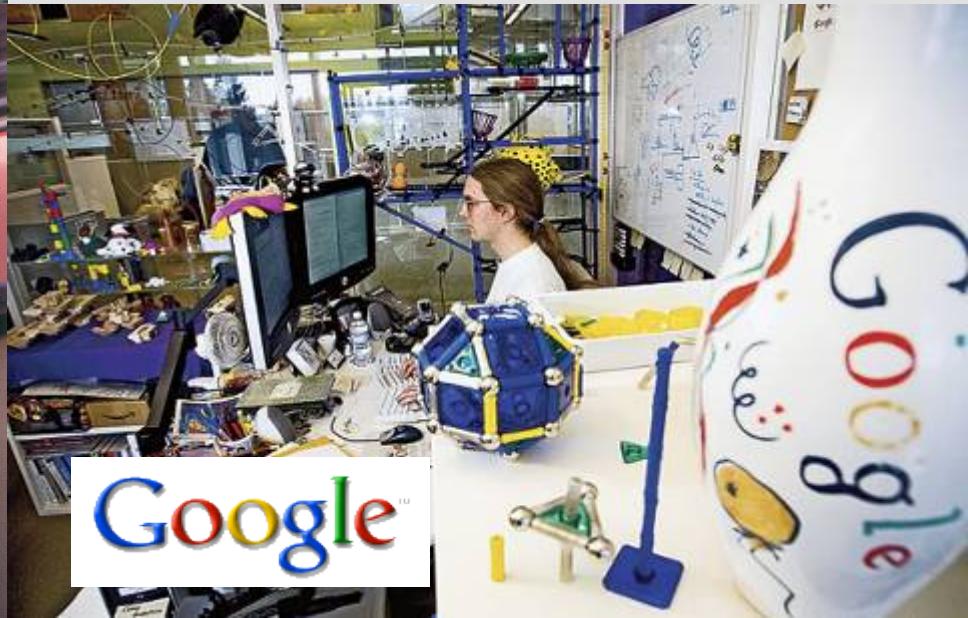
The old model is not aligned with today's Critical success factors and it does not support 'Theory Y'.

- > **We need a new model** to cope with complexity
- > **We must change the whole model!**



Dynamic processes

There are many outstanding cases of companies that have applied the “new” model. This is a selection.



The ultimate goal for applying the new model is industry leadership. No less.



the
beta codex

transforming organizations for competitive success

They are:

- **Innovators:** A crises within their industries or firms caused them to change radically
- **Mavericks:** Exceptional leadership models
- **Performers:** Superior competitive success

It's the coherence of the leadership model that matters!

Welcome to the 3rd phase of the BetaCodex journey!

The 1st phase
(1998-2002):
Finding a world
“beyond budgeting”

The 2nd phase
(2003-2007):
Understanding
the new model

The 3rd phase
(2008–):
Transforming
organizations

The 3rd phase:

- The **model is widely recognized** and understood. Some organizations approach full model transformation, guided by BetaCodex principles. Concepts and tools for transformation are being presented and further methods added.
- **Two BBRT directors leave** the BBRT (Robin Fraser and Niels Pflaeging).
- The **Beyond Budgeting Transformation Network (BBTN) is founded**, adopting a new approach towards research and membership, by focusing on transformation, and becoming open source.
- “The Beyond Budgeting model” is rebranded as “the BetaCodex”. With this, the BBTN becomes the BetaCodex Network.
- ...

Now, it is time for transforming your organization – by closing the gaps

A typical company – results from the BBRT online diagnostic

Table 1: The case for change

App. Ref.	Contents of report	Your score %	Red BAD 0% – 25%	Amber POOR 25% – 50%	Yellow FAIR 50% – 75%	Green GOOD 75% – 100%
C	Symptoms	25		X		
D	Alignment with CSFs	31		X		
E	Human nature assumptions	23		X		
	Problems (average C-E)	26		X		
F	Importance of CSFs	80				X
G	Vision of alternative model	92				X
	Vision (average F-G)	86				X
H	Leadership	38		X		
I	Processes	38		X		
J	Systems	42		X		
	Practice (average H-J)	39		X		
L	Readiness to change	78				X
M	Case for change					

Problems

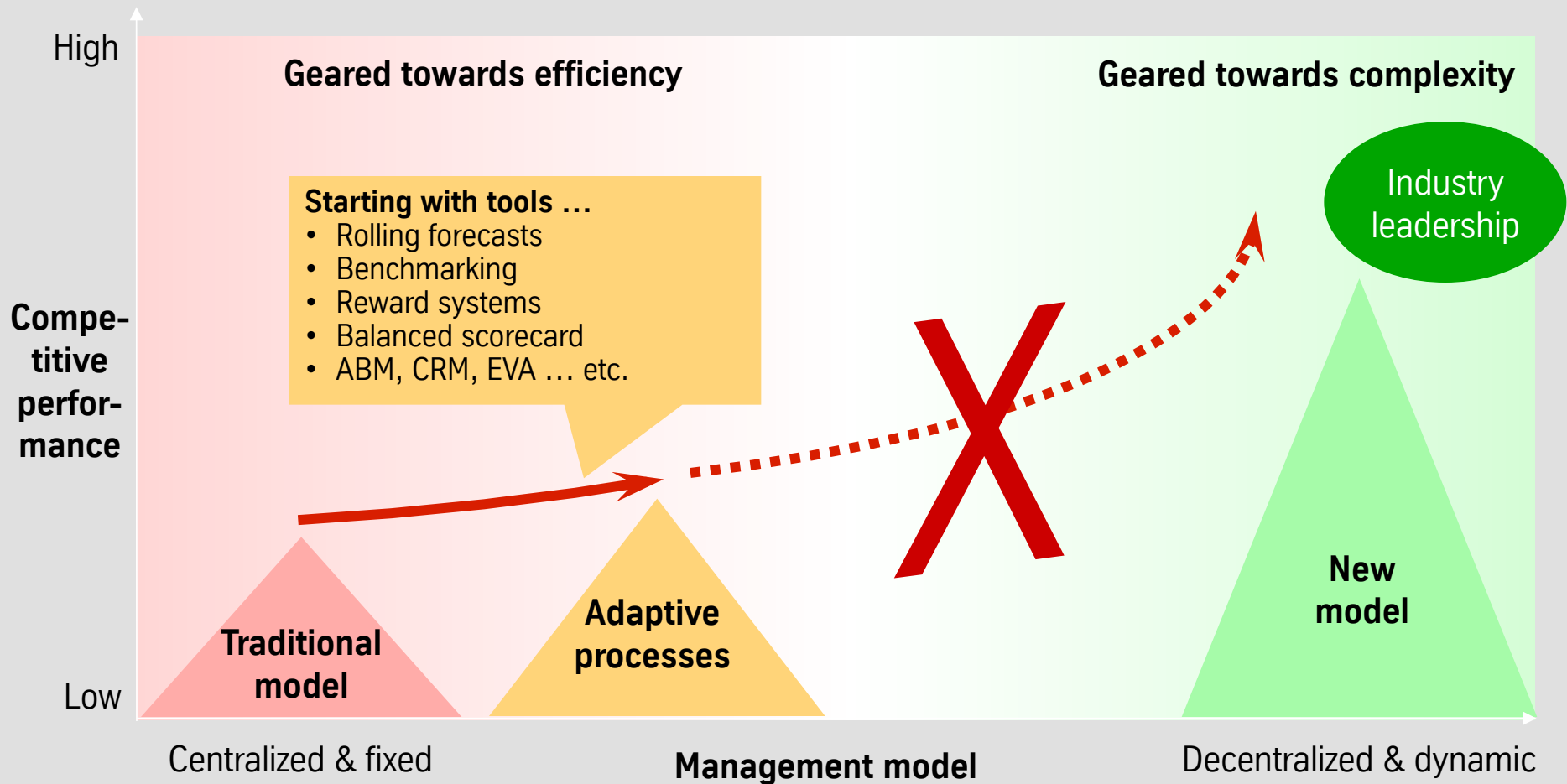
Vision

Practice

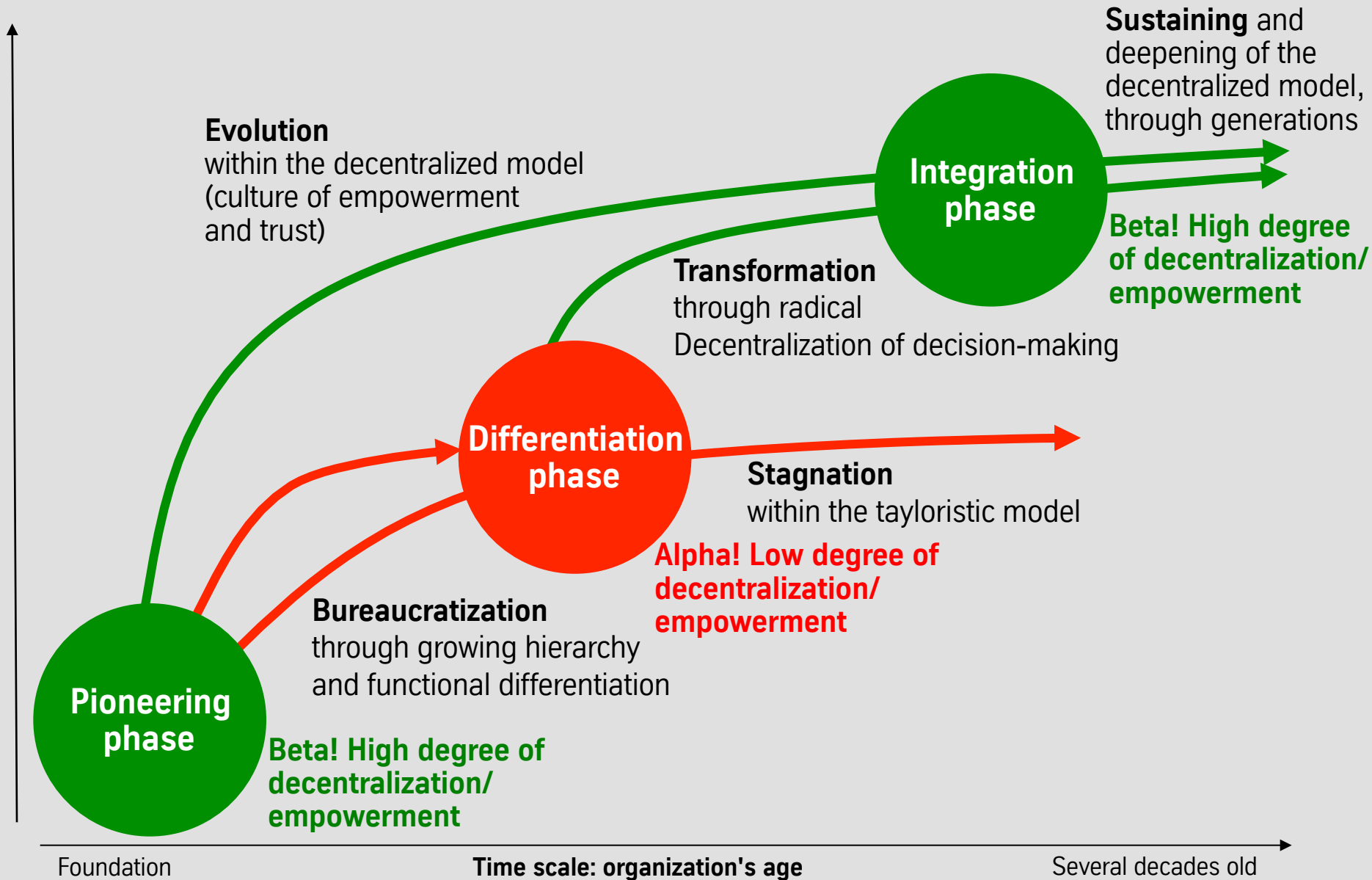
'STRONG'

Close the gaps!

“Incremental change”, starting with tools or within a specific function (e.g. finance), fails to transform!



There are two different ways of working *on* the model – evolution and transformation



For transformation, we must work on the model, not in the model.

Table H1 – Leadership scorecard

Practice vs. Vision (GOOD=Devolved)	Your score %	W/S mean %	Red BAD 0% – 25%	Amber POOR 25% – 50%	Yellow FAIR 50% – 75%	Green GOOD 75% – 100%
1. Customers	17	30				
2. Processes	17	31				
3. Autonomy	25	40				
4. Responsibility	25	44				
5. Transparency	33	46				
6. Governance	17	29				
Practice (average 1-6 above)	22	37				
Vision (see Table G1.3)	83	92				

Table I1 – Processes scorecard

Practice vs. Vision (GOOD=Adaptive)	Your score %	W/S mean %	Red BAD 0% – 25%	Amber POOR 25% – 50%	Yellow FAIR 50% – 75%	Green GOOD 75% – 100%
1. Goals	17	21				
2. Rewards	9	28				
3. Planning	17	25				
4. Controls	17	30				
5. Resources	17	30				
6. Coordination	17	25				
Practice (average 1-6 above)	16	27				
Vision (see Table G1.4)	83	87				

Coherence is a critical issue - there is no “half way to Beta”



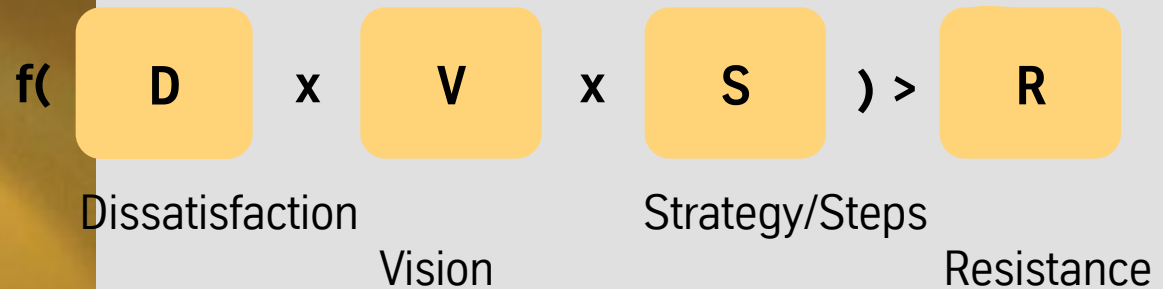
Is transformation possible at all?

“I don't know if it is possible.
What I know: It is *necessary*.”

Tom Peters

Today, we already know for sure it is possible.
And we have also learned how it can be done. Anywhere.

The power of visionary leadership: dm-drogerie markt, transformed during the 1990s



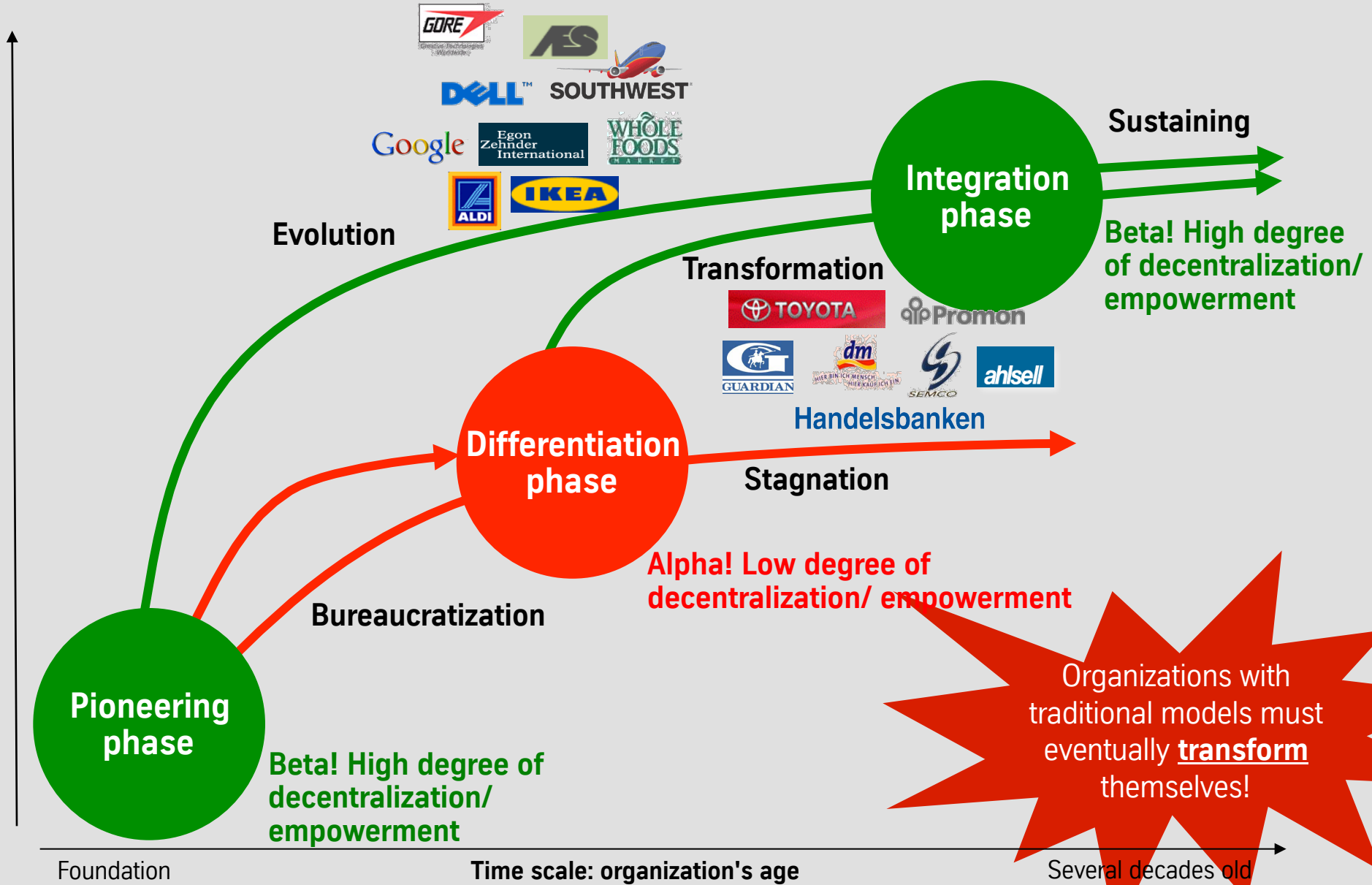
The results:

- More successful than its competitors in all relevant performance indicators.
- One of the most respected companies in Germany. Strong organic growth.
- Almost without hierarchy, since the late 1990s. “Branches rule“, leadership happens strictly “by dialogue“.

The BetaCodex: Is this something for only a select few? Just for geniuses and mavericks?



There are two different ways of working on the model: evolution and transformation. Depending on where you are today



It's a different
mental
discipline

The 12 laws of the BetaCodex (formerly: Beyond Budgeting) are a full set of design principles for a new type of organization

Law	Beta	Alpha
§1 Freedom to act	Connectedness	not Dependency
§2 Responsibility	Cells	not Departments
§3 Governance	Leadership	not Management
§4 Performance climate	Result culture	not Duty fulfillment
§5 Success	Fit	not Maximization
§6 Transparency	Intelligence flow	not Power accumulation
§7 Orientation	Relative Targets	not Top-down prescription
§8 Recognition	Sharing	not Incentives
§9 Mental presence	Preparedness	not Planning
§10 Decision-making	Consequence	not Bureaucracy
§11 Resource usage	Purpose-driven	not Status-oriented
§12 Coordination	Market dynamics	not Commands

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sustained superior
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success

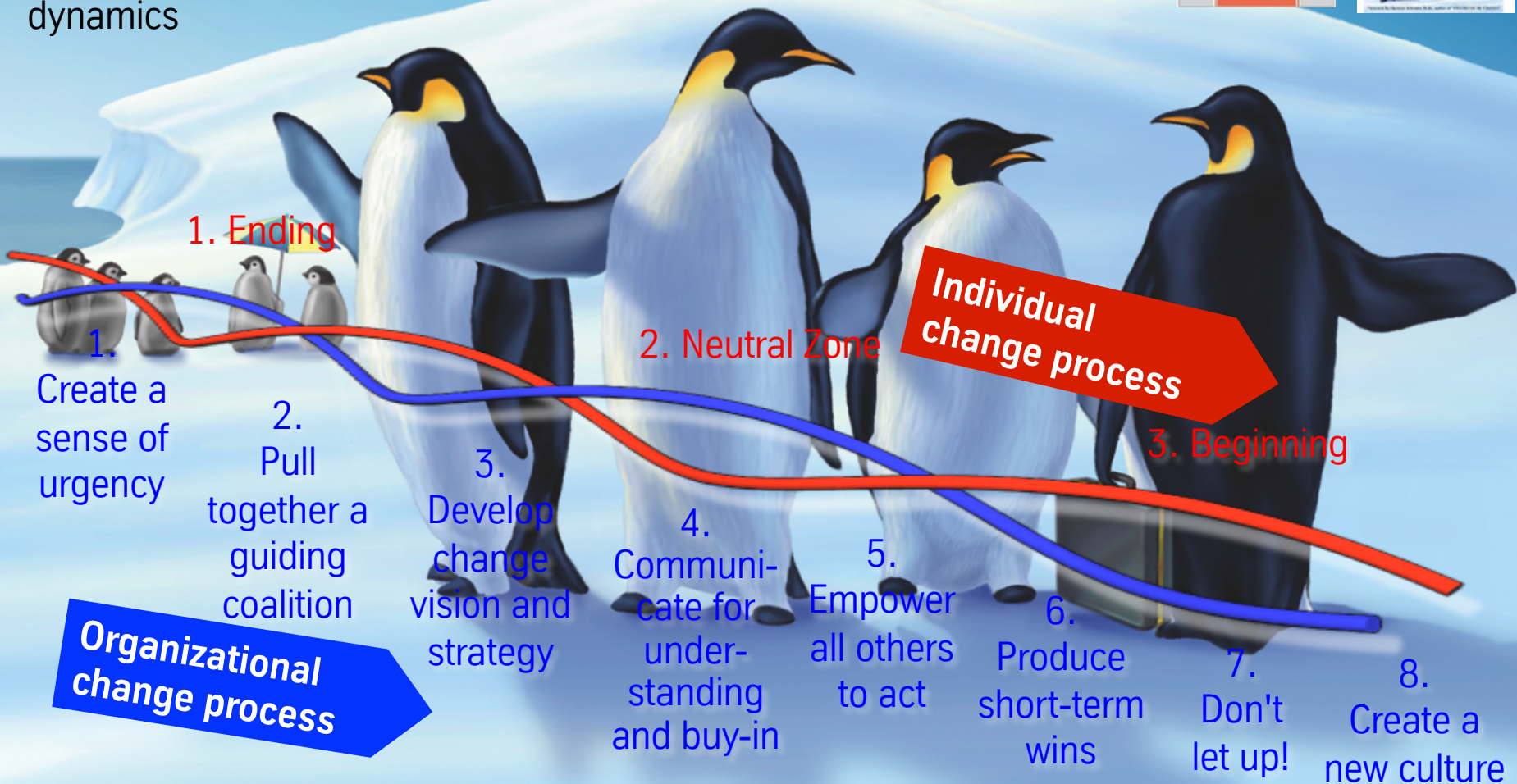
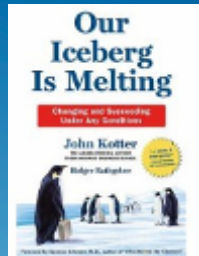
Principles for transforming the model

- 1. Initiation** – Anyone anytime can recognize the need for change but it has to be owned by the top.
- 2. Case for Change** – A compelling change manifesto must be built at the top before doing anything.
- 3. Leadership** – Visionary leadership through a guiding coalition is the power that drives transformation, not command and control.
- 4. Coherence** – Every element of the new model must be coherent, otherwise transformation will fail.
- 5. Process** – The principles for leading change must be built into a process and adopted without exception.
- 6. Evolution** – The new model must be improved continuously without ever declaring victory.

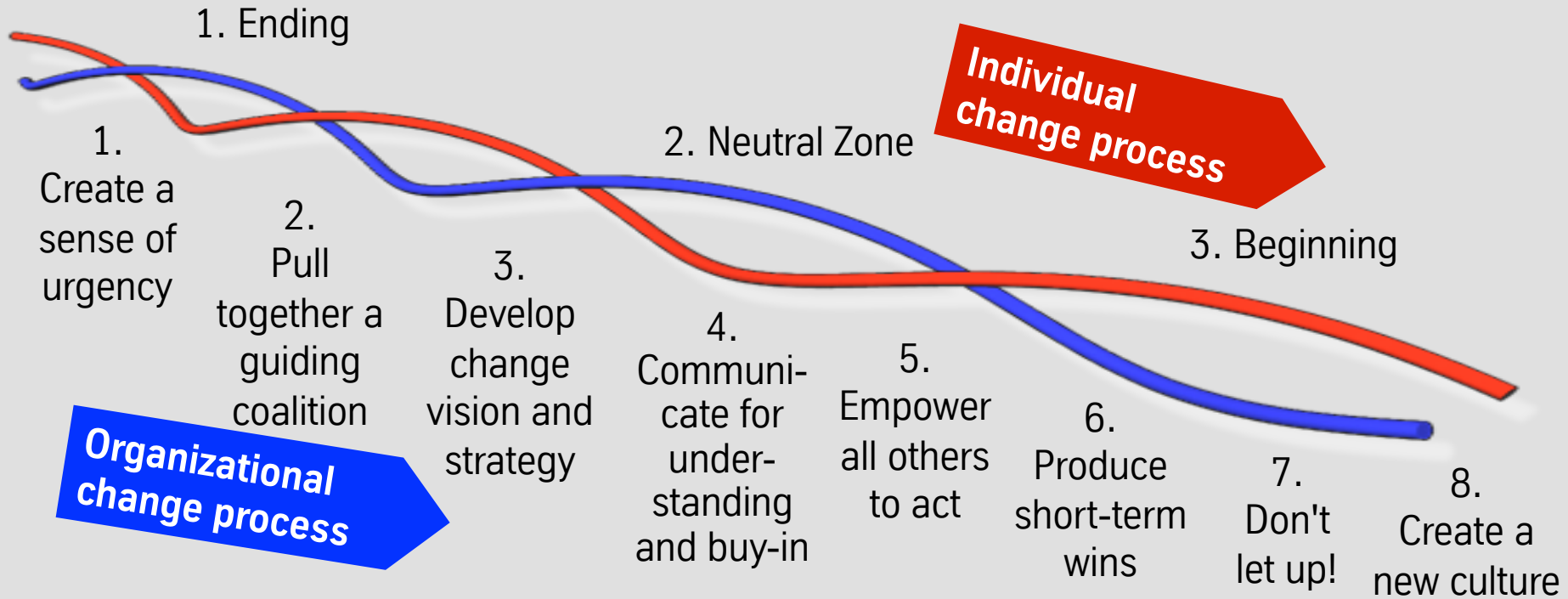
Principles: Leading major, transformational change

Applying a fitting change model is key – the BetaCodex Network’s Double Helix Transformation Framework is tailored to this challenge, being both systemic, agile, and making use of complex group dynamics

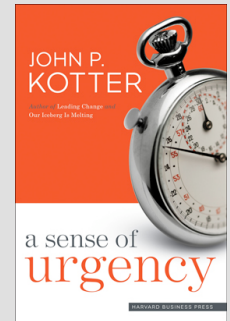
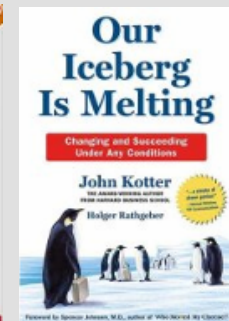
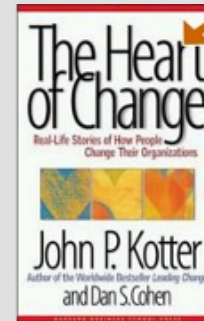
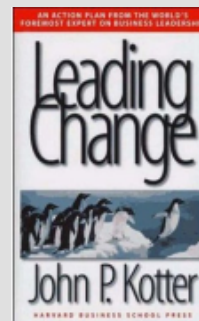
References



To transform your organization from “command & control” to “decentralized network”, a double helix change frame is needed



References



The case for transformation – a summary

- Our goal is **ambitious**
- Our case for change is **compelling**
- The **whole** model of the organization must be changed
- This requires to follow all the steps that are **essential** to successful transformation
- An **incremental approach** to improving the model or to getting to “Beta” will **never** succeed.

“It’s not because it’s difficult that we don’t dare to do it:
it seems difficult because we don’t dare to do it”

Seneca, Roman philosopher and statesman, 4BC – 65AD



the
betacodex
network

since 2008

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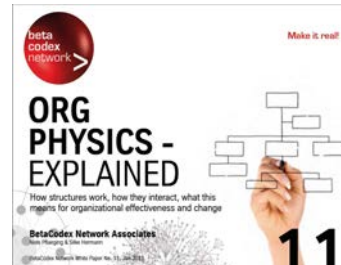
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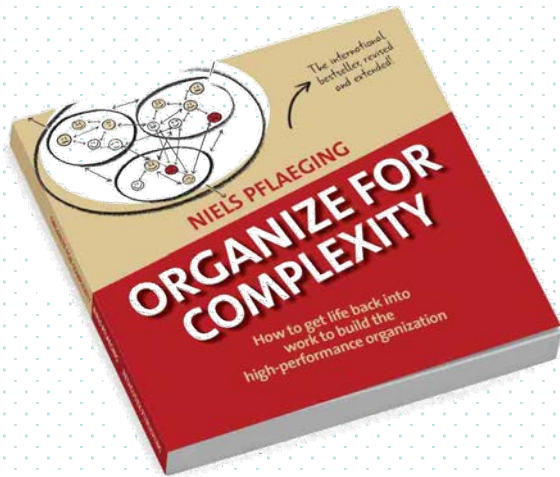
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The BetaCodex Network white papers

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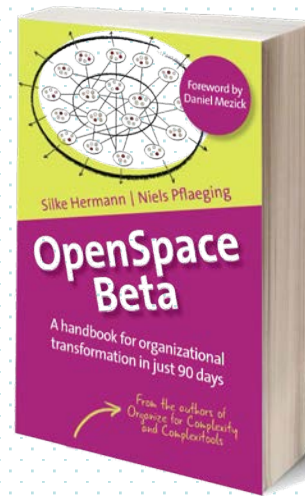


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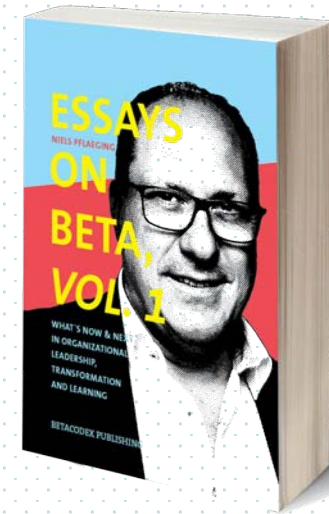


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